Algeria

2011

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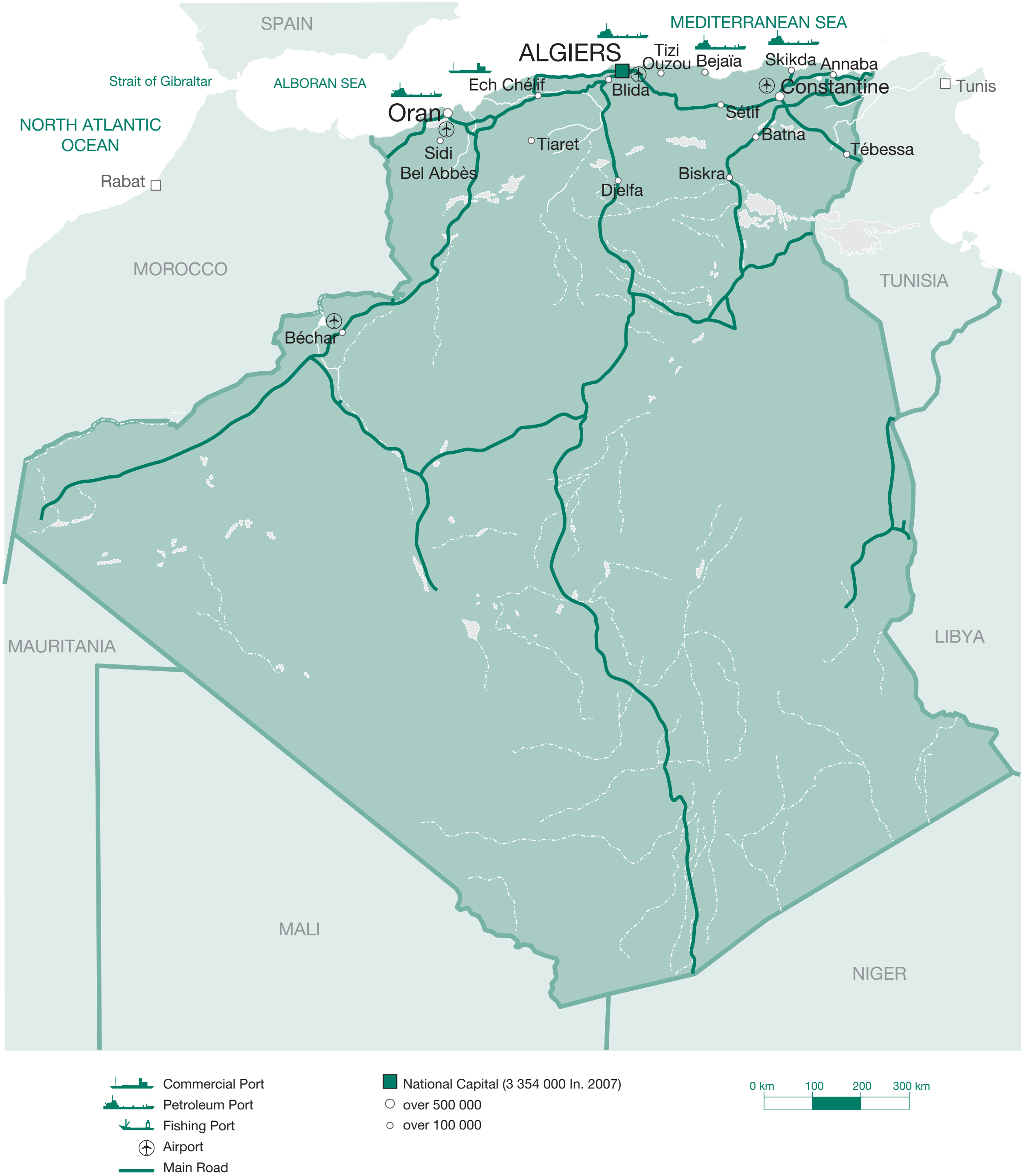


This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Algeria

Overview

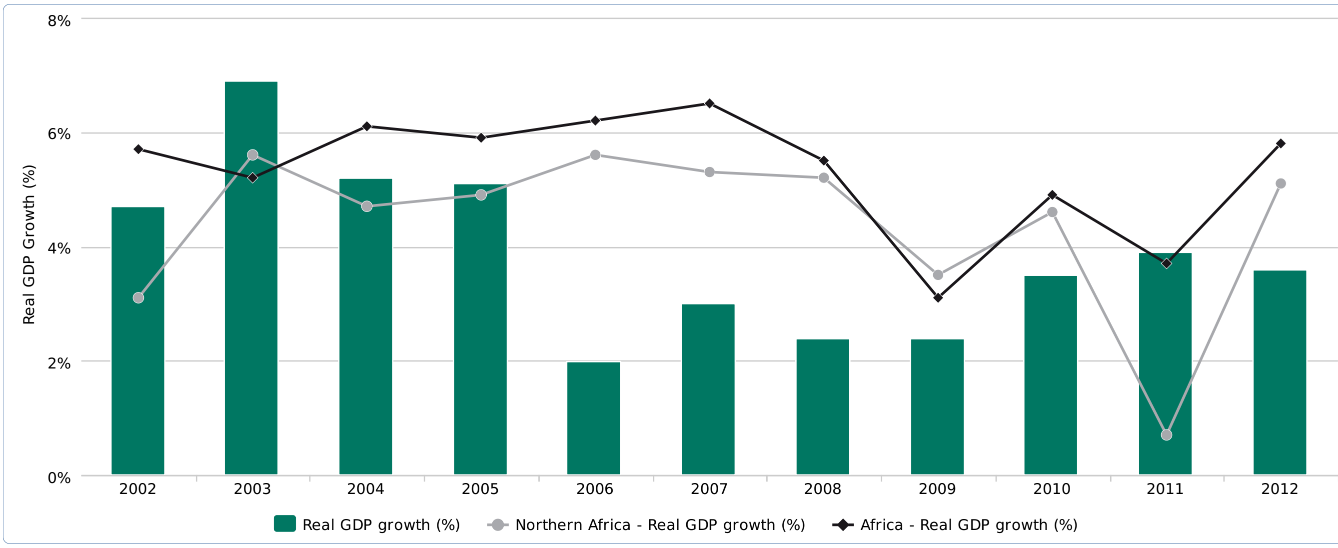
The oil and gas sector represents the principal source of growth, even though gross domestic product (GDP) in the non-hydrocarbon sector has also done well in the past several years. Besides oil and gas, it has been the completion and acceleration of major public investment projects and household consumption that has driven growth in 2010. However, a growth rate of 3.5% in 2010 remains modest considering the potential of the Algerian economy and is insufficient to bring down unemployment and ease the housing crisis. Growth excluding hydrocarbons reached 5.5% in 2010, below that of the two preceding years (9.3% in 2009 and 6.1% in 2008). Medium-term growth prospects are encouraging, but are subject to variations in the price of oil and gas. Growth should be sustained in the short term by the effects on the oil and gas sectors of increased growth in the world economy resulting in an increase in oil prices favourable to Algeria; major public spending; and an acceleration of the programme of public investment under the 2010-14 plan. Inflation in 2010 stood lower than the relatively high levels experienced the two previous years (4.8% in 2008 and 5.7% in 2009). The rise in prices, in particular in the second quarter, was due mainly to soaring world prices of the principal consumer food products.

