Algeria

Algeria's economy continues to register a good performance with real GDP growth estimated at 2.5% in 2012 (from 2.4% in 2011), but that growth could be boosted by enhancing the country's potential, particularly in natural resources like hydrocarbons, to generate more wealth and employment, especially for young people.

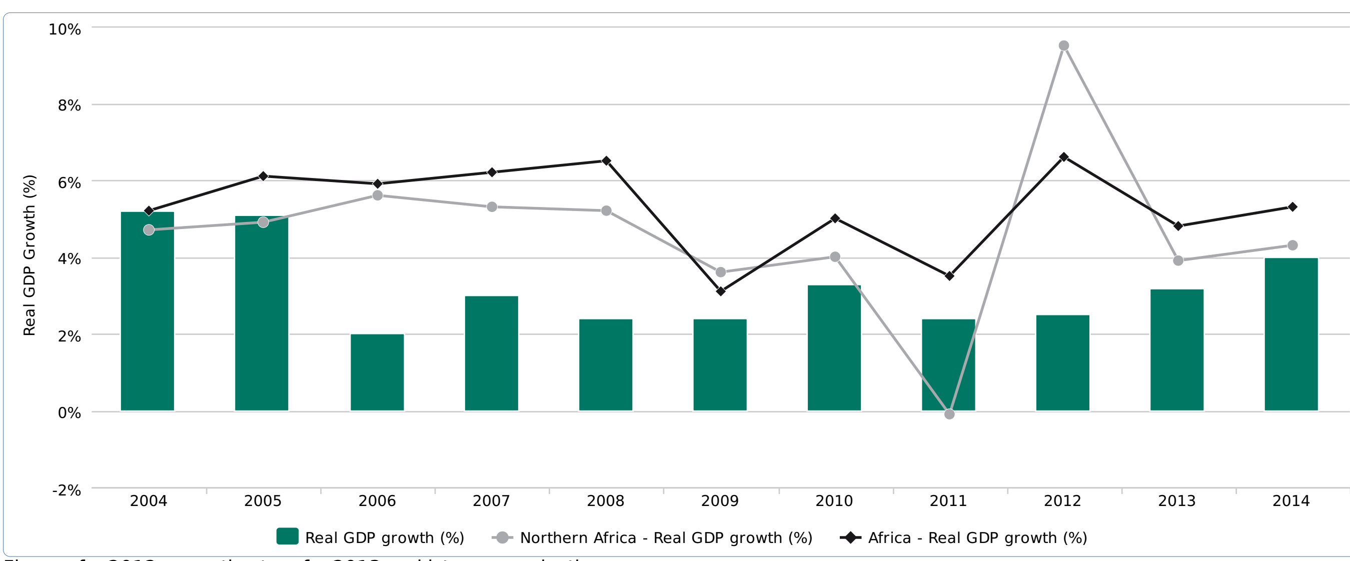
Strong social demands were contained thanks to subsidies to consumer prices, wage increases and social transfers, all of which hiked up government expenditure, but broad balances were maintained with a budget deficit equal to 3.3% of GDP, foreign debt amounting to 2.5% of GDP, a current-account surplus equal to 8.2% of GDP and foreign-exchange reserves of USD 190.7 billion at end-December 2012, or three years of imports.

Thanks to the exploitation of its natural resources, hydrocarbons in particular, Algeria has registered tangible progress over the last 20 years, notably in respect to the modernisation of its economic and social infrastructure, poverty reduction, lower unemployment and improved human development.

Overview

In 2012, the Algerian economy grew by 2.5%, up slightly from 2.4% in 2011. Excluding hydrocarbons, growth has been estimated at 5.8% (up from 5.7% in 2011). Inflation is increasing and is estimated at 8.9% (up from 4.49% in 2011). Despite the financial authorities' good performance, which was due to modernisation reforms, the budget deficit widened to 3.3% of GDP in 2012 (as against 1.3% in 2011) due to the continuation of the expansionary fiscal policy initiated in 2011 to meet strong social demands in terms of purchasing power, jobs and housing. The oil and gas sector is the country's main source of revenues, having generated about 70% of total budget receipts. The economy is projected to grow by 3.2% in 2013 and by 4.0 % in 2014.
The country's external position remained comfortable in 2012, with a trade surplus of about USD 27.18 billion. The current-account surplus is estimated at 8.2% of GDP and official foreign-exchange reserves have been estimated at USD 190.7 billion at end-December 2012, or the equivalent of more than three years of imports of non-factor goods and services. Oil and gas export earnings made up more than 97% of total exports.
Algeria has enormous possibilities to boost its economic growth, including huge foreign-exchange reserves derived from oil and gas. A development strategy targeting stronger, sustained growth would create more jobs, especially for young people, and alleviate the housing shortage the country is facing. The national strategic option is therefore to revitalise the process intended to diversify the economy starting with the non-oil sector while deepening the reforms needed for the structural transformation of the economy.

Figure 1: Real GDP Growth 2013 (North)



Figures for 2012 are estimates; for 2013 and later are projections.

StatLink http://dx.doi.org/10.1787/888932804928

Table 1: Macroeconomic indicators

	2011	2012	2013	2014
Real GDP growth	2.4	2.5	3.2	4
Real GDP per capita growth	0.3	0.4	1.1	1.9
CPI inflation	4.5	8.9	4.9	4.7
Budget balance % GDP	-1.3	-3.3	-1.5	-2.1
Current account % GDP	9.9	8.2	7.5	7.5

Figures for 2012 are estimates; for 2013 and later are projections.

