ALGERIA

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Tarik Benbahmed / t.benbahmed@afdb.org
Hervé Lohoues / h.lohoues@afdb.org

www.africaneconomicoutlook.org

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- **The Algerian economy's real growth was an estimated 3% in 2013, driven mainly by domestic demand, including public investment. This growth performance was achieved with inflation slowing to 3.3% thanks to the Algerian government's efforts to control market liquidity, contain the expansion of demand for goods and services, and increase supply.**
- **Algeria's good external position continued to weaken in 2013: the current-account surplus fell to 1.2% of GDP (from 5.9% in 2012) as oil and gas exports declined and imports rose. However, Algeria is pursuing its policy of low external debt and has strong foreign exchange reserves equivalent to more than three years of imports.**
- **The oil and gas company Sonatrach is the flagship of Algerian industry, dominating trade and global value chains. It is Africa's largest company, with a consolidated turnover of around USD 100 billion in 2013.**

Overview

Benefiting from political stability, Algeria's economy continued to perform solidly in 2013, growing by 3% (3.3% in 2012). Growth was driven by private demand and investment by public enterprises, which offset a downturn in public expenditure and exports, especially oil and gas. After stabilising at 10.0% between 2010 and 2012, unemployment fell slightly in 2013, standing at 9.8% in September.

Inflation returned to its pre-2012 level, falling from 8.9% to 3.3% thanks to a prudent monetary policy, fiscal consolidation and government measures to control and improve distribution channels for consumer goods.

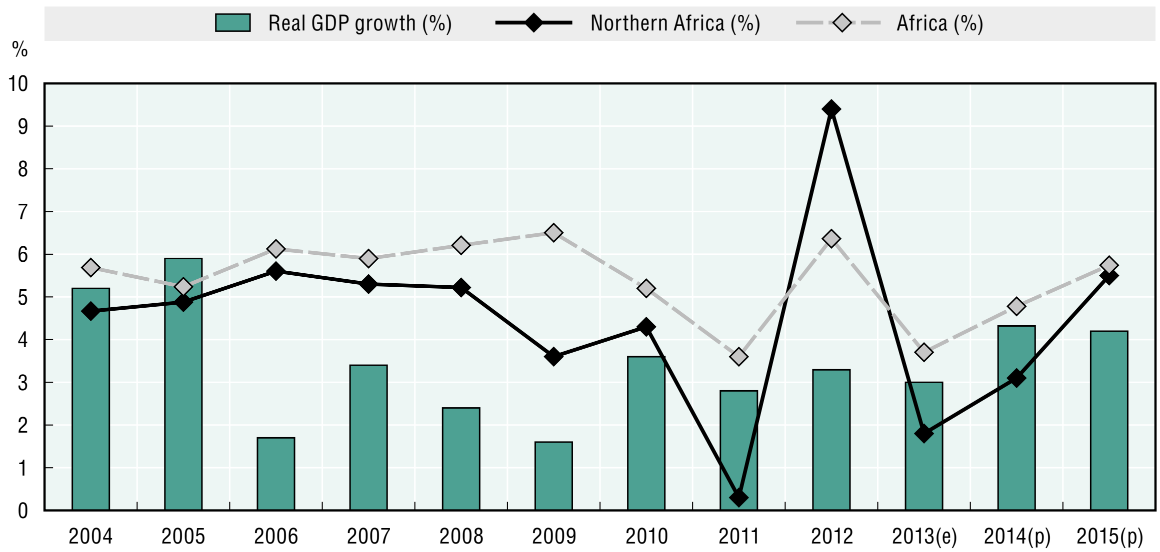
Algeria's external position remains solid but showed the first signs of a slowdown. The current-account surplus contracted 1.2% of GDP (compared to 5.9% of GDP in 2012) as exports fell and imports rose. Foreign exchange reserves, however, remain solid, amounting to USD 196 billion (more than three years of imports) at the end of the year, while external debt remained low at USD 3.2 billion, or 1.5% of GDP.

China has become Algeria's largest supplier, providing 12.0% of Algerian imports, compared to France's 11.4%. Algeria's other main suppliers are Italy, Spain and Germany. Spain, Italy, the United Kingdom and France are Algeria's main export markets, with the United States – the main export market in 2012 – falling to sixth place.

In 2014 oil and gas are set to recover, and public expenditure is forecast to rise by 11.3%, mainly for investment to support domestic demand. As a result, forecasts predict growth of 4.3% and inflation of 4.2%.

Analysis of global value chains (GVCs) shows that the reforms to and dismantling of the public industrial sector have several consequences: assets were privatised, imports were replaced by domestic production, productivity was low, and the informal sector grew. The government sought to break this dynamic by adopting a policy for the recovery and industrial integration of sectors of the economy to increase and diversify domestic production and create jobs.