At sector level, growth came on the back of good performances in construction, services, agriculture and energy. In 2010 agricultural production grew by almost 11% compared to 9.2% in 2009. Successive investment programmes ongoing since 2004 continue to energise the construction sector, which is posting annual growth rates of 9% to 10%. The added value of the oil and gas sector decreased slightly in 2010 due to a drop in production volume. There is the prospect of a recovery in 2011 due to a projected increase in world demand, the price effect of oil and gas exports, and investment projects that should improve productivity. Industry was stable in 2010 and could even slip to 5% growth from 5.5% in 2009. Production levels in manufacturing industries, a strategic element in overall industrial development, were lower than expected, especially in the textiles and leather sub-sectors. By contrast the services sector continued to show strong year-on-year growth. With 26% total added value in 2009, the market services sector remains the second biggest contributor to the creation of national wealth and the biggest in terms of production outside the oil and gas sector.

Budgetary policy is still expansionary but remains viable thanks to the significant resources in the Revenue-Regulation Fund (FFR), which is one of the main sources of deficit financing. Heavy demands are made on the state budget to fund major public investment projects, in particular those included in the five-year development plans covering the periods 2005-09 and 2010-14. Government revenue remains dependent on tax revenue from the oil sector, which in the past five years has accounted for over 70% on average of total budget revenue. This dependence makes the economy vulnerable to external shocks. The drop in oil and gas revenue in the past two years, combined with a relatively high level of public spending has led to a deterioration in the public finances illustrated, for the second year running, by budget deficits of about 6.9% of GDP in 2009 and 4.4% in 2010. Monetary policy is focused on control of the money supply, the exchange rate and inflation. The external position was healthy in 2010 in spite of a decline in the current account surplus (5.5% of GDP in 2010, 19.8% in 2008). In 2010 the country registered a trade surplus of USD 16.4 billion compared to USD 5.9 billion in 2009. Foreign exchange reserves were estimated at USD 155 billion at the end of December 2010, equivalent to three years of imports of goods and services. The level of foreign debt remains quite low at 2.7% of GDP (2009).

As far as structural reforms are concerned, in spite of a marked improvement in the regulatory framework that governs them, the business climate overall remains constrained by delays resulting from the need to carry out administrative formalities, as well as the continuing presence of an informal sector. As regards human development, the social indicators are satisfactory. The country is on course to reach the Millennium Development Goals (MDGs). Despite the progress made, Algeria still faces the challenge of unemployment (10% in 2010), especially among young people (about 21.5% unemployment in the 16-24 age bracket), and a lack of housing.

Figure 1: Real GDP growth (N)



Source: IMF and local authorities’ data; estimates and projections based on authors’ calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	2.4	3.5	3.9	3.6
CPI inflation	5.7	4.1	4.5	4.1
Budget balance % GDP	-6.9	-4.4	-5.3	-5.7
Current account % GDP	0.3	5.5	5	4.7

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	8.1	9.7
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	0.1	0.2
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	52.1	38.5
of which hydrocarbon	47.4	33.6
Electricity, gas and water	1	1
Electricity, water and sewerage	-	-
Construction	7	10.5
Wholesale and retail trade, hotels and restaurants	12.1	15.4
of which hotels and restaurants	1	1.1
Transport, storage and communication	9	9.6
Transport and storage, information and communication	-	-
Finance, real estate and business services	1.9	2.3
Financial intermediation, real estate services, business and other service activities	-	-
General government services	8.7	12.8
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	-	-
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; National Authorities.

Figures for 2010 are estimates; for 2011 and later are projections.

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The economic performance of the country has been characterised by sustained economic growth during the past decade. There has been a drop in the inflation rate, while unemployment has also been reduced (to 10.2% in 2010 compared to 18% in 2004). The level of indebtedness has been low (2.7% of GDP at the end of 2009), and official foreign exchange reserves (USD 155 billion at the end of 2010) have increased. There has been a budget balance surplus during the period 2004-08: the budget deficits in 2010 (4.4% of GDP) and in 2009 (6.9% of GDP) were financed in part by FFR reserve funds. The strong performance of these aggregates illustrates the consolidation of macroeconomic balances. In addition, the programme of investment for the 2010-14 period worth USD 286 billion continues and consolidates the development of infrastructure projects aimed at improving the business environment and allowing it to take advantage of externalities to improve productivity and efficiency.

