

# Algeria: Selected Issues



# ALGERIA

## SELECTED ISSUES

February 2023

This Selected Issues paper on Algeria was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on January 12, 2023.

Copies of this report are available to the public from

International Monetary Fund • Publication Services

PO Box 92780 • Washington, D.C. 20090

Telephone: (202) 623-7430 • Fax: (202) 623-7201

E-mail: [publications@imf.org](mailto:publications@imf.org) Web: <http://www.imf.org>

Price: \$18.00 per printed copy

**International Monetary Fund  
Washington, D.C.**



# ALGERIA

## SELECTED ISSUES

January 12, 2023

Approved By  
**Middle East and  
Central Asia  
Department**

Prepared by Fabien Gonguet (FAD), Mahmoud Harb (MCD) and Priscilla Muthoora (MCD) as background documentation for the periodic consultation with Algeria. It is based on the information available at the time it was completed on November 21, 2022.

## CONTENTS

<b>DESIGNING A RULES-BASED FISCAL FRAMEWORK FOR ALGERIA</b>	<b>3</b>
A. Introduction	3
B. The Case for a Rules-Based Fiscal Framework in Algeria	5
C. Designing and Calibrating a Rules-Based Fiscal Framework in Algeria	8
D. Ensuring Effectiveness of the Rules-Based Fiscal Framework	21
E. Conclusion	25

### BOXES

1. Definitions of Concepts Used in the Design and Calibration of the Rules-Based Fiscal Framework for Algeria	13
2. A Value-at-Risk Model to Calibrate Algeria's Savings Buffer	17
3. A Few Examples of Escape Clauses	23
4. Example of Correction Mechanism: Slovakia	23

### FIGURES

1. Oil Prices and Public Finance	6
2. Number of Emerging Economies Having Adopted at Least a Fiscal Rule	7
3. Number of Resource-Rich Emerging Economies Having Adopted Various Combinations of Fiscal Rules	7
4. A Dual-Pillar Approach for a Rules-Based Fiscal Framework in Algeria	9
5. Sequencing For the Calibration of the Proposed Rules-Based Fiscal Framework in Algeria	10
6. Budget Reference Oil Prices and the FRR Balance	14
7. Simulated Oil Price Trajectories and Fiscal Hydrocarbon Revenue	16
8. Assets Under Management in Sovereign Wealth Funds	19
9. Proposed Balanced Calibration of the Rules-Based Fiscal Framework	19
10. Proposed Fiscal Paths in the Transition Period	21

**TABLES**

1. Minimum Required Size for the Asset Buffer (DZD bn and Percent of GDP)	<u>18</u>
2. Minimum Required Size for the Asset Buffer (Relative to Budget Hydrocarbon Revenue)	<u>18</u>
3. Examples of Possible Calibrations of the Gross Debt Anchor and Savings Floor	<u>20</u>

**APPENDIX**

I. Sensitivity of the Calibration to Model Assumptions	<u>26</u>
--	-----------

References	<u>27</u>
------------	-----------

**A REEXAMINATION OF INFLATION DYNAMICS AND DRIVERS IN ALGERIA** 29

A. Introduction	<u>29</u>
B. Inflation Dynamics in Algeria: Stylized Facts	<u>31</u>
C. Drivers of Inflation: Demand and Supply Factors	<u>37</u>
D. Conclusion and Policy Implications	<u>43</u>

**FIGURES**

1. Headline, Core and Food Inflation	<u>29</u>
2. Consumer Price Inflation	<u>32</u>
3. A Range of External and Domestic Cost-Push Factors	<u>33</u>
4. Output Gap	<u>34</u>
5a. Distribution of Inflation Components	<u>35</u>
5a. Skewness of Inflation Distribution and Average Inflation	<u>35</u>
6. A Decomposition of Monthly Inflation into Three Unobserved Components	<u>37</u>

**TABLES**

1. ADRL Regression Results for a Basic Phillips Curve Specification	<u>42</u>
2. ADRL Regression Results for a Triangular Phillips Curve Specification	<u>42</u>

**APPENDIX**

I. Statistical Appendix	<u>44</u>
-------------------------	-----------

References	<u>46</u>
------------	-----------