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Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2007	2011
Agriculture, forestry & fishing	-	-
Agriculture, hunting, forestry, fishing	8	8.6
Construction	9.3	9.8
Electricity, gas and water	1	0.8
Electricity, water and sanitation	-	-
Extractions	-	-
Finance, insurance and social solidarity	-	-
Finance, real estate and business services	3	3.2
General government services	-	-
Gross domestic product at basic prices / factor cost	100	100
Manufacturing	4.3	3.9
Mining	46.4	38.5
Other services	0	0
Public Administration & Personal Services	-	-
Public Administration, Education, Health & Social Work, Community, Social & Personal Services	8	16.2
Public administration, education, health & social work, community, social & personal services	-	-
Social services	-	-
Transport, storage and communication	10.7	11.5
Transportation, communication & information	-	-
Wholesale and retail trade, hotels and restaurants	9.3	7.7
Wholesale, retail trade and real estate ownership	-	-

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Growth has been estimated at 2.5% in 2012 (slightly up from 2.4% in 2011) and was driven mainly by public investment, domestic demand supported by significant accumulated revenues and high oil prices (the price per barrel was on average USD 110.9 in 2012). Non-hydrocarbon growth has been estimated at 5.8% (slightly up from 5.7% in 2011).

Algeria’s economy is still heavily dependent on its oil revenues. The oil and gas sector continues to generate about 97% of overall export resources, 70% of budget receipts and on average 37% of GDP. The sector is however looking at a downward trend in its production volume (205.82 million tonnes of oil equivalent [toe] in 2011, down from 233.3 million toe in 2007), which has already resulted in a lesser contribution of the oil sector to GDP, from 43.7% in 2007 to 36.7% in 2011 and in a nearly 3.3% fall in the volume of hydrocarbon exports, from 133.15 million toe in 2007 to 110.81 million toe in 2011. The strategy to diversify revenue sources in Algeria includes a significant component of value creation in the hydrocarbons production chain. A major investment programme is underway to strengthen national refining capacities and to develop the subcontracting industry, particularly in the field of petrochemicals.

Growth in the agricultural sector has been estimated at 13.7% in 2012 (compared to 10.5% in 2011) by virtue of the dynamics of the cereals, milk, meat and potatoes sectors. Its increase can also be attributed to the extension of the irrigated area, which has reached about one million hectares. The agricultural sector is estimated to have contributed to 10% of GDP in 2012.

The contribution of the industrial sector to GDP stands at 4.2% of GDP in 2012 (just down from 4.3% in 2011) and has therefore still not recovered its buoyancy of the 1990s (about 10% of GDP). Recovery in industry seems however to be starting up, as reflected by growth of the general industrial production index, which was 1.2% in 2012 (compared to 0.4% in 2011). This dynamic is due to the leather and footwear (+15%) and the energy (+11.4%) industries. The steel, metal, mechanical, electronic and electrical industries, as well as construction materials, showed performance well into 2012.

The construction sector experienced a slight recovery in 2012 with production increasing by 5.9% (against 3% in 2011). Its contribution to GDP was about 9%, and it has been boosted by major infrastructure works such as the East-West motorway, the underground in Algiers, the tram in Algiers, Oran and Constantine, dams and oil-related public works. The services sector registered 6.3% growth in 2012, and there is in fact a positive correlation between the performance of the services sector and the dynamism of the hydrocarbons sector. A significant share of hydrocarbon revenue feeds into the operations of the services sector.

Average inflation in 2012 is estimated to have increased to 8.9% as a result of the price increase in food products (12.20%), fresh farming products (21.37%) and manufactured food products (4.70%) due to persistent failures in the domestic goods market and to inflationary pressures fuelled by a substantial increase in household income. Prices of manufactured goods increased by 6.6%, and those of services by 5%. The prices of major consumer goods (cereals, milk, sugar and cooking oil) are still government subsidised. According to the Bank of Algeria's annual report, for 2012 food subsidies were evaluated at DZD 215.6 billion (Algerian dinars) or approximately USD 3 billion, compared with DZD 12.6 billion (USD 175 million) in 2009.

The country's external position remains sound even though the current-account balance has continued to decline from its 2009 position. The current-account balance amounted to 8.2% of GDP in 2012 (compared to 9.9% in 2011) and the trade surplus was USD 27.2 billion, up 3.3% from USD 26.24 billion in 2011. In Algeria, trading across borders depends essentially on the export price of oil and gas, and on its main imports of products such as goods intended for production (30%) and capital goods (29%), which are nearly 60% of total imports. In 2012, imports decreased slightly, by 0.94%, and amounted to USD 46.8 billion (as against USD 47.25 billion in 2011). Exports have been estimated at USD 73.98 billion in 2012 (as against USD 73.5 billion in 2011), amounting to 37.7% of GDP. Algerian exports remain dominated by hydrocarbons and their derivatives at more than 97% of the overall volume of exports. Oil exports amounted to USD 71.79 billion in 2012, up by 0.51% from USD 71.66 billion in 2011. Non-hydrocarbon exports have remained marginal at 2.96% of the overall volume of exports (USD 2.18 billion in 2012), a 6% increase from 2011, and were mainly constituted by semi-finished products (USD 167 million in 2012), foodstuffs (USD 313 million) and raw products (USD 1.66 billion). Official foreign-exchange reserves were estimated at USD 190.7 billion at end-December 2012, or the equivalent of more than three years of imports.

Macroeconomic Policy

Fiscal Policy

Fiscal policy remained expansionary so that public investments could be continued at the same pace and contain the strong social demand. The government's continued implementation of the public-investment programme in connection with the 2010-14 five-year plan (amounting to USD 286 billion) and its response to strong social demands for more purchasing power, jobs and housing had repercussions for public expenditure, which represented about 43.2% of GDP in 2012. The 2012 rise in expenditure is the result of wage increases granted in 2011, subsidies to consumption prices and social transfers.

