

Algeria: 2022 Article IV Consultation-Press Release; and Staff Report



ALGERIA

February 2023

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2022 Article IV consultation with Algeria, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on Lapse of Time basis, following discussions that ended on November 21, 2022, with the officials of Algeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 12, 2023.

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IMF Executive Board Concludes 2022 Article IV Consultation with Algeria

FOR IMMEDIATE RELEASE

Washington, DC – February 1, 2023: On February 1, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Algeria on a lapse of time basis².

The upswing in hydrocarbon prices has alleviated pressures on public and external finances and the post-pandemic recovery has likely gathered pace. In 2022, the current account balance is expected to post its first surplus since 2013 and international reserves have risen, halting the steady downtrend in recent years. Similarly, a fiscal surplus is expected in 2022 reflecting the hydrocarbon revenue windfall and large under-execution of budgeted spending. The economic recovery strengthened, with non-hydrocarbon GDP growth projected to accelerate to 3.2 percent in 2022 from 2.1 percent in 2021.

The rise in inflation is a major challenge, amid a loose monetary policy stance. Headline inflation picked up to 7.2 percent in 2021 and is estimated at a 26-year high of 9.3 percent in 2022. Despite steps towards more active liquidity management by the central bank, monetary policy remains accommodative.

The prospects for 2023 are favorable but growth is projected to decelerate and inflation to remain high in the medium term. Nonhydrocarbon GDP growth is forecast to accelerate to 3.4 percent in 2023 on substantial rise in fiscal spending and taper off to around 2 percent in the medium term. The current account is projected to remain in surplus in 2023 and record a gradually widening deficit from 2024 onwards. Inflation is projected to moderate somewhat to 8.1 percent in 2023 but remain relatively high over the medium term. The outlook is highly contingent on hydrocarbon prices. Upside risks stem from possible increased investment in the hydrocarbon sector and mining projects under development.

Executive Board Assessment

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

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 The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

The near-term outlook for the Algerian economy has materially improved, buoyed by the upswing in hydrocarbon prices. External and fiscal surplus are expected in 2022 for the first time in an extended period. Algeria's external position in 2022 was stronger than the level implied by fundamentals and desirable policy settings. However, the outlook remains highly contingent on hydrocarbon prices and faces risks from a weaker global backdrop and commodity price volatility. The broad-based acceleration in inflation has become a major policy challenge.

Staff urges the Bank of Algeria (BA) to tighten monetary policy immediately to forestall possible de-anchoring of expectations and persistent high inflation. Recent dinar appreciation cannot substitute for needed monetary policy tightening. Staff recommends that the BA increase its policy rate and resume well-calibrated liquidity management to enhance monetary policy transmission. The forthcoming revision of the Law on Money and Credit is a welcome opportunity to strengthen the governance framework of the BA. Staff recommends a formal ban on monetary financing in the new law to enhance the central bank's independence and its ability to act in defense of price stability.

The announced sizeable rise in spending under the 2023 budget could reverse the progress achieved on narrowing the deficit since 2018, weaken the resilience of public finances and add to inflation pressures. Financing constraints are likely to forestall full execution of announced spending. However, even continued low execution of budgeted spending could lead to a substantial deterioration of the fiscal deficit. Higher spending rigidity and a rapid drawdown of fiscal savings would exacerbate the vulnerability of public finances to gyrations in hydrocarbon prices—with the risk of abrupt adjustment should oil prices decline—and add to excess liquidity, complicating the conduct of monetary policy.

The medium-term deficit trajectory also carries risks for macroeconomic stability. Continued wide fiscal deficits and increasing principal repayments coming due on past monetary financing would result in large fiscal financing needs through the medium term. As the authorities have ruled out foreign borrowing, meeting these financing needs would heap significant pressure on the domestic banking system and pose risks to financial and macroeconomic stability.

Gradual fiscal rebalancing guided by a rules-based framework is needed to enhance the resilience of public finances and safeguard macroeconomic stability in the medium term. Staff recommends an adjustment to improve the non-hydrocarbon primary deficit excluding the BA's dividends by 10 percent of NHGDP relative to its 2022 level and through 2027. Subsidy reform together with enhanced targeted social protection would help achieve the required fiscal rebalancing, alongside parametric pension reform, lower capital spending and continuation of tax reforms. Staff also proposes the adoption of a medium-term fiscal framework based on well-calibrated rules comprising a saving floor and a gross debt anchor, to guide fiscal rebalancing, reduce policy procyclicality and protect priority spending. More diversified financing sources would

afford space to stage fiscal adjustment over several years while limiting pressures on the banking system.