Growth of 3.5% in 2010 is in line with the 10-year trend during which Algeria's solid growth resulted in a consolidation of the macroeconomic framework.

Actual average GDP growth during the past ten years, estimated at 3.7%, is essentially a result of the performance of the oil and gas sector, which generates more than 97% of export revenue, 70% of fiscal revenue and 45% of GDP. In 2009, however, the contribution of oil and gas to overall GDP fell sharply to 33% partly because of the drop in the price of oil but also of the strong growth in other sectors (construction, services and agriculture), which affected the structure of GDP. It is estimated that the contribution of oil and gas to GDP was greater in 2010 than in 2009 thanks to the steep rise in the barrel price and petroleum products. Growth in 2010, as with previous years, remains modest considering the country's potential and is insufficient to solve the problems of unemployment and housing. Production of oil and gas fell for the fifth consecutive year, although it should recover in the short term thanks to a major exploration programme planned for 2011 and to technology transfers by partners. Growth excluding oil and gas continues to increase steadily even though it lost 3.8 percentages points in 2010, settling at 5.5% compared with 9.3% in 2009 and 6.1% in 2008.

Agricultural production grew by about 11% in 2010 compared with 9.2% in 2009 on the back of exceptional agricultural output, excellent weather conditions and production incentives, notably in cereals. Agricultural policies put in place in the context of the rural renewal programme (promotion of the development of a conducive environment for farmers and agri-food operators, production intensification programmes, the development of regulating instruments etc.) have made it possible to reduce the country's food dependency.

Growth in the state industry sector excluding the oil and gas sector fell by 1.9% and the industry sector now represents only 5% of GDP.

The textiles and leather trades continued to perform poorly. However, the steel, metallurgical, mechanical, electrical and electronics industries (ISMMEE) and the construction materials sub-sectors have been making steady progress. Various recovery and growth support programmes have made it possible for the construction sector to register strong growth, increasing from a 9% to a 10% share in total GDP between 2005-10, and rising to more than 11% in 2010. This reflects the large size of infrastructure programmes such as the east-west motorway, the Algiers metro, dams and civil engineering projects in the oil sector.

State manufacturing companies, on the other hand, continue to display an underutilisation of capacity, which has resulted in a drop in production of 4%. Only the timber, cork and paper branches have prospered, growing by nearly 13%.

The services sector registered growth in 2010 on the back of renewed consumer confidence and growth in construction and transport. It has for some years been one of the main drivers of overall growth, with an annual average increase of nearly 9%. The share of factor services in GDP is also increasing, reaching nearly 26% of total added value in 2009.

Gross domestic expenditure continues to rise at a much faster rate (12.7% in volume) than that of GDP. It accounted for 73.5% of jobs in 2009 compared to 62.6% in 2008. In 2009 the volume of investment increased by 8.5%, while state capital expenditure accounted for 40.6% of accumulation, down 3.8 points. In 2009 household consumption represented 37% of GDP. In volume terms, final consumption of households grew by 6%.

Inflation reached 4.1% in 2010 compared with 4.8% in 2008 and 5.7% in 2009. The rise in prices at the end of 2010 was linked to the sharp increase in food prices on the world market. This upward trend has essentially been caused by soaring prices in commodities such as fresh fruit (22.1%); fresh fish (26.6%); beef and sheep meat (10.4%) and offal (5.4%); sugar (30.7%); and edible oils and fats (7.2%).

The average price of staple commodities in 2010 would be even higher if it were not for subsidies. As regards gas, the state shoulders a differential of about USD 7 billion to bridge the gap between the true market price of gas and the price fixed for the electricity company Sonelgaz, which supplies the internal market. Average food prices rose 2.7% between November 2009 and November 2010 owing to a 6.5% rise in industrial food products. This price rise at the end of 2010 was exacerbated at the beginning of 2011 when Algerian consumers were suddenly faced with a sharp jump in the price of basic products (cereals, bread, potatoes, sugar, oil, fruit and vegetables). In some cases the rises were as much as 30% to 40% and triggered riots in several towns and cities including the capital, Algiers.

The value of exports was USD 56.6 billion in 2010 compared with USD 45.5 billion in 2009, while imports were steady at USD 40.2 billion as against USD 39.2 billion in 2009. In respect of exports, oil and gas remained dominant (97%). In 2009, capital goods dominated the goods imports category (38.9% of the total) and were valued at USD 14.4 billion, essentially the acquisition of vehicles, equipment and machinery for civil engineering projects. Exports of goods excluding the oil and gas sector fell back by 45% in 2009 after increasing substantially in 2008 (44.2%). But they bounced back in 2010, recording a jump of almost 52% for a value of USD 1.62 billion.