Figure 1. **Real GDP growth**



Source : AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	3.3	3.0	4.3	4.2
Real GDP per capita growth	1.4	0.8	2.5	2.4
CPI inflation	8.9	3.3	4.2	4.0
Budget balance % GDP	-4.8	-0.2	-2.1	-2.6
Current account balance % GDP	5.9	1.2	0.3	0.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Algeria's economic growth slowed in 2013 to 3% (3.3% in 2012) as oil and gas output dropped and, to a lesser extent, public expenditure was reduced as part of the government's fiscal-consolidation measures. The main drivers of growth were private demand and investments by public enterprises. Excluding oil and gas, the economy grew by an estimated 5.9%, down from 7.1% in 2012.

The economy still relies heavily on oil and gas, which provides more than a third of GDP (36% in 2012), 70% of government revenue and 98% of exports. With oil and gas production on the wane, national energy consumption on the rise and oil and gas exports falling both by volume (-7.4%) and by value (-10.3%), the Algerian economy's vulnerability to fluctuations in this sector increased in 2013. This vulnerability raises questions regarding the sustainability of public finances and the long-term viability of finance for the economy. It also highlights the urgent need for diversification and structural transformation of the economy. Private-sector development and diversification of sources of growth are hindered by a business environment that needs major reforms.

Agriculture (10% of GDP in 2013) saw an acceleration of growth from 6.3% in 2012 to 9.4% in 2013 thanks to a better agricultural season. All areas of agriculture grew except cereal production (-4%) and tobacco (-5%). The industrial sector (excluding oil and gas) still contributes less than 5% to GDP, but grew strongly during the first six months of 2013. According to the industrial production index produced by the national statistical office, the ONS (*Office national de la statistique*), the steel, metal, mechanical, electronic and electrical industries grew by 12.5%; chemicals, rubber and plastics grew by 7.5%; and wood, cork and paper grew by 7.3%. Thanks to the major infrastructure projects carried out as part of the five-year 2010-14 public investment programme (*Programme d'investissements publics*), construction and public works grew by 8.2% in 2012 (up from 5.2% in 2011), providing 9.6% of GDP. Services, meanwhile, provided 41% of GDP in 2012, with market services growing by 4.2% to provide 23% of GDP and government services growing by 6.4% to provide 18% of GDP.

Algeria's external position remained solid in 2013, despite signs of weakening. The current-account surplus shrank from 5.9% to 1.2% of GDP as domestic oil-and-gas consumption grew, reducing exports and increasing imports. Oil and gas exports contracted by 7.3% while imports increased by 5.4%. As a result the trade surplus, which had already shrunk from 13.0% to 9.8% in 2012, deteriorated further to 8.6% of GDP. The current-account surplus also deteriorated, not only due to this smaller trade surplus but also due to the widening of the deficit in factor income from 1.9% to 4.3% of GDP and a drop in net transfers. Consequently, the balance of payments surplus dwindled from USD 12 billion to USD 2.9 billion, despite additional net foreign direct investment and an improved capital account. Algeria's external financial position is nevertheless strengthened by foreign exchange reserves worth USD 196 billion, or nearly three years of imports, and by very low external debt, estimated at USD 3.2 billion (1.5% of GDP) as of end-2013.

After stabilising at 10.0% between 2010 and 2012, unemployment fell slightly to 9.8% in 2013. The reduction in unemployment was more pronounced among men (-1.3%) than among women (-0.7%), and was also more pronounced among young people (from 27.5% in 2012 to 24.8% in 2013).

Despite the efforts made, Algeria's integration into world trade has been a slow process, and negotiations for accession to the World Trade Organization are still ongoing. However, the expected recovery in oil and gas output in 2014 thanks to the exploitation of new deposits and the new long-term prospects for unconventional oil and gas (Algeria is estimated to have the world's third largest reserves) suggest oil and gas income will continue.

Indeed, in 2014 growth is expected to be higher than in the previous two years, reaching 4.3%. It will be driven by public investment and supported by a rebound in oil and gas, which is expected to grow by around 2%. Excluding oil and gas growth should reach 5.3%. Inflation is expected to be around 4%, close to the limit set by the monetary authorities.

Table 2. **GDP by sector (percentage)**

	2008	2012
Agriculture, hunting, forestry, fishing	7.0	9.7
of which fishing		
Mining	49.1	36.0
of which oil	48.9	35.9
Manufacturing	3.9	4.0
Electricity, gas and water	0.9	0.8
Construction	8.4	9.6
Wholesale and retail trade, hotels and restaurants	10.5	12.2
of which hotels and restaurants	0.9	0.9
Transport, storage and communication	8.0	7.4
Finance, real estate and business services	1.0	1.2
Public administration, education, health and social work, community, social and personal services	10.2	18.1
Other services	1.0	1.0
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The Algerian government's fiscal prudence in 2013 enabled an increase in non-oil and gas fiscal revenue while maintaining social spending (social transfers, price support and wages), making savings in other areas of public spending.