Staff welcomes the progress achieved on reforms of public finance management and calls for further efforts to strengthen the fiscal framework. The projected full implementation of the Organic Budget Law in 2023 would mark a major milestone for modernization efforts. To protect this progress, budget projections should be in line with execution capacity and available fiscal space. Budgets should also incorporate comprehensive and transparent financing plans and efforts should be deployed to strengthen cash management and improve transparency on budget execution.

Acceleration of structural reforms is needed to advance the transition to a more diversified, resilient and job-intensive growth model and further strengthen the governance framework. Legislative reforms recently adopted or underway, including the new investment law and the forthcoming laws on micro-entrepreneurship and renewable energies, could help create a more conducive environment to private sector activity. Staff cautions against the risks from tight import regulation measures—e.g., fueling inflation and incentivizing informality— and recommends further reforms to improve trade openness and competitiveness, including product and labor market reforms. It also urges the authorities to prioritize actions to address weaknesses in macroeconomic data quality and availability. Ongoing efforts to strengthen governance and reduce corruption risks are welcome and should be intensified.

Algeria: Selected Economic and Financial Indicators, 2017–27

	2017	2018	2019	2020	2021	Projections					
						2022	2023	2024	2025	2026	2027
Output and prices											
Real GDP	1.4	1.2	1.0	(Annual percentage change)							
Hydrocarbon sector	-2.4	-6.4	-4.9	-10.2	10.5	1.7	0.7	1.7	0.8	1.8	0.0
Nonhydrocarbon sector	2.3	2.9	2.2	-4.1	2.1	3.2	3.4	2.8	2.4	2.1	1.9
Per capita	-0.8	-0.8	-1.0	-6.0	2.0	1.5	1.6	1.2	0.8	0.7	0.3
Consumer price index (period average)	5.6	4.3	2.0	2.4	7.2	9.3	8.1	7.6	6.6	6.0	5.6
Investment and savings											
Savings-investment balance	-13.1	-9.6	-9.9	-12.8	-2.8	7.6	2.7	-1.4	-3.1	-4.4	-4.9
National savings	30.3	31.7	29.5	27.0	35.1	39.6	39.2	36.6	34.7	33.4	32.6
Central government	5.4	5.0	4.3	-1.7	1.8	8.9	1.4	0.6	-0.1	-0.3	-0.7
Nongovernment 1/	25.0	26.7	25.2	28.7	33.3	30.7	37.8	35.9	34.8	33.7	33.4
Investment	43.5	41.3	39.3	39.9	37.9	32.0	36.5	38.0	37.8	37.8	37.6
Central government	13.8	11.8	13.9	10.2	9.0	6.8	8.0	7.3	6.6	6.7	6.5
Nongovernment 1/	29.7	29.5	25.5	29.6	28.9	25.2	28.5	30.7	31.1	31.2	31.1
o/w Nongovernment nonhydrocarbon	25.6	23.6	18.9	25.8	26.0	22.7	26.2	27.9	29.2	29.3	29.5
Central government finances											
Revenue	32.0	33.4	32.2	30.5	29.8	33.2	31.4	29.5	28.5	27.5	26.9
Expenditure (incl. net lending)	40.5	40.2	41.8	42.4	37.0	31.1	38.1	36.1	35.2	34.4	34.1
Overall budget balance	-8.4	-6.8	-9.6	-11.9	-7.2	2.1	-6.6	-6.7	-6.7	-7.0	-7.2
Central bank financing (flow)	11.6	16.5	4.9	0.0	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Gross government debt (excluding guarantees)	26.8	38.3	46.0	52.0	62.8	52.4	49.4	51.9	54.6	57.5	60.8
Nonhydrocarbon primary balance excluding central bank dividends	-29.8	-32.6	-32.2	-29.9	-28.9	-25.5	-31.4	-26.4	-24.4	-22.6	-21.6
Nonhydrocarbon balance	-24.8	-26.9	-28.1	-25.9	-24.5	-24.4	-31.0	-26.4	-24.4	-23.1	-22.3
Revenue	39.9	42.9	40.0	35.5	38.4	47.0	42.3	37.8	35.9	34.2	33.1
Hydrocarbon	14.3	18.2	16.2	12.1	15.2	27.4	22.1	17.8	16.0	14.4	13.4
Nonhydrocarbon	25.5	24.8	23.8	23.4	23.1	19.6	20.1	20.0	19.9	19.7	19.6
Expenditure (including net lending)	50.3	51.7	51.9	49.3	47.6	44.0	51.2	46.4	44.4	42.8	41.9
Current expenditure	30.8	33.4	29.7	31.5	31.7	30.0	36.3	33.2	32.4	31.3	30.9
Capital expenditure	17.2	15.2	17.2	11.9	11.6	9.6	10.8	9.4	8.4	8.3	8.0
Net lending	2.3	3.1	5.0	5.9	4.4	4.3	4.1	3.8	3.6	3.3	3.0
External sector 2/											
Current account balance (percent of GDP)	-13.1	-9.6	-9.9	-12.8	-2.8	7.6	2.7	-1.4	-3.1	-4.4	-4.9
Exports, f.o.b. (percent change)	19.0	19.1	-14.2	-37.9	75.9	58.0	-5.2	-11.3	-3.0	-3.1	-0.7
Hydrocarbons	20.0	17.2	-14.5	-39.8	70.2	61.4	-7.6	-14.3	-5.6	-6.1	-3.7
Nonhydrocarbons	-1.9	62.3	-6.7	-7.7	135.7	32.4	16.6	10.7	11.8	11.6	11.3
Imports, f.o.b. (percent change)	-0.9	-0.8	-8.1	-20.4	5.4	7.6	15.2	5.8	2.1	2.1	1.6
Crude oil export unit value (US\$/bbl)	54.1	71.2	64.5	41.9	72.3	101.7	87.0	80.9	77.4	75.0	73.2
Gross official reserves											
In US\$ billions	97.3	79.9	62.8	48.2	46.7	62.0	69.5	68.1	63.1	54.9	45.4
In months of next year's imports of goods and services	19.4	17.7	17.6	13.0	11.6	13.4	14.1	13.3	12.0	10.4	8.4
Gross external debt (percent of GDP)	2.3	2.3	2.2	2.4	1.9	1.6	1.6	1.6	1.6	1.6	1.5
Money and credit											
Net foreign assets	-11.1	-15.8	-20.3	-14.9	-5.2	36.2	18.8	3.1	-3.1	-9.4	-14.4
Credit to the economy	11.9	12.3	9.0	3.0	-12.1	13.2	2.3	2.5	4.9	6.7	7.6
Money and quasi-money	8.4	11.1	-0.8	7.4	13.2	11.9	13.4	8.6	7.5	6.9	6.9
Memorandum items:											
GDP (in billions of dinars at current prices)	18,876	20,452	20,500	18,477	22,079	27,863	30,062	32,097	34,753	37,461	40,126
Nominal GDP Growth	7.8	8.3	0.2	-9.9	19.5	26.2	7.9	6.8	8.3	7.8	7.1
NHGD (in billions of dinars at current prices)	15,177	15,904	16,509	15,902	17,167	19,709	22,367	24,998	27,608	30,109	32,610
GDP capita per (in US\$)	4,080	4,119	3,953	3,322	3,669	...	...	...	...	...	...
Exchange rate (DA per US\$)	110.9	116.6	119.4	126.9	135.3	...	...	...	...	...	...
REER (percent change)	2.4	-4.7	2.3	-4.6	-4.9	...	...	...	...	...	...