Fiscal revenues amounted to approximately 39.9% of GDP in 2012. Budgetary resources come mainly from oil taxation, still equal to about 70% of total revenues, which has risen in connection with the increase in the average price of a barrel of oil (USD 110.9). The budget is however drawn up based on a tax price of USD 37 per barrel. This way, part of the oil revenues continues to feed the revenue-regulation fund (*Fonds de régulation des recettes*), which in 2012 amounted to 26% of GDP (net of public debt).

The public-administration reforms of recent years, notably of the tax services, have helped to increase tax revenues (including taxes and customs duties) significantly. Ordinary taxation revenues have doubled in four years from DZD 766.8 billion in 2007 to DZD 1.5271 trillion in 2011, at an average annual 18.8% growth rate. Modernising tax structures is an important component of the comprehensive reform programme and led notably to setting up a department devoted exclusively to large companies in 2006, which is the single tax contact for nearly 2 000 enterprises. Otherwise, for small- and medium-sized enterprises (SMEs), an ambitious programme has been launched to build 65 tax centres. First evaluations of the reforms made by the financial authorities have shown encouraging developments in terms of financial performance.

The country's economic and financial outlook remains favourable. In the medium term, however, the financial situation will continue to depend on fluctuations in the price of crude oil (USD 110.9 in 2012 versus USD 112.9 in 2011, USD 80 in 2010 and USD 62 in 2009). Sustained degradation of the global economy in the wake of the euro area debt crisis may have an impact on the country's financial resources.

Table 3: Public Finances (percentage of GDP)

	2009	2010	2011	2012	2013	2014
Total revenue and grants	36.6	36.5	40.5	39.9	39.4	39.1
Tax revenue	11.1	10.4	10	9.9	10	10
Oil revenue	24.4	24.4	28.6	28	27.4	27
Grants	-	-	-	-	-	-
Total expenditure and net lending (a)	43.7	37.9	41.8	43.2	40.9	41.1
Current expenditure	22.9	22.1	27.1	28.6	28.2	28.1
Excluding interest	22.5	21.8	26.7	28.3	28	27.8
Wages and salaries	9.1	10.1	12.5	12.3	12.3	12
Interest	0.4	0.3	0.3	0.3	0.1	0.2
Primary balance	-6.7	-1.2	-0.9	-3	-1.4	-1.8
Overall balance	-7.1	-1.5	-1.3	-3.3	-1.5	-2.1

Figures for 2012 are estimates; for 2013 and later are projections.

StatLink http://dx.doi.org/10.1787/888932809887

Monetary Policy

In 2012, the Bank of Algeria continued to focus its monetary policy on controlling the money supply and the exchange rate, and monitoring inflation. Nonetheless, inflation rose sharply in 2012 to 8.9% (versus 4.5% in 2011). The current exchange-rate regime is characterised by a managed float of the value of the dinar. In 2012, the average exchange rate of the Algerian dinar appreciated against the euro by 0.05% and depreciated by

6.45% against the US dollar, reflecting an alignment of the nominal rate of the dinar on its real market rate. The annual average exchange rate turned up at EUR 102.1 and USD 77.5 per one dinar.

Expansion of the money supply (M2) was continued in 2012, increasing by 11.47% (compared to 19.9% in 2011) as a result of the rise in credits to the economy and of the positive variation of foreign assets due to the surplus in the balance of payments. As for currency in circulation, its growth rate declined by nearly 8 percentage points to 14.81% in 2012, from 22.53% in 2011. Overnight deposits collected by the banks fell by 3% in 2012 due to the considerable 37.9% decline in deposits from Sonatrach, the national institute for research, production, processing and marketing of hydrocarbons (*Société nationale pour la recherche, la production, le transport, la transformation, et la commercialisation des hydrocarbures*), connected in particular to the self-financing of its investment programme. The Bank of Algeria's relative share of bank deposits declined (61.4% at end-June 2012, against 64.4 at end-June 2011), whereas deposits with post-office banks and with the Treasury grew by 12.4% from its 10.4% growth at end-2011. Deposits with the Treasury are the result of the disbursements made by the Treasury from its accounts at the Bank of Algeria to cope with the continued growth of public expenditure.

Credits to the economy increased by 15.3% in 2012 (versus 14% in 2011) as part the financial support provided by the government to public enterprises and private SMEs to stimulate medium- and long-term supply of goods and services, and job creation.

Given the evolution of the main monetary aggregates during the first quarter of 2012 and the risk of inflation, the Bank of Algeria took several monetary-policy measures in 2012. These were aimed in particular at reducing excess liquidity in the money market and at mitigating its inflationary effects, notably with a two-percentage-point rise in the share of minimum-reserve requirements (from 9% to 11%) on 15 May 2012, while liquidity absorption increased by DZD 250 billion in April 2012, reaching DZD 1.35 trillion in the second half of 2012. These measures contributed to better management of excess liquidity on the money market, thereby lessening its inflationary effect in a situation of moderate growth of the M2 money supply (11.47%).

Economic Cooperation, Regional Integration & Trade

In 2012, Algeria continued to intensify its efforts to diversify its trade and promote economic and regional co-operation. In this context, Algeria is pursuing its negotiations to become a member of the World Trade Organization in order to consolidate its on-going economic reforms and become better integrated into the global economy.

Algeria signed three new co-operation agreements with the European Union (EU) in October 2012 to increase its trading with Europe. In addition, after more than two years of talks, Algeria and the EU reached an agreement on a revised schedule for tariff dismantling under the terms of the Algeria-EU Association Agreement. In particular, the new schedule provides for postponement to 2020 of the lifting of tariff barriers to a wide range of industrial products imported by Algeria and for the restructuring of certain EU preferential quotas for fresh or processed agricultural products. These new provisions came into effect on 1 September 2012.