Fiscal consolidation – one of the main results expected from the modernisation of public finances – reduced operating expenditure by 12%, saving DZD 600 billion (Algerian dinar), but social transfers stagnated at DZD 1.4 trillion. Capital expenditure, meanwhile, was cut by 10%, with the five-year public investment programme due to conclude at the end of 2014. Budget expenditure was down 11.2% to DZD 3.88 trillion (39.8% of GDP).

Revenue was up 10.1% to DZD 3.82 trillion (39.6% of GDP) in 2013 thanks to a rise in oil revenue and ordinary revenue. Oil taxes rose due to fairly high oil prices and a forecast 2.7% depreciation in the value of the Algerian dinar to the US dollar. Non-oil tax revenue increased by 13% thanks to a 19% rise in revenue from direct taxes.

The 2013 budget documents show that if oil prices had been USD 37 a barrel, oil revenue would have covered 56% of expenditure. The actual price of oil averaged USD 110 a barrel, providing Algeria with a surplus of USD 73 per barrel on average, which it allocated to its Revenue Regulation Fund (*Fonds de régulation des recettes*).

There are still fiscal-management constraints, leading to low consumption of allocations, a problem that should be alleviated by the modernisation taking place. The new fiscal-management system should improve the monitoring of expenditure, the monitoring of projects and the control of costs, which in turn should improve budget absorption and the effectiveness of expenditure.

Algeria's economic and financial outlook therefore remains good. In the medium term, however, the country's financial position will still depend on crude-oil price fluctuations (USD 109.6 a barrel in 2013, USD 110.9 in 2012).

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**40.8**	**36.6**	**39.9**	**40.5**	**39.6**	**38.3**	**36.6**
Tax revenue	8.2	10.5	10.2	12.2	12.1	12.0	12.1
Oil revenue	31.4	24.6	27.7	26.8	26.0	24.7	23.0
Total expenditure and net lending (a)	**27.2**	**38.1**	**41.0**	**45.2**	**39.8**	**40.3**	**39.2**
Current expenditure	16.5	22.2	26.7	31.2	30.5	30.7	30.3
Excluding interest	15.5	21.9	26.5	30.9	30.4	30.5	30.0
Wages and salaries	5.5	10.1	12.2	12.3	12.2	11.7	11.5
Interest	1.0	0.3	0.3	0.3	0.1	0.1	0.3
Capital expenditure	10.7	15.1	13.6	14.1	14.5	15.1	15.5
Primary balance	**14.5**	**-1.2**	**-0.9**	**-4.5**	**-0.1**	**-1.9**	**-2.3**
Overall balance	**13.6**	**-1.5**	**-1.2**	**-4.8**	**-0.2**	**-2.1**	**-2.6**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The Bank of Algeria's monetary policy in 2013 continued to focus on keeping the money supply, the exchange rate and inflation under control.

Inflation was cut from 8.9% to 3.3%, largely thanks to the central bank's introduction of an additional monetary-policy instrument in mid-January 2013, enabling the resumption of six-month loans at a rate of 1.5%. In 2014, inflation is expected to rise to 4.2%.

The exchange-rate policy in force takes the form of a controlled float of the Algerian dinar. The exchange rate at end-2013 was DZD 79.4 to the US dollar, down 2.3% from the rate of DZD 77.6 a year earlier. Against the euro the currency depreciated by 3.2%.

The slowdown in monetary growth continued, with M2 growth falling from 11% to 8.5%. This downward movement was caused by a smaller ratio of sight deposits, a larger ratio of deposits in postal current accounts and with the treasury, and an increase in quasi-money, all amid a stabilisation in the share of the amount of money in circulation.

The main driver of monetary growth was the 20% rise in credits to the economy and a change in the structure, including an increase in the share of medium- and long-term loans (73% at end-2013, against 68% a year earlier) and a decrease in the share of short-term loans (27%, down from 32% a year earlier). This trend is encouraging, and is in line with the development of long-term investment.

Growth in net foreign assets also slowed to 1.9% (7.3% in 2012).

Macroeconomic stability remained one of the Bank of Algeria's main overall objectives. The central bank adopted a prudent monetary policy and a flexible exchange-rate policy while using the instruments it has to mop up excess liquidity in early 2013, and thus curb inflation. As an endogenous phenomenon, inflation requires other, more structural, supply-side measures, including controlling the informal sector and tackling cross-border smuggling, which causes a shortage of goods and pushes up inflation.