Table 3: Demand composition

	Percentage of GDP (current price)		**Percentage changes, volume**			**Contribution to real GDP growth**		
	2002	**2009**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Gross capital formation	30.7	46.8	5.3	5.7	5	2.6	2.8	2.5
Public	10	24.5	7.3	6	4.3	1.9	1.6	1.2
Private	20.6	22.3	3.2	5.4	5.8	0.7	1.3	1.4
Consumption	59.5	53.8	5.3	5.5	3.9	3.3	3.5	2.5
Public	15.5	16.4	2.7	4.1	2.5	0.5	0.7	0.4
Private	44	37.4	6.4	6	4.4	2.8	2.7	2.1
External sector	9.9	-0.6	-	-	-	-2.5	-2.5	-1.5
Exports	35.5	35.2	-2	-0.5	1.9	-0.5	-0.1	0.5
Imports	-25.6	-35.8	5.1	6.1	4.9	-1.9	-2.3	-1.9
Real GDP growth rate	-	-	-	-	-	3.5	3.9	3.6

Source: Data from National Authorities; estimates (e) and projectons (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Macroeconomic Policy

In spite of heavy demands on the state budget to finance the country's public investment programmes, Algeria's budgetary policy remains viable thanks to the significant resources of the Revenue Regulation Fund (FFR). Government revenues remain dependent on taxes from oil and gas, which on average over the past five years have accounted for more than 70% of total fiscal revenue. This represents a source of vulnerability for public finances. The drop in oil and gas revenue since 2009 and the relatively high level of public spending have resulted in budget deficits (4.4% of GDP in 2010 and 6.9% of GDP in 2009). These deficits are in part financed by the FFR, whose resources were calculated at about USD 60 billion at the end of December 2010.

Fiscal Policy

Fiscal revenue grew in 2010 (37.3% of GDP) compared with 2009 (36.7% of GDP). Estimated to have amounted to 4.360 trillion Algerian dinars (DZD), it proved to be substantially higher than the ministry of finance forecast of DZD 3.081 trillion, which was based on a reference price for a barrel of crude oil (fiscal price) of USD 37, whereas the average market price exceeded USD 73 in 2010. Expenditure is estimated at 41.7% of GDP, a drop of nearly two points compared with 2009 (43.6% of GDP). It is estimated at DZD 4.874 trillion. The share of capital expenditure in total expenditure has stabilised at a high level in the past five years (DZD 1.436 trillion in 2007 and DZD 1.921 trillion in 2009, or respectively 46% and 45.5% of total expenditure).

Budgetary policy will remain expansive in 2011 and 2012 because of the continuation of the major projects incorporated into the 2010-14 plan. This should result in a continued budget deficit.

Reforms under way in the management of public finances are aimed at modernising the budgetary process in order to improve the efficiency of public spending, in particular by modernising the customs and tax authorities. In addition, the government has set up a programme of capacity building within the public administration and more specifically in bodies responsible for economic and financial questions, for carrying through reforms, for planning and for economic information. For example, fiscal and customs reform is intended to automate all procedures by the establishment of a single identifier for each economic operator.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	35.4	39.4	46.9	36.7	37.3	36.9	36.4
Tax revenue	10.3	7.9	8.4	11.1	11.1	11.3	11.4
Oil revenue	22.7	30.2	37.2	24.4	25	24.4	23.8
Grants	-	-	-	-	-	-	-
Other revenues	2.5	1.2	1.2	1.2	1.2	1.2	1.2
Total expenditure and net lending (a)	35	34.8	39	43.6	41.7	42.2	42.1
Current expenditure	21.6	17.9	20	23	22.4	22.5	22.2
Excluding interest	18.4	17	19.5	22.6	22.1	22.1	22.1
Wages and salaries	6.7	5.6	6.4	7.5	7.2	7.4	7.2
Goods and services	1.5	1	1	1.1	1.1	1.1	1.1
Interest	3.2	0.9	0.6	0.4	0.3	0.3	0.1
Capital expenditure	12.7	15.3	17.8	19.2	19.3	19.7	19.9
Primary balance	3.6	5.5	8.5	-6.5	-4.1	-5	-5.7
Overall balance	0.5	4.6	7.9	-6.9	-4.4	-5.3	-5.7

a. Only major items are reported.

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

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

Monetary policy is based on control of the money supply, exchange rates and inflation. The banking system has excess liquidity; savings exceed investment. Progress made in monetary stability and in the control of the banking system has made it possible to establish greater financial stability. In addition, the 2009 recapitalisation of the country's banks and financial institutions helps consolidate the overall solvency of the system. For several years Algeria has adopted prudent financial and monetary policies, which were bolstered further in 2009 to meet the challenge of the world financial crisis.

The policy of the Bank of Algeria is aimed at stabilising annual inflation at about 3.5%. Inflation has, nevertheless, been higher than that figure in the past three years (4.1% in 2010, 5.7% in 2009 , 4.8% in 2008). To determine the value of the Algerian dinar, the monetary authorities control the trend in the real effective exchange rate (REER) to maintain it at its equilibrium level. The exchange rate market is still strongly controlled by the Bank of Algeria, which is the principal supplier of foreign exchange. The exchange rate regime currently in place is characterised by an unannounced controlled flotation of the exchange rate trajectory (a *post facto* exchange control). The Bank of Algeria also plays a key role in banking supervision and control of prudential ratios and the excessive liquidity of commercial banks. The banking system is made up of 26 banks and financial institutions. Among the banks operating in Algeria, six are public banks, which hold about 90% of total shares. The remaining shares are held by the 14 private banks, which are at present dedicated to financing foreign trade.

The banking sector has had structural excess liquidity since 2002. Indeed, the macroeconomic trend since 2000 has seen the emergence of a surplus of savings over investment. This macroeconomic framework is confirmed by a solid financial position, which has made it possible for the country to resist shocks from outside. The M2 money supply grew by 13.2% in 2009, particularly in the second quarter, which made it possible to compensate for the monetary contraction in the first quarter (-1.1%). The rhythm of money creation has remained moderate

(4.2%). The progression of bank loans (including the repurchase of non-performing loans by the treasury) was evaluated at 18% in 2009. In spite of the size of credits to the private sector (51%), credit to small and medium-sized enterprises (SMEs) remains below the declared objective despite the introduction of guarantees and interest rate subsidies. The “net external assets” aggregate remained the principal source of monetary creation in 2009. In 2010 the significant increase (20%) in credits to the economy, which was also noted in 2009, should continue and grow with the recent policy of interest rate subsidies applicable on the purchase of new housing and the construction of rural homes. The Bank of Algeria registered a first quarter rebound in 2010 in bank lending in a context of moderate monetary expansion.