In the area of regional co-operation, Algeria plays a central role in several regional projects and initiatives under the New Partnership for Africa's Development. There is little trading within the Arab Maghreb Union (AMU), however, even though the volume of trade with AMU countries increased by 26.26% in 2012 from 2011, or from USD 2.27 billion USD in 2011 to USD 2.87 billion in 2012. These performances are well below the prospects of economic integration of the countries in North Africa, which is still facing constraints, mainly political ones.

The main suppliers to Algeria in 2012 were France, China, Italy, Spain and Germany in that order. As for exports, Algeria's main customers in 2012 were: the United States (USD 11.94 billion), Italy (USD 11.67 billion), Spain (USD 7.57 billion), France (USD 6.60 billion) and Canada (USD 5.48 billion).

Table 4: Current Account (percentage of GDP)

	2004	2009	2010	2011	2012	2013	2014
Trade balance	16.7	5.6	11.2	14.5	14.1	12.8	11.8
Exports of goods (f.o.b.)	37.8	32.7	35	37.7	36.4	35.4	34.8
Imports of goods (f.o.b.)	21	27	23.8	23.3	22.3	22.6	23
Services	-2.3	-6.3	-5	-4.8	-6	-5.3	-4.3
Factor income	-4.2	-0.9	-0.2	-1.1	-1.1	-1.1	-1.1
Current transfers	2.9	1.9	1.6	1.3	1.1	1.2	1.1
Current account balance	13	0.3	7.6	9.9	8.2	7.5	7.5

Figures for 2012 are estimates; for 2013 and later are projections.

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Debt Policy

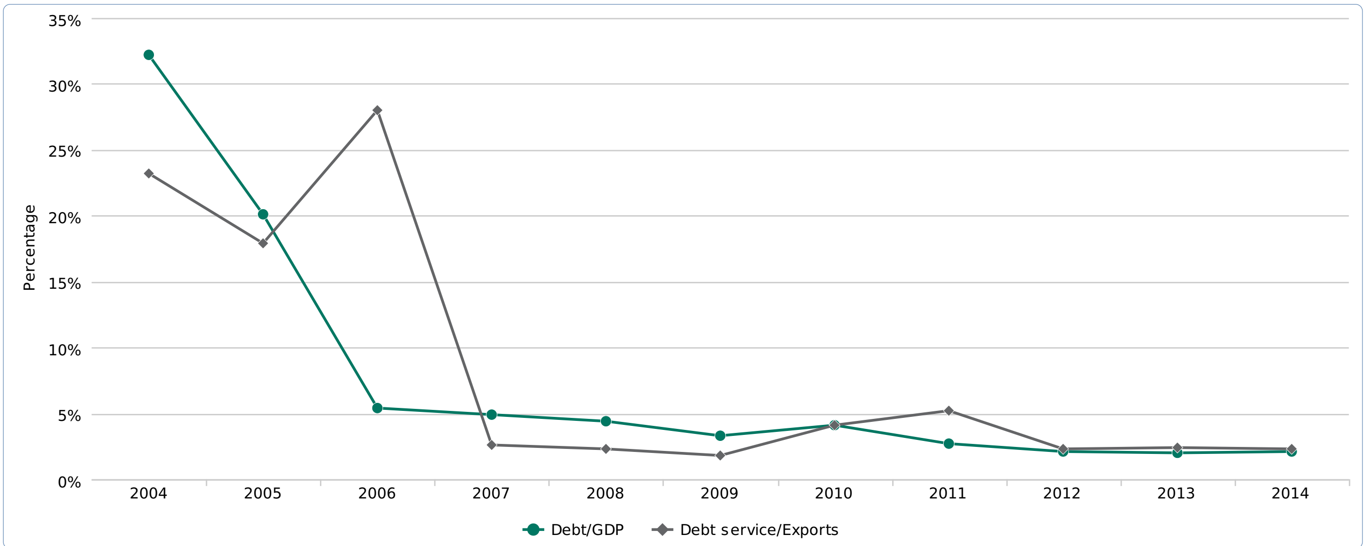
Its favourable external financial position allowed the country to make its external debt considerably more sustainable. After total redemption of its rescheduled loans and suspension of all new debts, debt has in fact been sustainable since 2006. Algeria is thus immune to the effects of direct financial contagion, given the pre-eminence of public banks in its banking system, the availability of public savings and its low foreign debt (amounting to about 2.4% of GDP in 2012). The country is pursuing its policy to finance its economy domestically from the excess liquidity in its banking sector.

The net external financial position of the country was further consolidated in 2012, and its outstanding medium- and long-term foreign debt was estimated at USD 2.479 trillion at end-2012 (versus USD 3.263 trillion at end-2011). Short-term external debt has stabilised at USD 1 billion. Despite the increase in public investment in recent years (USD 286 billion in the 2010-14 five-year plan), the level of debt has not increased because the country has not resorted to external financing since 2006. Total public debt has been estimated at 8.9% of GDP in 2012 (compared to 9.9% in 2011). Total external debt is made up of two parts: external public debt guaranteed by the state or a public body (about USD 1.3 billion) and the debts incurred by private companies that are under full foreign control and have made direct investments in Algeria. The structure of the medium- and long-term debt, by type of loan, shows that bilateral external debt constitutes almost all of the stock of debt (about 75%), followed by financial credits. Multinational loans are only about 0.2% of the total.

Outstanding domestic public debt has, however, held an upward trend in recent years, moving from DZD 1.1 trillion in 2010 (or 9% of GDP) to DZD 1.2146 trillion at end-2011 (or 8.4% of GDP). This trend continued in 2012 and will probably persist in 2013 and 2014. Domestic debt is made up of the market debt needed to maintain bond transactions in order to ensure supply and of the debt related to consolidating public-sector enterprises (55% of the volume of domestic debt). The latter part of domestic debt is due, amongst others, to the cancellation of farmers’ debts in 2011 and 2012, in particular to the rural-development bank, the Banque de l’agriculture et du développement rural.