Economic co-operation, regional integration and trade

Algeria's external position remained solid in 2013, but began to show signs of weakening, with the current-account surplus shrinking from 5.9% to 1.2% of GDP. With oil and gas exports falling by 7.5% and imports rising by 4.9%, the trade surplus contracted by nearly 40%, which, combined with a widening factor-income deficit and a drop in net transfers, caused the current-account surplus to shrink from USD 12.3 billion to USD 2.3 billion. Consequently, the balance of payments surplus dwindled from USD 12 billion to USD 2.9 billion, despite additional net foreign direct investment and an improved capital account. Algeria's external financial position is nevertheless strengthened by USD 196 billion of foreign exchange reserves, or nearly three years of imports, and by very low external debt, estimated at USD 3.2 billion (1.5% of GDP) as of end-2013.

Data for the first nine months of the year showed that China became Algeria's largest supplier, providing 12.0% of Algerian imports, compared to France's 11.4%. Algeria's other main suppliers were Italy, Spain and Germany. Spain, Italy, the United Kingdom and France are Algeria's main export markets, with the United States – the leading customer in 2012 – falling to sixth place.

The mainly political constraints that hinder what little trade exists among the Maghreb countries remain strong, although some progress has been made in removing them. Algeria plays a leading role in various African co-operation initiatives, including the New Partnership for Africa's Development (NEPAD).

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	25.7	11.2	13.0	9.8	8.6	6.1	3.5
Exports of goods (f.o.b.)	44.9	35.2	36.6	35.0	34.6	32.8	30.9
Imports of goods (f.o.b.)	19.3	23.9	23.5	25.2	26.0	26.7	27.4
Services	-2.2	-4.2	-4.4	-3.5	-4.3	-4.1	-4.0
Factor income	-4.9	-1.1	-1.1	-1.9	-4.3	-3.5	-0.8
Current transfers	2.0	1.6	1.3	1.5	1.4	1.8	1.7
Current account balance	**20.5**	**7.5**	**8.9**	**5.9**	**1.2**	**0.3**	**0.4**

Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Thanks to its strong external financial position, Algeria has considerably enhanced the sustainability of its external debt. Following the full early repayment of its rescheduled loans and the suspension of any new debt since 2006, external debt remained at a sustainable level in 2013, falling slightly from USD 3.8 billion to USD 3.2 billion (1.5% of GDP). This low external debt and the availability of public savings make Algeria immune to the effects of direct financial contagion.

Outstanding domestic public debt, however, totalled DZD 1.31 trillion (9% of GDP) in 2012. Most of this debt (55%) is from bailouts for public enterprises (55%) and bond issues.

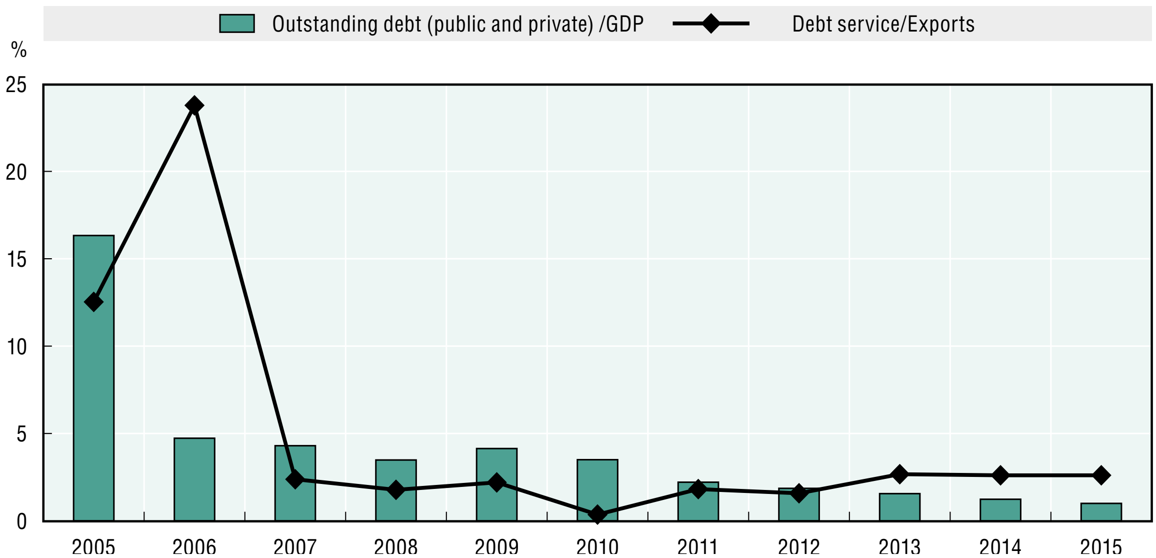
The government's use of the bond market is in continual decline thanks to its comfortable financial position. Domestic debt from the bond market is for bond issues over the last 20 years, and is having a positive effect on domestic debt. Although the government regularly announces it will address the problem of bailouts, it is important to note that social factors, especially jobs, mean that enterprises that do not follow optimal management profitability rules cannot be allowed to go bankrupt.