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

1/ Including public enterprises.

2/ In U.S. dollars unless otherwise indicated.



ALGERIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

January 12, 2023

KEY ISSUES

Context. Algeria's economic recovery from the pandemic has been buoyed by the rise in international hydrocarbon prices. Fiscal and external surpluses are expected in 2022 for the first time in years. Inflation has nevertheless accelerated, as elsewhere, and has become a complex policy challenge. Monetary policy remained accommodative, while the dinar appreciated in the second half of the year. The authorities have gradually advanced on their structural reform agenda, with the enactment of a new law on investment, renewed efforts to accelerate digitalization, significant progress on tax and public finance management reforms, and a forthcoming revision to the central bank law.

Outlook and Risks. The near-term outlook for the Algerian economy has improved, driven by high hydrocarbon revenue. Nonetheless, growth is expected to slow down over the medium term on multiple headwinds. Inflation is projected to decelerate somewhat in 2023 but remain elevated over the medium term. The outlook is highly contingent on international hydrocarbon prices. Other downside risks include persistently high food prices, a slowdown in global growth, climate hazards and deterioration in the pandemic situation. On the upside, Algeria's hydrocarbon exports could rise further in the longer term if increased foreign demand results in higher investment and boosts production capacity. Ongoing investments in mining could also spur growth and exports when new extraction capacity comes online in the medium term.

Key Policy Recommendations

- *Fiscal Policy.* Gradual fiscal rebalancing is needed to avoid fueling inflation in the short term, mitigate vulnerability to oil price volatility, reduce financing needs and keep debt stable over the medium term. Timely and well-designed subsidy reform would help achieve savings while improving the efficiency of social spending. Targeted support is key to mitigate the effects of higher prices on low-income groups. A rules-based fiscal framework can help guide fiscal consolidation, avoid procyclical policies and rebuild buffers. Diversifying financing sources would create space for gradual fiscal consolidation while leaving room for bank lending to the private sector.