The International Monetary Fund (IMF) and the World Bank have not recently conducted formal evaluations of the country’s debt. Memoranda and mission reports from these institutions do, however, often include a section or a chapter on public debt. In 2012, the Ministry of Finance’s ad hoc committee set up to follow international economic and financial developments continued to implement the country’ deleveraging strategy. The same year, Algeria contributed to increasing the IMF’s liquidity to the tune of USD 5 billion. An IMF mission visited Algiers from 29 October to 11 November 2012 to facilitate talks as part of the 2012 annual consultations. The mission’s findings notably drew the government’s attention to the relatively high level of domestic debt, which has grown continuously every year.

Figure 2: Stock of total external debt and debt service 2013



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Economic & Political Governance

Private Sector

Algeria's business climate is still facing a number of constraints, including administrative sluggishness in various areas such as starting a business, customs clearance and registering commercial activities, engendering delays in operations and significant transaction costs. The World Bank report *Doing Business 2013* ranks Algeria 152nd out of 185 countries, down from 150th out of 183 countries in the 2012 report.

The private sector comprises 920 307 enterprises, or about 98% of all production units and 52% of the total added value, but it mostly consists of small and very small enterprises (VSEs), accounting for about 90% of the sector. Most VSEs are small family businesses. In their search for new markets, domestic producers are facing strong competition from imported products and goods, some of which are sold at relatively very low prices. The resulting decline in the use of national capacities thus discourages investment and contributes to reducing long-term competitiveness.

According to the annual report of the United Nations Conference on Trade and Development (UNCTAD) 2012, Algeria attracted USD 2.571 billion in foreign direct investment (FDI) in 2011 (versus USD 2.264 billion in 2010), a 14% increase, with record growth in the first half of the year thanks to a series of actions led in 2012 by the ANDI, the national development and investment agency (*Agence nationale de développement de l'investissement*), intended to facilitate the establishment of companies. In addition, the ANDI helped to set up a one-stop shop and make sure it was operational. It should however be noted that the share of FDI in total investment in Algeria has remained relatively low. According to the Bank of Algeria's 2011 annual report, gross internally funded investments amounted to about USD 67.40 billion. To increase private investment in the country, the government is increasingly seeing FDI as especially important in that it brings technology transfer and innovation capacities with it. Algeria has therefore 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 SMEs (drug manufacturing [biotechnology], building materials and housing).

The 51-49% rule for foreign-national partnership is sometimes perceived as an impediment to the development of the private sector in the country, but several foreign investors have agreed to partner with projects initiated by Algerian entrepreneurs. The 51-49% rule was extended in September 2012 to include investment in hydrocarbon refining and processing activities through the adoption by the Council of Ministers of a draft amendment of Law 05-07 on hydrocarbons. One of the provisions in the amendment deals with the extension of the rule and another on Sonatrach's systematic participation in new projects.

Although European investments have continuously declined, investors from the countries of the Gulf and Egypt have shown new interest and become the leading foreign investors, followed by Asian, German and Spanish investors. The investment rate for private-sector operators, however, has remained relatively weak, due amongst other reasons to the law on criminalisation of the act of management. In 2011, the President of the Republic ordered the government to set up a commission (which was done in 2012) to revise the penal code, and in particular to repeal certain articles. This included decriminalising the act of management in order to reassure executive managers and stimulate investment. The commission has not yet finalised its work.

The country nevertheless took new measures in 2012 to facilitate business start-ups and improve their operations framework, including more favourable tax treatment for enterprises, reviewed legislation on access to land (terms and conditions for the concession of state-owned land, etc.) and an amended procurement code.

Financial Sector

In 2012, the Algerian banking and financial system comprised 27 banks and financial institutions (6 public banks, 14 private banks, 3 financial institutions, 3 leasing companies and 1 agricultural mutual insurance company), and a stock market just starting up (the Bourse d'Alger, with 5 enterprises listed). The public banking sector controls 85.7% of assets, 89.1% of deposits and 86% of loans. Non-performing loans are estimated at 14%, about 10% of which are provided for.

Excess liquidity in Algerian banks remains structural, and liquidity has been estimated to expand at the rate of 11.5% in 2012, a higher rate than in 2011. Banks have consolidated their financial-soundness indicators and the solvency ratio remains substantial at nearly 24%. The activities of these banks, private banks in particular, are generally limited to foreign-trade operations. In addition, the scarcity of long-term capital resources is an obstacle to bank financing of major investment projects. The stock market is characterised by limited transactions; the capitalisation of the five listed enterprises amounts to USD 180 million, the main actors being national financial institutions and public banks.

In terms of access to financial services, Algeria has 1 246 bank branches, or 1 per 27 500 inhabitants. Household deposits amount to only 33.2% of total bank deposits because of rather restrictive conditions for opening a bank account. Credits to households are only 8% of the total credits granted. Credits to the private sector amount to 53.2% of all bank credits, versus 46.8% to the public sector. At end-2012, bank credits to private companies reached DZD 1.9492 trillion, up from DZD 1.6832 trillion at end-2011, so loans to the private sector (including households) are higher than outstanding credits to the public sector. According to banking-sector officials, projects submitted by enterprises, VSEs in particular, lack consistency and are not bankable. Only two-thirds of VSEs have access to banking. On the other hand, the country's savings ratio is higher than 50%, one of the highest in the world.

The country has in recent years undertaken the implementation of a programme to modernise its banking and financial sector. On 20 February 2012 the Bank of Algeria issued a new regulation (No. 12-01) laying down the organisation and operations principles of its risk-centralisation division for enterprises and households, in charge of collecting, processing and saving data on credits granted by banks to their customers, and reporting it back to the banking network. In the same direction, the conditions for households to open a bank account have been eased, which should allow households greater access to banking and financial services.