Despite strong public investment, especially since 2006 (USD 286 billion for the 2010-14 public investment programme), external debt has not increased because early repayments have been made since 2006 and no new external borrowing has taken place. Medium- and long-term debt mainly consists of bilateral debt (75%), followed by financial loans, while multinational loans represent only 0.2%.

In 2013, the Ministry of Finance's *ad hoc* committee set up to follow international economic and financial developments continued to implement the country' deleveraging strategy and invest in international reserves.

The monetary authority's policy of portfolio diversification and risk reduction is therefore based on liquidity, security and fluidity. Reserves are invested through deposits in central banks (6%) and through bonds, treasury bills and assets from AAA-rated institutions (94%). The investments form a basket of foreign currencies composed mainly of US dollars (52%), euros (37%) and pounds sterling (9.6%).

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source : IMF (WEO & Article IV).

Economic and political governance

Public sector

Despite the political will to improve the business environment, reforms are not progressing as quickly as hoped. The World Bank report *Doing Business 2014* places Algeria 153rd out of 189 countries in its Ease of Doing Business Rank. The report highlights ongoing difficulties in the business environment, especially red tape for starting a business, customs clearance and registering a business. These problems delay business operations and generate high transaction costs.

But the ranking does not reflect flows of foreign direct investment (FDI), which, excluding oil and gas, more than quadrupled in 2013 to USD 2.2 billion according to the National Agency of Industrial Development (*Agence nationale de développement de l'investissement*, ANDI), accounting for nearly 2.5% of investment in Algeria, up from less than 1% in 2012. FDI is an important vehicle for technology and innovation transfer, especially in the industrial sector, where 95.5% of FDI excluding oil and gas is concentrated.

Oil and gas previously received the vast majority of FDI, but the sector obtained just under half (USD 2 billion) in 2013. Are foreign investors changing their behaviour, despite the 51/49% rule? Or was 2013 a one-off year, bearing in mind that almost three-quarters of FDI was from a single country, Qatar?

To encourage FDI, the government has focused its interventions on developing partnerships between domestic and foreign firms and on sub-contracting between the subsidiaries of multinational corporations operating in Algeria and local small and medium-sized enterprises (SMEs).

Government pro-investment measures should attract foreign investors. These include the ANDI's one-stop shop, simpler customs procedures, attractive tax laws, the decentralisation of investment functions, a skilled workforce and integrated-development industrial zones. For foreign investors, the Algerian government needs to deal with the lack of clarity and stability in the legal framework for business, cut down the bureaucracy in customs procedures and business registration, and find a solution to the lack of credit from banks, all of which have negative consequences. The private sector is still held back by a large informal sector and an inflexible administration. It is therefore difficult for the administration to adopt the leading role that it should in promoting effective diversification of domestic production.

The issue of industrial land seems to have been resolved since ANIREF (*Agence nationale d'intermédiation et de régulation foncière*) was set up in 2008 to provide intermediation and regulate land, bringing an end to restricted public auctions for land. Progress remains slow, however, and results have been mixed.

Financial sector

The financial sector is formed by 26 banks (including six state-owned) with 1 426 branches across the country, non-banking institutions such as insurance and leasing companies, microfinance institutions, whose functions include creating jobs, and a stock market that is still being developed.

The treasury operates on the bond market, purchases public-enterprise debts and finances public investment, but the financial market is small, offering only a few financial products. State-owned banks still dominate the banking sector, holding 90% of assets/deposits and providing 86% of loans. The quality of risk management remains mediocre. Private banks operate mainly in foreign trade.

In 2013, excess liquidity in banks remained a structural problem, but an increase in loans and a fall in export revenue reduced the amount of liquidity in circulation. Nevertheless, indicators show that banks are solvent, including state-owned banks. Private banks, meanwhile, do not have sufficiently developed financial intermediation to attract household savings, with too few branch-based products. Most private banks focus on more profitable, less risky foreign trade. The scarcity of long-term resources for financing major projects hinders the financing of investment by banks. The stock market remains limited, despite the trend for public enterprises to list themselves, a trend that was encouraged by the administration in 2013. Private banks collect around a fifth of private-sector resources, a sector composed almost entirely (95%) of very small enterprises (VSEs), most of which – like households – carry out transactions in cash rather than using banking services. Algeria has one of the highest savings rates in the world, at 47% of GDP.

Over the past few years the Algerian government has been implementing a programme for the modernisation of the financial sector. For the sector to fulfil its potential, it needs a better environment for business and private investment, the return of consumer credit and the lifting of mortgage restrictions, among other factors, so it can better finance investment and support the measures needed to diversify the economy. Delays in introducing laws to protect against management liability continue to hinder the kind of risk-taking that would make state-owned banks more productive. Managers are legally liable for risks that result in losses, which means they are over-cautious and use too much bureaucracy.