- *Monetary and Exchange Rate Policies.* With high near-term inflation risks and ample liquidity in the banking system, immediate monetary policy tightening is needed to protect price stability. The ongoing revision of the Law on Money and Credit is an opportunity to strengthen the Bank of Algeria's (BA) independence and its ability to safeguard price stability. A tighter policy mix in coherence with the exchange rate regime is key to protect macroeconomic stability. Greater exchange rate flexibility in the medium term, supported by adequate reforms, would facilitate the adjustment of the economy to shocks and support its diversification.
- *Financial sector.* Ongoing efforts to strengthen the regulatory framework and banking supervision are welcome. Overreliance on state-owned banks to finance the public sector can weigh on their liquidity and profitability and crowd out credit to the private sector amid an aggravating sovereign-bank nexus. Strengthening the governance and business model of public banks would help safeguard financial stability.
- *Structural Reforms.* Reforms should be continued to modernize the business climate, enhance governance, and reduce corruption vulnerabilities. Fostering the emergence of a vibrant private sector in new areas of activity is essential for Algeria's economic diversification and transition to a new growth model. Addressing important gaps in the availability and quality of macroeconomic and fiscal data should be a key priority to help inform economic policies and enhance transparency.

Approved By
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Discussions were held in Algiers during November 6-21, 2022. The mission team comprised Geneviève Verdier (head), William Gbohoui, Mahmoud Harb (all MCD) and Stéphane Couderc (MCM). Kamel Badsì (OED) joined most of the meetings. The mission met with Governor of the Bank of Algeria, Mr. Taleb; Finance Minister, Mr. Kessali; Energy and Mines Minister, Mr. Arkab; Agriculture and Rural Development Minister, Mr. Henni; Public Works, Hydropower, and Basic Infrastructure Minister, Mr. Rakhroukh; Commerce and Exports Promotion Minister, Mr. Rezig; and Industry Minister, Mr. Zeghdar. The team also held discussions with other senior government and central bank officials and with representatives of the economic and financial sectors and civil society. Priscilla Muthoora (MCD) and Fabien Gonguet (FAD) provided valuable inputs to the report. Jarin Nashin provided excellent research support. Abigail Korman and Tatiana Pecherkina contributed to the production of the report.

CONTENTS

Glossary	6
CONTEXT	7
RECENT DEVELOPMENTS	7
OUTLOOK AND RISKS	10
POLICY DISCUSSIONS	11
A. Fiscal Policy	11
B. Monetary and Exchange Rate Policies	16
C. Financial Sector Policies	17
D. Structural Reforms	19
STAFF APPRAISAL	21
BOX	
1. Designing a Rules-Based Fiscal Framework for Algeria	15
FIGURES	
1. Selected Macroeconomic Indicators	23
2. External Sector Developments	24
3. Fiscal Indicators	25
4. Monetary and Financial Sector Indicators	26
TABLES	
1. Selected Economic and Financial Indicators, 2017–27	27
2. Balance of Payments, 2017–27 (in percent of GDP)	28
3a. Summary of Central Government Operations, 2017–27 (in billions of dinars)	29
3b. Summary of Central Government Operations, 2017–27 (percent of GDP, unless otherwise stated)	30
4. Monetary Survey, 2017–27	31
5. Financial Soundness Indicators, 2010–21	32
ANNEXES	
I. External Sector Assessment	33
II. Risk Assessment Matrix	37
III. Public and External Debt Sustainability Analysis	40
IV. Implementation of Previous IMF Recommendations	50

V. Managing Public Investment and PPPs for Growth	51
VI. Strengthening Monetary Policy Transmission	53

Glossary

BA	Bank of Algeria
FSAP	Financial Sector Assessment Program
LF2022	<i>Loi de finances pour 2022</i> (2022 budget law)
LFC2022	<i>Loi de finances complémentaire pour 2022</i> (2022 supplementary budget law)
NEER	Nominal Effective Exchange Rate
NHGD	Nonhydrocarbon GDP
NHPD	Nonhydrocarbon primary deficit excluding Bank of Algeria's BA dividends
PAG	<i>Plan d'Action du Gouvernement</i> (Government Action Plan)
PPPs	Public-Private Partnerships
PSR	<i>Programme Spécial de Refinancement</i> (Special Refinancing Programme)
REER	Real Effective Exchange Rate
SOEs	State-owned enterprises
SOBs	State-owned banks