Public Sector Management, Institutions & Reform

In 2012 the government made efforts in the area of public-sector management to strengthen administration in general, and local economic administrations and communities in particular, in order to become more efficient in programme implementation and improve the quantity and quality of public services. Meeting these objectives, however, remains hindered by constraints in terms of human resources, especially the lack of technical personnel qualified in certain disciplines to plan, programme and monitor the physical achievements of projects and programmes. There are also still many bottlenecks in public administration due to sluggishness at a number of official stages. In 2012, Algeria was ranked 131st out of a total of 190 countries for the UN E-Government Development Index, which measures the degree to which information and communication technologies have been applied by public administrations to improve their services. Algeria's UN ranking in this area illustrates the country's lag in the automation of administrative tasks and in intra- and inter-ministerial networking.

As for transparency and governance, Transparency International ranked Algeria 105th out of 176 countries in 2012 (versus 112th out of 183 countries in 2011) for its Corruption Perceptions Index, at 34 out of 100, a high score according to Transparency International (the lower the score, the higher perceived corruption is). To improve indicators for Algeria, in 2012 the government continued to implement its action plan to fight against corruption. Actions to improve governance have included the elected bodies' adoption of the law on budget regulations for 2010. The country has also stayed the course in publishing reports on the observance of transparency standards and codes in monetary, financial and fiscal policy, and in banking supervision, prepared under its partnership with the IMF (Article IV).

Natural Resource Management & Environment

Algeria has a national environment strategy, a national plan for environmental action and sustainable development (adopted in 2002), and a national programme for renewable-energy development, the *Programme national de développement des énergies renouvelables* (PNDER), adopted in 2011. A national development plan, the SNAT (*Schéma National d'Aménagement du Territoire*), was also approved in June 2010 for a 20-year period. The SNAT is to be evaluated periodically and updated every five years. The guidelines, the regional action programmes, and the road map for mainstreaming the implementation of this new national-development strategy include: 21 sector-based blueprints; 9 diagrams for territorial-programming areas; 4 blueprints for the development of metropolitan areas; and a development plan for each of the 48 *wilayas*, or provinces.

In 2012, Algeria continued to implement its environmental-protection policy, especially on the clean-development front. The national fund for renewable energies (Fonds national pour les énergies renouvelables) was given financial resources from the 2012 budget, mainly from 0.5% of oil royalties. The country's strategic option to balance the imperatives of socio-economic development and the rational use of natural resources was confirmed by the latest government decisions to diversify energy sources by implementing the PNDER. The Hassi-R'mel hybrid electric power station, the first renewable-energy project to be implemented, combines solar power and gas and is set to produce about 15 MW. Under its policy implementation, the country has a monitoring and evaluation mechanism for the environmental-performance contracts signed with various partners. The PNDER programme is targeting 37% of the country's electricity needs to be covered by solar thermal and photovoltaic energy by 2030 and 3% by wind energy. The share of renewable energy in national electricity consumption is expected to increase from 2% currently to 5% in 2015, 14% in 2020 and 40% in 2030.

Political Context

In 2012, the political scene was marked by two major elections: legislative elections and local elections. The country is therefore still deepening the institutional reforms initiated in the first half of 2011, which have included lifting the state of emergency in February 2011 (in force since 1992) and adopting organic laws relating to political parties, the electoral code, women's representation in elected assemblies and the media. This institutional strengthening and the proper conduct of the elections have thus marked a positive trend in strengthening the democratic process in Algeria.

According to reports from some 500 international observers, including from the EU, the parliamentary elections of 10 May 2012 proceeded satisfactorily. The Presidential Alliance won these elections with an absolute majority of 276 seats out of the 462 on ballot. Following these elections, 31.4% of members of parliament were women, up from 8% following the 2007 parliamentary elections. In September 2012, a new prime minister, at the head of a slightly reshuffled cabinet, had the People's National Assembly (APN, *Assemblée populaire nationale*) and the Council of the Nation adopt a new action plan for further implementation of the 2010-14 five-year plan. The local elections of 29 November 2012 were held to elect representatives to the municipal and *wilaya* assemblies. Two-thirds of the Council of the Nation (the equivalent of the senate) are elected by these local elected representatives and the remaining third are appointed by the President of the Republic.

Regionally, Algeria is following evolutions in Libya and in the north of Mali very closely as part of strengthening regional co-operation for cross-border security and the fight against terrorism. In mid-January 2013, a terrorist group took hostages at the In Amenas gas plant at Tiguentourine. The government responded by sending the army to free the hostages, some of whom unfortunately lost their lives.

Social Context & Human Development

Building Human Resources

Algeria's indicators in terms of access to health care and basic education were mostly satisfactory, with life expectancy at birth rising from 70.1 in 2000 to 73.4 in 2012. The literacy rate in 2012 was approximately 73%.

In Algeria, education is compulsory for children 6 to 15 years old. Under its national literacy strategy, by 2015 Algeria plans to reduce the illiteracy rate for persons 10 years old and older by 22%. The enrolment rate of 6-year-olds is 97% (up from 43% in 1966). The number of pupils has grown tenfold since 1962 to more than 8 million pupils in the 2011/12 school year, which is one-fourth of the Algerian population. Higher education has seen remarkable growth as illustrated by more than 1.9 million university graduates in 2012, compared with 63 in 1964. The education sector has 90 universities. Efforts to increase the number of school buildings have come in particular with an improvement in gender indicators. The share of girls in secondary education has increased sharply (to 58.3%), and in higher education, two out of three university graduates are female.