Public sector management, institutions and reform

One of the reforms that is least well known but most present in the daily lives of Algerians is the government's involvement in informing, consulting and engaging citizens in economic decisions.

The best example is the tripartite formed by the government, business-leaders forum (Forum des chefs d'entreprises) and the workers' union. The tripartite seeks to reach compromises to reduce the risk of conflict among the different parties. In 2013, the composition of the tripartite changed considerably, involving several new partners from civil society, resource persons in the field of development, and representatives from employers' organisations. Topics of national interest were freely discussed, and commissions formed by representatives of all stakeholders were asked to contribute on some of them.

In recent years, the governor of the Bank of Algeria has presented reports every six months to members of parliament during extraordinary sessions on the economic and financial climate. The governor also holds periodic press conferences to expose the public to points of view on the country's economic and financial situation.

The finance minister also communicates several annual budget reports to members of parliament and the media using simplified, explanatory versions designed for economists and the general public. Finance laws, laws on budget regulations and related audit reports produced by the state audit office have become documents read and discussed by the general public via the media.

Other members of the government share their reports in the same manner, but without the same success, due to the growing interest among the public in economics and finance.

Natural resource management and environment

Algeria has a national environment strategy, a national plan for environmental action and sustainable development (the *Plan national d'action environnementale et de développement durable*, adopted in 2002) and a national plan for renewable-energy development (*Programme national de développement des énergies renouvelables*, PNDER, adopted in 2011). It also has a set of legislative instruments, which in 2013 covered natural resource management, the environment and territorial policy. More than a dozen laws have been passed over the last decade related to protecting the environment; promoting sustainable development; managing and disposing of waste; protecting coastlines, mountainous areas and deserts; managing water; promoting renewable energies; and shaping towns and cities. The national development plan (*Schéma national d'aménagement du territoire*) sets out the long-term vision between now and 2025 that shapes and complements all these policies.

Notable actions taken in 2013 include a campaign to educate women about environmental citizenship and protection (managing 13 million tonnes a year is believed to cost around USD 2 billion). Hospital waste was treated by 322 incinerators in 2013, compared to only 28 in 2002. Commercial liquid is analysed before being treated. A project to capture and store carbon found in geological formations operates in the southern Algerian town of In Salah (southern Algeria).

The government continued to implement the PNDER programme for renewable energies in 2013, working towards the goal of using solar energy (thermal and photovoltaic) to provide 37% of the country's electricity needs by 2030. A 140-MW/year solar park in Algiers will be up and running in 2014.

Political context

Algeria has been through major political changes and has remained stable despite unrest in neighbouring countries. Since 2012 all political parties fully participate in the political debate through many newspapers and television channels. Since 2011 the country has had to deal with the consequences of instability and insecurity in North Africa and the Sahel.

No elections were held in 2013, but the year was marked by the run-up to the presidential election due to take place on 17 April 2014. A new technocratic government was formed in September 2013, with greater powers given to the Prime Minister, who was often out in the field across the country with his ministers, offering solutions to development issues and monitoring the execution of the government's action plan.

The authorities introduced complex security, legal and regulatory measures in July 2012 in response to a rise in informal cross-border trade in a number of goods, especially fuels. The measures, which required major co-ordination among the various administrative and economic services, also helped cut down drug and weapon trafficking and strengthen border controls, playing a vital role in restoring peace in Mali.

Social context and human development

Building human resources

Algeria has confirmed its achievement of the Millennium Development Goals (MDGs). The 2013 Human Development Index ranked Algeria 93rd out of 181 countries in 2012, with an index value of 0.710 (0.713 in 2011). GDP per capita was estimated at USD 5 503 in 2013. Unemployment (9.8% in 2013) and access to housing remain major challenges for the country.

The health budget increased from 4% of GDP in 1970 to 5% in 2012, and health expenditure is 80% state-funded. Nine new university hospitals have opened or are due to open in 2013-14, bringing the total to 22. According to ONS figures for 2012 there were 1.24 doctors per thousand inhabitants and the mortality rate was 4.53 per thousand. Life expectancy at birth rose to 76.4 for men and 77.1 for women in 2013. In 2011, maternal mortality was 97 per hundred thousand inhabitants, infant mortality (under five year-olds) was 28.8 per thousand and the prevalence of infant malnutrition (under five year-olds) was 3.7%.

Education and training also play an important role in human development, and school attendance is compulsory for children aged 6-15. In 2013 the national literacy strategy lowered illiteracy among over 10 year-olds to 18% (from 22% in 2008 and 85% back in 1962); the goal is to eradicate illiteracy completely by 2016. There are 3.95% more primary, middle and secondary school pupils (8.5 million) enrolled in 2013/14 than there were in 2012/13. The number of students in higher education has also increased from 1.3 million to 1.5 million. In the 2012/13 academic year there were 1.9 million graduates of higher education, compared to just 63 in 1964/65.