External Position

The external position has remained healthy in spite of a decrease in the current account balance in the previous two years (0.3% and 5.5% of GDP in 2009 and 2010 respectively, compared with 19.8% in 2008). Sustained consolidation of the balance of payments for eight successive years has made it possible for the country to absorb shocks from outside. Foreign exchange reserves were estimated at USD 155 billion at the end of 2010, the equivalent of three years of imports. The country’s external debt is low (2.7% of GDP).

In 2010 Algeria had a trade surplus of USD 16.4 billion compared with USD 5.9 billion in 2009. The positive current account balance posted in 2010 is the result of prudent management in an adverse international environment caused by soaring world prices of goods and services. Exports were valued at USD 56.6 billion (USD 45.5 billion in 2009), while imports of goods increased to USD 40.21 billion (compared with USD 39.2 billion in 2009). Total exports are still dependent on the performance of the oil and gas sector, which represents more than 97% of the total; revenues were USD 55 billion in 2010 on the back of the high price of a barrel of oil.

Exports excluding oil and gas jumped by nearly 52% in 2010 to USD 1.62 billion compared with USD 1.06 billion in 2009, when they fell by 46%. Despite this rebound Algerian exports outside the oil and gas sectors remained marginal, representing only 2.8% of global export volume. The principal goods exported are essentially petroleum products and food products (dates and other agricultural products). Oil and other products obtained by the distillation of coal tar leapt 66.3% to reach USD 518.7 million compared with USD 311.9 million in 2009.

Algeria has opted for prudent debt management via a debt reduction policy in place since 2004. Outstanding foreign debt (estimated at USD 5.4 billion at the end of 2009) represents about 2.7% of GDP. Internal public debt was estimated at DZD 808 billion (about USD 11.1 billion) at the end of 2009, representing about 8% of GDP.

On the international front the slow progress of regional and multilateral trade negotiations, in particular with the World Trade Organization (WTO), could have an impact on Algeria’s objective of bringing about diversified, sustainable, export-oriented growth. The supplementary 2010 budget (LFC2010) was passed to complement the foreign trade framework measures initiated by LFC 2009.

In 2010, OECD countries and in particular countries of the European Union were Algeria’s main trading partners. France remains the country’s main supplier followed by China, Italy, Germany and the United States. As regards exports, Algeria’s chief export clients are the United States, Italy, Spain, France and Turkey. Trade with Maghreb nations declined in 2010, but it grew with other Arab-speaking nations.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	11.8	25.2	23.4	5.6	6.8	5.6	4.7
Exports of goods (f.o.b.)	33	44.8	45.5	32.8	32.6	31.7	31
Imports of goods (f.o.b.)	21.2	19.5	22.1	27.1	25.8	26.2	26.3
Services	-2.1	-3	-4.4	-6.3	-2.9	-2.1	-1.5
Factor income	-3.9	-1.4	-0.8	-0.9	-0.6	-0.6	-0.4
Current transfers	1.9	1.6	1.6	1.9	2.3	2.1	2
Current account balance	7.7	22.5	19.8	0.3	5.5	5	4.7

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

Figures for 2010 are estimates; for 2011 and later are projections.

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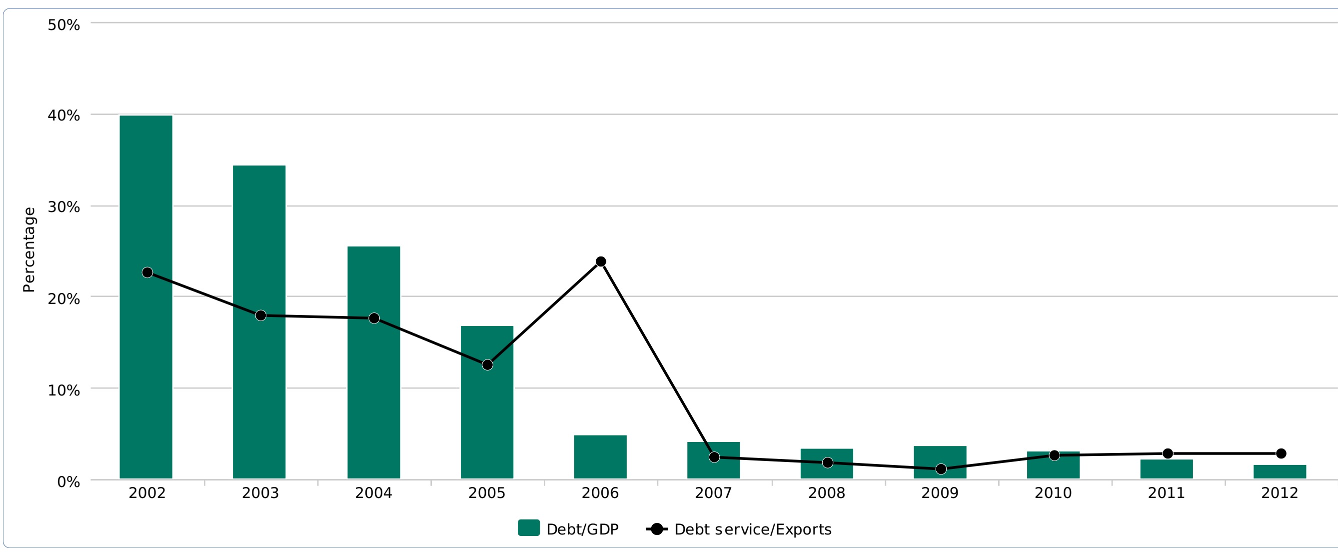
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932403762

Structural Issues

Private Sector Development

The government has launched major reforms to improve the business environment and encourage private investment. These reforms are aimed at making it easier to create companies and to improve the regulatory and judicial framework, increase competition and promote private investment. They have made possible significant improvement in the regulatory framework, investor protection and the granting of building permits. The global business climate, however, remains constrained by delays and transaction costs linked to the administrative formalities required to create new companies. The persistent activity of the informal sector also limits the impact of these reforms. The 2011 edition of the World Bank's report *Doing Business*, which examines business environments, ranks Algeria 136th out of 183 countries (in the 2008 report it was ranked 125th out of 178 countries).