Algeria has made considerable efforts in the eradication of mass communicable diseases (polio, diphtheria, tetanus, whooping cough and tuberculosis), as well as in maternal and child protection. The country is however trying to cope with the rapid development of chronic diseases (cancer, hypertension, diabetes, etc.). The budget allocated to health in 2012 amounts to 8.8% of the total operating budget, in line with the 2010-14 five-year plan, which has earmarked more than 40% of its resources to improvement of human development. The country has 12 physicians and 17 beds per thousand inhabitants. Life expectancy at birth was 73.4 years in 2012. Maternal mortality has declined from 180 per one hundred thousand inhabitants in 1990 to 97 per one hundred thousand inhabitants in 2011. Infant mortality decreased from 46.8 per thousand live births in 1990 to 23.1 per thousand live births in 2011. The under-five mortality rate declined from 68 per thousand live births in 1990 to 28.8 per thousand live births in 2011.

In terms of prevention and treatment of HIV/AIDS, tuberculosis and malaria, the government has implemented various policies such as covering the cost of the poorest populations' health needs and distributing drugs nationwide for the treatment of HIV/AIDS, tuberculosis and malaria. Efforts to promote contraception, systematic and anonymous testing, and the significant involvement of religious authorities and civil society in the fight against HIV/AIDS have all helped to limit HIV/AIDS incidence, which is 0.1% for the 15 to 49 year-old age group.

Poverty Reduction, Social Protection & Labour

Algeria has made serious progress in reaching the Millennium Development Goals (MDGs). It was 93rd out of 186 countries in the United Nations Development Programme Human Development Index (HDI) 2011 rankings and ranked amongst countries with medium human development with a 0.713 HDI. The country's per capita GDP was estimated at more than USD 4 500 in 2011 (against USD 1 610 in 2000). Absolute poverty has declined from 1.7% of the population in 1990 to 0.5% in 2011. The share of the population with access to drinking water is 83%, and that with access to improved sanitation facilities is 95%. Despite this progress, Algeria is still facing major social challenges, mainly in unemployment, particularly amongst young people, in its shortage of housing and in the quality of its health care. According to the 2011 survey of the national statistics bureau, the ONS (*Office national des statistiques*), unemployment affects about 10% of the Algerian working population and 22.4% of 15 to 24 year-olds, with high disparities between men (19%) and women (38.1%).

The government allocates significant resources to social protection every year, and social-safety nets were reinforced in 2012 with integration into the 2012 finance law of the new arrangements approved in February 2011 to support consumer prices of cereals, sugar, cooking oil and milk. Also in line with the protection and preservation of purchasing power, the public authorities have ruled out any increase in the prices of electricity, water and petrol. In addition, the country removed customs duties, value added tax (VAT) and company taxes on brown sugar and cooking oil, taking 41% off of the cost prices for these products. In exchange for these measures, Decree No. 11-08 of 6 March 2011 capped consumer prices for regular refined cooking oil and white sugar, as well as their related production, import and distribution margins at both wholesale and retail stages. The government also decided to exempt the poultry industry from customs duties and VAT on inputs and finished products (maize, soybeans, other animal feed, etc.) from 1 September 2012 to 31 August 2013 in order to uphold the sector and allow accessibility to its products (consumption eggs and white meat).

Economic reforms were supported by an improvement in the national employment agency's penetration rate of the labour market and by public mechanisms aimed at promoting employment. Job creation and the fight against unemployment remain constant strategic goals of the national development policy. Since their introduction in June 2008, the related public mechanisms contributed to creating nearly 1.1 million jobs by end-2012. These schemes are the pillars of the national employment policy and revolve around: assistance in integrating the professional market; a national agency to support youth employment, which helps young entrepreneurs (19-35 years old) to expand their goods-and-services production activities; a national microcredit management agency targeting homeworkers getting their income from small-scale trading in goods and services; and a national unemployment insurance fund (for workers 30 to 50 years old laid off for economic reasons from the public and private sectors).

Progress in job protection was made in 2012 and the right to organise has been strengthened. According to the 2013 Index of Economic Freedom report, however, Algeria was given a low score of 52.6 out of 100 for labour freedom and was ranked overall 145th out of 177 countries with a 49.6 score. The conclusions of the report point to a persistently rigid labour market as a factor contributing to high youth unemployment.

Gender Equality

Algeria has texts and programmes that raise awareness of gender issues and the fight against social inequalities. In 2012, promotion of the place of women in Algerian society as well as their contribution to the development process was conducted through the implementation of different sector-based plans under the national strategy for the integration and advancement of women. Implementation of the reforms introduced in 2011, notably the law on enlarging the share of female elected representatives in the country's political life, resulted, at the outcome of the May 2012 elections, in increasing the share of female members of the APN to 31.4% (from 8% in the 2007 parliament).

The gender-parity index (ratio of gross enrolment rates of girls to boys) is 0.93. According to the 2011 ONS employment survey, women's share in economic activity (14.2%) is significantly lower than that of men (65.3%). The national unemployment rate was 10%, but was 17.2% for women and 8.4% for men. The unemployment rate for 16 to 24 year-olds was 22.4%, with 39.2% for women and 17.5% for men. Similarly, only 10.2% of company heads were women in 2011. Nonetheless, tangible results were obtained in education and training. The female literacy rate was estimated at 60% (80% for men), the share of girls in secondary education exceeded that of boys (58.3%), female enrolment in higher education has increased (to 59%) and nearly two out of three university graduates were women.

Thematic analysis: Structural transformation and natural resources

The Algerian economy has not experienced deep economic transformations in the past 20 years, as evidenced by the evolutions in the contribution to GDP of the different sectors. It is set instead in a slow evolution process where the weight of oil is expected to be gradually reduced in the context of a controlled shift to a market economy. The oil and gas sector has gradually taken a prominent place in the economy, to the tune of 43.6% in 2007, but the trend has taken a slightly downward course to about 37% of GDP in 2011. Public services are still a considerable share of GDP and growing, which is characteristic of a centrally managed economy. The distribution of other sectors as share of GDP in 2012 is as follows: market-related services 21.8%; non-market-related services 17%; agriculture 8.6%; construction 9%; etc.