Government policies to prevent and combat major endemic diseases have sought to improve access to social housing, provide better training and supervision for healthcare staff, increase healthcare coverage for the poorest people, and make drugs for tuberculosis, HIV/AIDS and other diseases more widely available. Malaria was eradicated in the 1950s, so cases reported (300 a year on average between 2005 and 2012) are of people coming to Algeria from infected areas in other countries. However, the disease seems to have reappeared recently in certain parts of southern Algeria, a matter that is being taken seriously by the departments concerned. Measures to combat HIV/AIDS, meanwhile, have helped reduce prevalence to 0.1% among 15-49 year-olds.

Poverty reduction, social protection and labour

Social safety net programmes focus on dealing with unemployment, especially youth unemployment, women and vulnerable people (elderly people, homeless women, the disabled, etc.). The number of people benefiting from these programmes doubled between 2000 and 2012 from 550 000 to 1.1 million, increasing by around 6% a year on average. The 2012 budget allocated USD 28.3 billion to social spending, with an additional USD 26.6 billion in indirect subsidies bringing the total to USD 54.9 billion, or around a third of GDP.

A quarter of social spending was on staple foods, 29% on health care, education and transport, and 46% on housing and associated subsidised loans. Indirect subsidies keep down the prices of water (16% of indirect subsidies), electricity (13%), gas (31%) and petroleum products (40%). They are designed to protect low-income households, but there is no targeting of the poor and vulnerable, so more affluent households benefit the most. The subsidies have still had little impact on unemployment, especially youth unemployment, despite measures taken to help young people to find work. Consequently, unemployment has been hovering at around the 10% mark for over three years.

Electricity, water and fuel prices were frozen for the third year running in 2013 to protect purchasing power. For the same reason tax exemptions on profits are available in sectors involving consumer staples and consumer goods like edible oils and sugar.

Algeria's labour market has experienced major changes in recent years, particularly with the arrival on the market each year of many young people and the increasing participation of women. The country needs to move forward by further reducing unemployment (which fell from 30% in 2000 to 9.8% in 2013), preventing the growth of the informal sector, and taking into account factors such as new forms of employment (fixed-term jobs are fast becoming the norm in the private sector), the saturation of civil-service jobs, and the difficulty of retirement in the public sector. The government has already developed and implemented labour-market intervention policies, including the *Dispositif d'aide à l'insertion professionnelle*, an aid scheme to support first-time jobseekers and university and vocational-training graduates. It is also working through organisations such as the national employment agency (*Agence nationale de l'emploi*), the unemployment-benefit agency (*Caisse nationale d'assurance chômage*) and the youth employment agency (*Agence nationale de soutien à l'emploi des jeunes*). Most of these policies involve active programmes (social safety net) in the form of subsidies for activities that are in the general interest (*Indemnité pour activité d'intérêt général*), or non-residential training, but there are also passive measures to support people made redundant, unemployed people and people receiving benefits (old people, people with disabilities, etc.).

Gender equality

Algeria's gender parity index (ratio of gross enrolment rates of girls to boys) is 0.93. Tangible results have been achieved in education and training. In 2012 and 2013 the country continued its efforts to achieve gender equality, assigning large budget allocations to all levels of education and training, benefiting Algerian girls and young women. In 1987, the literacy rate among 15-24 year-old women was just 62.2%, but in 2013 it was close to 100%. In 2012, the proportion of girls in secondary education was 58.3%, the proportion of enrolments by women in higher education increased to 60%, and two-thirds of graduates were women.

Women work in all trades, and in 2013 more than six in ten new university graduates, teachers, and healthcare staff were women, as were four in ten judges.

Work still needs to be done, however, to satisfy women's aspirations in terms of career development, their integration in the workplace, and their equal access to decision-making positions.

Gender-related policies have therefore been adopted, the most striking example being the law on increasing the participation of women in elected assemblies to 30%.

Thematic analysis: Global value chains and industrialisation in Africa

The main activities concerning productive potential that are integrated into GVCs are oil and gas, agri-food, the extractive industries and mining, and foreign trade in goods and services (exports and imports). In 2011, the main productive sectors that contributed to GDP were oil and gas (36.0%), services (19.7%) and agriculture (8.1%). Industry, meanwhile, had contracted to 4.3% of GDP (down from 9.1% in 1998).

The institutional economic environment of GVCs is shaped by a national productive system (excluding agriculture) structured around 934 250 economic units operating in business (54.8%), services (34.0%), industry (10.2%) and construction (1.0%). The vast majority (98%) are private units, while the rest (2%) are public units or public-private partnerships. The private sector generates 52% of total value added, and is formed by mainly family-run VSEs with limited investment capacity, access to bank credit and development prospects. The larger public enterprises and public-private partnerships (those with more than 250 employees and a turnover of more than DZD 2 billion) provide 48% of value added. The oil and gas sector is centred around the Sonatrach group (GSH), which alone provides 36% of GDP. All these public enterprises, and to a lesser degree the private sector, are involved in GVCs through production and trade.