Reforms undertaken include changes in the commercial code, the simplification of trade register accession procedures and the easing of company taxation. In addition there are the development of industrial areas designed to attract new investors and revised legislation governing access to land (a revision of the conditions and modalities concerning the concession of federal land, etc.). Specific measures have also been put in place to encourage the creation of SMEs (the setting up of guarantee funds, the launch of a programme to upgrade industrial companies to improve their competitiveness, the adoption of international standards in the areas of organisation and management, etc.). During the period 2010-14 the industrial sector should benefit from a strengthening of industrial standards as well as their modernisation, and from the creation of 80 industrial activity zones for which DZD 50 billion have been set aside. An overall grant of DZD 702 billion should accompany the creation of 200,000 SMEs by 2014. Among support bodies, the SME Development Agency (ANDPME) is responsible for upgrading SMEs and for improving their environment. Encouraging investment by easing the pressure of taxation, incentives provided by the National Industrial Development Agency (ANDI), and the easing of access to industrial property should also contribute to the development of the private sector.

For the past two years the government has been adopting new measures affecting the private sector, trade and, in particular, investment: i) an obligation for all foreign investors undertaking projects in Algeria to associate themselves with Algerian partners, with foreign investors not permitted to hold more than a 49% stake in any company; ii) the establishment of the right for the state of first refusal for any sale of assets held by foreign investors; iii) an obligation for all foreign companies tendering for public contracts to undertake to make an investment in partnership with a local company; iv) the establishment of the possibility for the state to take over assets transferred in the framework of a privatisation if the investor fails to fulfil its obligations, notably regarding payments; v) a prohibition on ceding to foreigners property recovered or nationalised by the state; vi) authorisation to import renovated production chains to encourage local investment and the relocation of activities to Algeria by foreign investors; vii) the granting of a state guarantee on bank appropriations granted to strategic public companies within the framework of their modernisation investments and the defrayment by the state of the interest on these appropriations during periods of deferred payment.

As regards trade the new measures are: i) a ban on consumer credit with the exception of property credit; ii) the obligatory use of documentary credit as the method of financing imports of goods and services (except for SMEs importing spare parts or inputs with a limit of DZD 2 million per year); iii) an obligation on foreign importers involved in the resale of goods in the same condition as received to cede at least 30% of the capital to national entrepreneurs. With these measures the authorities hope – among other things – to reduce the level of imports of goods and services.

The government, furthermore, adopted in 2010 a reform of the public procurement code, which is aimed at automating all fiscal and customs procedures. It also introduced a unique identifier for all economic operators. To stimulate the creation of new companies, in particular by young entrepreneurs, the exemption period for both income tax on total income (IRG) and tax on professional activity (TAP) has been extended to two years, while the exemption period for tax on company profits (IBS) has been extended to five years.

The impact of these various programmes and measures has not yet been assessed. However, some measures have begun to bear fruit. Imports of goods and services dropped 2% compared with 2009, producing a trade surplus of USD 16.45 billion compared with USD 5.90 billion in 2009. As regards measures concerning Foreign Direct Investment (FDI) it is too early to know what effect they have had because of their relatively recent introduction.

Other Recent Developments

In the financial sector measures put in place in recent years were consolidated in 2010. The National Investment Fund (FNI), created in 2009 and endowed with DZD 150 billion (approximately EUR 1.5 billion), which was set up to mobilise part of the treasury's financial surpluses to finance projects generated by Algerian companies (especially public companies), saw its funds boosted in 2010 by DZD 75 billion (EUR 750 million). In the medium term, the fund's resources are expected to reach about DZD 1 trillion (EUR 10 billion). The FNI's mission is to place at the disposal of strategic growth-enhancing sectors the funds required to finance their projects thanks to a variety of instruments including, in particular, equity participation. The FNI intervenes in the financing of structure projects and its work has a knock-on effect on other areas of activity. The state has also put in place financial arrangements to make it possible for SMEs to gain access to credit guarantees through the intermediary of guarantee institutions (FGAR-SGR). SMEs will also benefit from lower treasury interest rates on bank loans. Local funds (organised by *Wilaya* or departments, of which there are 48 in all), each endowed with DZD 1 billion and aimed at financing local companies (SMEs and micro-companies), have also been created. Furthermore, the securities market is developing and the state encourages transactions in the framework of credit sales operations.

Banking and non-banking financial institutions (insurance companies, credit sale companies, credit institutions etc) fell into line in 2010 with new controls that oblige them to increase their equity so as to expand their commitments and respect prudential rules. Finally, efforts to make the Algiers stock exchange more dynamic have continued with the listing of an insurance company, which pushed the market capitalisation from DZD 8 billion to about DZD 13 billion. The bonds sector, in particular fungible Treasury bonds (OAT), remains however the most active on the financial market.