The country has significant fossil resources (hydrocarbons: oil and gas), renewable resources (water and land) and raw materials (iron, phosphate, zinc, barium, marble, gold, tin and precious stones), not all of them having the same exploitation potential. Hydrocarbons, phosphates and iron ores have been the critical factors in the country's economic structural transformation in the sense that energy is the country's industrialisation vector under the motto "sow oil to reap development". This option entailed concentrating all fossil resources in the hands of the government, which defines and implements the development policy for the country's energy resources.

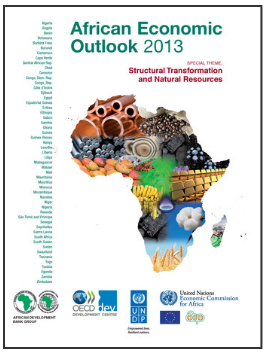
Four national public enterprises are in charge of applying this policy: Sonatrach and its subsidiaries, in charge of marketing and distributing petroleum products and derivatives; the national geophysics enterprise; the national civil-engineering and construction enterprise; and the national well-drilling enterprise. Sonatrach remains the backbone of the economy and manages upstream activities in the sector (exploration, development drilling, primary commercial hydrocarbon production, investments, transportation via pipeline and international development) and downstream activities (refining, production of liquefied natural gas, separation of liquefied petroleum gas [LPG], petrochemicals and downstream investment and distribution of petroleum products). The sector is regulated by the hydrocarbons-regulation authority (under the Ministry of Energy and Mines), which is responsible, amongst others, for regulating the domestic market of petroleum products, for the pricing of infrastructure access by third parties and for submitting recommendations to the ministry in charge of hydrocarbons. For protection and preservation, the national enterprise for well-drilling and the upkeep of existing wells, is an important agent in drilling and in the renovation of existing wells to increase their production life.

The country holds 2.37% and 1% of the world's proven natural-gas and oil reserves, respectively. Algerian oil reserves are estimated at more than 4 billion toe. More than 50% of this production potential are gross gas reserves at 1.3 billion toe, and the rest is made up of LPG and condensates. Sonatrach has emphasised further exploration efforts to strengthen production capacities; the goal is to have 160 wells running in 2013, up from to the current average of 70 to 80 wells. According to the 2012 Organization of the Petroleum Exporting Countries' Annual Statistical Bulletin, the country's proven oil reserves are stagnating; this is notably true at the Hassi Messaoud and Hassi R'Mel deposits, which have been operating for about 50 years. Hydrocarbons production declined from 233.30 million toe in 2007 to 205.82 million toe in 2011, or 3.1% per year. On the other hand, in terms of value, revenues from hydrocarbons increased from USD 59.6 billion in 2007 to USD 71.7 billion, or 5% per year. The country can also count on 1.610 million tonnes of iron and 2 billion tonnes of phosphate.

The share of the urban population connected to the drinking water supply was 94% in 2011 with an average allocation of 185 litres per day per capita. Available and usable water resources are estimated at 17.2 billion cubic metres, including 12 billion in surface water, and 2 billion in groundwater in the north and 5.2 billion in the south. Algeria has 66 dams for a storage capacity of nearly 7 billion cubic metres. This number is expected to rise (19 new dams are scheduled under the 2010-14 five-year plan) to improve the water supply. About 21% of the country's total surface area is occupied by farmland. The 929 000 hectares of irrigated land are equal to 11% of the utilised agricultural area; the per capita ratio of land availability was 0.23 hectares per capita in 2012. In addition to provisions in support of agricultural production from the rural development fund *Fonds national de régulation et développement agricole*, the south of the country benefits from electrification of the farming lands, subsidies to the price of energy and government financing to open trails. Despite these incentives, the country remains a net importer of agricultural products.

Thanks to the increase in the price of oil, starting in the early 2000s, the country recommenced its institution of five-year plans to develop economic and social infrastructure, reduce poverty and the unemployment rate, in particular amongst the young. These choices are assets to put the country on the path of progress. The benefits of natural resources (those of hydrocarbons) have allowed major structural projects to be completed, namely the East-West motorway, the Algiers underground, the tram (in Algiers, Oran and Constantine), sea-water desalination and the achievement of an ambitious housing programme. These public investments have helped in income redistribution and generated jobs, contributing to bringing down unemployment to its lowest level of 10% in 2011. Profits from its natural resources have allowed early repayment of the country's debt and consolidated its official exchange reserves. To meet the challenge of structural transformation of the Algerian economy, the government will have to continue and deepen the reforms aimed at modernising and diversifying the economy. Accordingly, the country has made the strategic choice: to encourage national and foreign investment with a special focus on developing economic-partnership networks; to use its significant natural resources efficiently, in both the non-hydrocarbons and the hydrocarbons sectors; and to promote entrepreneurship. The strategic direction is to invigorate all sectors of the economy, with particular emphasis on agriculture and the manufacturing industry. On the hydrocarbons front, Sonatrach began making significant investments these past two years for the upkeep of refineries and the expansion of their capacities to 4 million additional tonnes, as well as for downstream petrochemical refining projects. The development of renewable and non-conventional energies such as shale gas constitutes an important source for the country's harmonious development.

Strong growth will be needed to provide a sustainable response to reducing unemployment, amongst the young in particular, and to the persistent housing shortage. The national strategic option is to stimulate recovery in all sectors – in non-hydrocarbon sectors by diversifying the sources of growth and in the hydrocarbons sector by generating greater value. To achieve these objectives, the country will have to pursue its efforts in preserving public investment and enhancing its effectiveness, improving competitiveness, continuing its structural reforms geared toward growth driven by the private sector, improving the business climate and increasing overall productivity.



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