The 2011 input-output table shows the share of exported value added for each sector: 99.5% for oil and gas (mainly GSH); 90.0% for leather and footwear; 47.5% for mining and quarrying; 10.6% for the mechanical, metal, electrical and electronic industries; 10.2% for agribusiness; 10.0% for wood, paper and cork; 8.0% for transport and communications; and 3.5% for building materials. To put the weight of each sector into perspective, it should be noted that GSH provides 97% of all of Algeria's exports. Algeria's economy is strongly linked to the global oil and gas economy both during periods of prosperity[1] and periods of decline.[2] Other sectors' more modest involvement in the global economy is in the export of raw materials or materials that have gone through primary processing. This integration in GVCs points to an industrial sector in decline, with frequent major changes and ineffective reforms. The industrial sector is subject to an unrestrained opening of foreign trade, which actually encourages the development of the informal sector (25% of GDP). Furthermore, the law establishing the 51/49% rule for foreign investment has not yet yielded the results that were hoped for.

The Algerian economy also participates in GVCs through trade. In 2011, exports of goods were valued at USD 73.49 billion and imports of goods at USD 47.25 billion, giving Algeria a trade surplus of USD 26.24 billion. Imports were equal to 31.9% of GDP and exports 38.7%. Excluding oil and gas, exports were worth only 3% of GDP, partly because of the limited domestic supply of goods.

Oil and gas (and derivatives) accounted for 97% of exports, with GSH overwhelmingly dominating trade and GVCs. It is Africa's largest company, with a consolidated turnover of around USD 100 billion in 2013.

Excluding oil and gas, the Algerian economy's integration into GVCs is relatively negligible, accounting for only 2.81% of total exports. But it is substantial nonetheless, and is composed as follows: *i*) raw materials or semi-finished hydrocarbon derivatives (USD 1.2 billion, 1.6% of total exports), such as oils and products produced through tar distillation (USD 836 million, 1.1% of exports) and anhydrous ammonia (USD 372 million, 0.5% of exports), which provide little value added; *ii*) agri-food (USD 321 million, 0.4% of exports), including sugars produced by the private-owned CEVITAL group (USD 268 million), drinks produced by the public-owned Eaux minérales algériennes (USD 26.9 million) and dates produced by private firms (USD 25 million); *iii*) other industries (USD 565 million, nearly 8% of exports), including skin-tanning products (USD 20.3 million), calcium phosphate (USD 128 million), unwrought zinc (USD 25.7 million), glass sheets (USD 19.1 million), acyclic alcohols (USD 41.8 million), hydrogen and rare gases (USD 39.1 million), and other products (USD 290.3 million), led by those produced by the public-owned SGP Industries manufacturières. Although sectors other than oil and gas are not very integrated in GVCs, the productive sectors have the potential to become more involved in the global manufacturing industry, especially flour milling, cement, steel, sugar refining and the dairy industry, whose output was well below capacity in 2010 and 2011.

Imports totalled USD 47.25 billion in 2011, many of which were from European Union countries. Imports of capital goods were worth USD 16.4 billion, or 34.7% of the total, and were mainly transport vehicles for passengers and cargo. Imports of goods for production facilities totalled

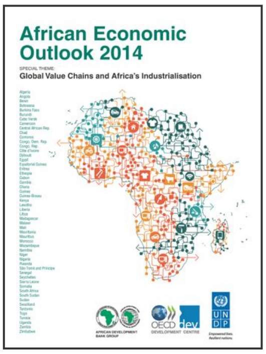
USD 13.6 billion, or 28.8%, and consisted of iron and steel products and oils for the food industry. Food imports, including cereals, milk and sugar, were worth USD 9.9 billion, or 21.0%. Finally, imports of non-food consumer goods were valued at USD 7.3 billion, or 15.5%, and included passenger cars, pharmaceuticals and motor-vehicle accessories.

There is significant integration in GVCs for imports, but only 28.8% generate value added in exports. The remaining 71.2% consists of food and durable goods.

The reforms to the public industrial sector and the dismantling of the sector had various consequences: assets were privatised, imports were replaced by domestic production (supported by liquidity in the oil and gas sector), foreign trade was made fully open, productivity fell, and the informal sector grew. The government sought to break this dynamic in 2013 by issuing a call for proposals for 18 industrial sectors to stimulate the industrial recovery and integration of sectors of the economy in order to increase and diversify domestic production and create jobs.

Note

1. In 1972, oil and gas became an important variable in the national economy.
2. During the oil glut, the price per barrel of oil nosedived from USD 25 to USD 10 in 1986. This drop in revenue was partly responsible for the reforms. Today's economic upturn has come amid oil prices of more than USD 100 a barrel.



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