Although economic macroeconomic indicators have improved over the past several years, structural economic restraints and societal demands fuel most of the debates in the country. The financial regulation law for the 2008 tax year was passed by the parliament at the beginning of 2011 to make it possible for politicians to evaluate public finance management (PFM) and its impact on the overall level of development in the country. The national fiscal council (CNF), inactive since it was set up in 2001, will be relaunched in 2011. The CNF, made up of members of the tax administration, economic operators and unions, is a consultative body which should allow members to debate the implications of tax provisions on economic activity. In the area of public companies, the authorities have decided to re-invigorate and recapitalise the large public industrial groups such as industrial vehicles group SVNI, the national company of electronics industries ENIE, the agricultural engineering body PMA and the civil engineering equipment company ENMTP.

As regards transparency and good governance the government has continued applying the recommendations of the African Peer Review Mechanism (APRM), to which Algeria voluntarily acceded in 2003. In respect of corruption, Algeria is ranked 105th out of 178 countries (it was ranked 111th out of 180 countries in the preceding report) according to the 2010 Corruption Perceptions Index published by Transparency International. Several measures were taken in 2010 to try to fight corruption: *i)* a reworking of the civil service's general statute as well as a review of civil servants' working conditions in order to promote values of integrity, responsibility and efficiency in public administration; *ii)* a reorganisation and reinforcement of the bodies that control and verify the public finances (the general inspectorate of finances, the court of auditors etc.).

Following the spike in consumer food products observed in January 2011 and in order to respond rapidly to the social crisis this brought in its wake (riots in several of the country's towns and cities) the authorities have adopted several measures aimed at bringing down the price of basic foodstuffs. These measures apply between 1 January and 31 August 2011 and include: *i)* the suspension of customs duty on imports and of value added tax (VAT), which is 17%, on brown sugar and other essential items; *ii)* the suspension of VAT (17%) on raw materials used in the production of edible oils; *iii)* exemption from income tax (19% for production activities and 25% for distribution activities) for companies that produce, process and distribute edible oils and sugar; etc. All these measures will have an impact on public finances in 2011.

This sector generates nearly 97% of export earnings, 70% of government revenue and 45% of GDP. A poor performance by this sector of the economy, therefore, is a source of economic vulnerability for the country. Some of the resources from the sector are channelled into the FFR, which was set up with the aim of guaranteeing public spending against fluctuations in production and the price of oil and gas. These FFR resources are constituted by the difference between actual tax revenues generated by the sector and those budgeted for on the basis of a reference price of USD 37 a barrel.

As regards environmental management, Algeria has put in place a plan focusing on a reduction of pollution of various types, and the preservation of biodiversity and natural zones. It includes training, informing and generally making people more aware of environmental issues. Legislative apparatus has been put in place to integrate the protection of the environment into public policy. Advances have also been made in the area of industrial decontamination.

Infrastructure

As regards infrastructure, vital for the development of economic activity and for the equilibrium between regions, there was a sustained effort in 2010, a crucial year sandwiched between the 2005-09 plan and the new

2010-14 public investment programme. The aim was to reduce the pressure on industry in coastal areas. Some 80% of the east-west autoroute, almost 1 200 km long, has been built, and it should be finished in 2011. A second autoroute 1 300 km long is at the study stage. It will link the steppe regions with the high plateaux. A high-speed train link is planned between the coastal cities of Jijel and Setif (130 kilometres). Work on a tramway system for Algiers, Oran and Constantine, the country's three biggest cities, continued in 2010. Studies to build tramways in three other large cities were launched during the year. In the public amenities sector a 150 MW solar/gas combined-cycle power plant was approved at the end of 2010 in the gas-producing region of Hassi R'mel. Finally, efforts to increase electrification and develop a grid of drinking water and gas supplies continued in 2010.

Agricultural reform

In 2010 the plan to renovate the agricultural sector, the *Plan du renouveau agricole et rural,* accelerated. The plan has been funded to the tune of by DZD 1 trillion, a large part of which has been allocated to various validated projects. A significant part of the debt owed by farmers has also been written off. The implementation of provisions for the disposal of private state land also accelerated under the auspices of the office for agricultural transactions and the first civil, joint-stock agricultural companies aimed at opening up the capital of agricultural holdings to national savings were created.

Emerging Economic Partnerships

Like many African countries, Algeria has for many years maintained what are referred to as "traditional" partnerships with countries of the European Union (EU) and the United States. In the past few years new forms of economic and trade relationships have developed and intensified with so-called emerging countries such as China, Russia, Brazil, Turkey, Malaysia, South Korea and Saudi Arabia. Partnerships established between Algeria and emerging countries are aimed at opening up a wider market complementing the major programme of public investment. Conscious of its strong dependence on Europe, Algeria is encouraging these new partnerships to diversify its partner base.

In 2004 Algeria and China signed several economic and technical co-operation agreements, in particular in the areas of oil and gas. The Forum on China-Africa Cooperation (FOCAC) and the forum for co-operation between China and Arab countries, the China-Arab States Cooperation Forum (CASCF) both contribute to strengthening relations in the field of co-operation not only between China and Algeria but with other African countries too. Co-operation between China and Algeria extends across several fields of activity: economic, cultural, health, hydraulics, energy and education. Chinese companies are present in Algeria in the housing, civil engineering, telecommunications and hydraulics sectors among others. Statistics show that the volume of trade between the two countries has been in constant increase and is worth USD 5.7 billion with a growth rate of 11.3% in 2010. Several Chinese companies regularly respond to invitations to tender and carry out projects. In 2009 China accounted for 12% of Algeria's imports and absorbed 1.9% of its exports. There has been an extremely successful health co-operation agreement between Algeria and China in place since 1963. Chinese medical teams practise in Algeria, and China has built more than 10,000 homes, ten university student campuses as well as hospitals. China has investments worth USD 1 billion. In 2009 the Chinese community living and/or working in Algeria was estimated to number more than 35 000. Chinese television plans to open a bureau in Algiers and plans organising exchange and information events between the two countries.

The work of the commission overseeing economic, commercial, scientific and technical co-operation between Algeria and Russia, (the 4ème Commission intergouvernamentale mixte de coopération économique, commerciale, scientifique et technique algéro-russe*)* made it possible to establish to what extent decisions taken during the previous session in November 2008 in Moscow had been implemented. On the sidelines of the visit by the Russian president to Algeria in 2010 five agreements were signed: a Memorandum of Understanding on co-operation between the respective foreign ministries, a Memorandum between the Algerian human development body, the Conseil national économique et social (CNES) and Russia's Civic Chamber; and a co-operation agreement in the field of maritime transport. The other two agreements were linked to the energy field. The two countries also signed agreements in the military and technical fields, which considerably expanded trade between them. In the field of oil and gas, Gazprom signed an exploration contract for the El Assel – Berkin Basin zone in the east of the country.

Algeria signed a scientific, technological and technical framework agreement with Brazil in June 1981. This agreement was supplemented by a further agreement signed in Algiers on 23 June 2008. Brazil is active in the field of handicrafts and shortly a pilot gemstone cutting school will open in the region of Tamanrasset to develop mineral handicrafts and the manufacture of different types of jewellery. An international seminar on the transfer of knowledge concerning the production of polished gemstones and jewellery was held in 2010 at Tamanrasset University in the presence of Brazilian experts. In 2009 Brazil accounted for 2.2% of Algeria's imports and took 3.2% of its exports.

Turkey and Algeria enjoy special links. The friendship and co-operation treaty signed between the two countries in 2006 was the fourth signed by Algeria after similar accords with Spain, Portugal and Italy. Turkey is present in Algeria in the field of information and communications technology, in particular through the project to build in the Sidi Abdallah technological park, which was awarded to the company Kontek. Turkish operators are also present in Algeria in the spare parts business. In 2009 the volume of trade between the two countries reached USD 3.8 billion, ranking Turkey sixth among Algeria's customers (USD 2.06 billion in exports) and seventh among its suppliers (USD 1.7 billion in imports).

Algeria and Malaysia are linked by political and economic ties. The two countries signed three co-operation agreements in 2003, in particular in the field of telecommunications. Algerian telecoms, Algérie Télécom and the Cyber Parc de Sidi Abdallah of the national agency for the promotion of technology parks (ANPT) are working with Multimedia Super Corridor (MSC) and Malaysian telecoms operators. India has a presence in Algeria through the steel industry. Cars manufactured in Asian countries are gaining greater market share in Algeria. In the past five years the United Arab Emirates, Saudi Arabia and Kuwait have strongly intensified their relations with Algeria, in particular in trade and services.

Political Context

The political situation in Algeria at the beginning of 2011 was characterised by a vigorous expression of popular social and political demands. These were encouraged by protest movements in several Arab countries, Tunisia and Egypt in particular, calling for greater democracy, individual freedoms, freedom of association and better living conditions. In Algeria the protests were initially of a trade union and social nature triggered by soaring food prices, the problem of access to housing and the problem of unemployment, in particular among young people (where the unemployment rate is 21.5% in the 16-24 age group) but evolved to acquire a political dimension. In particular, the Rally for Culture and Development (Rassemblement pour la Culture et le Développement [RDC]), an opposition party with 19 seats in parliament and behind many protest calls, announced on 9 March 2011 that it had suspended its parliamentary activities “until the conditions of faithful transmission of deputies' interventions” was guaranteed.

The government reacted to these protests and demonstrations by taking several political and social measures. At a political level, one of the key demands of political parties - the lifting of the state of emergency in place since February 1992 in the "fight against terrorism" - was finally granted. The decision was made by the Algerian government on 22 February 2011. In addition, the ruling National Liberation Front (FLN), the president’s party, refloated on 9 March the idea of a fundamental revision of the constitution, adopted in 1996. On the issue of soaring consumer food prices, fiscal measures applicable from 1 January to 31 August 2011 were put in place. On the question of youth unemployment the government took new measures and bolstered existing arrangements (a national agency to support young people looking for a job, a body to promote employability among young people, and labour-intensive community work etc.). However, their impact has remained very limited.

Algeria had experienced a decade of relative political stability following the upheavals in the country in the 1990s. Elections have been held regularly in the country in accordance with the constitution. President Abdelaziz Bouteflika was re-elected in 2009. Legislative elections were held to elect a new National Assembly in May 2007. Elections for the local *Assemblées populaires communales* and regional *Assemblées de Wilaya (*departments*)* were held in October 2007.

Security in the country has improved considerably and progress in consolidating civil peace has been observed thanks to the application of the provisions of the national peace and reconciliation charter launched by the president and adopted in a 2005 referendum approved by a large majority (97% of the vote).

Social Context and Human Resource Development

Social indicators are for the most part sound and Algeria appears capable of realising most of the MDGs. GDP per capita was estimated at more than USD 4 000 in 2010 compared with USD 1 610 in 2000. According to the human development index (IDH) published by the United Nations Development Programme (UNDP) Algeria is ranked 84th out of a total of 169 countries, which places it in the group of countries with "high human development". The proportion of the population living in extreme poverty was estimated to be 0.5% in 2009 compared with 1.9% in 1988. In the health field, life expectancy increased to over 75 in 2010 (71 in 2000), one of the best performances in Africa. As regards education, the gross enrolment rate for children aged six was 97.9% in 2010 compared with 43% in 1966.

Despite this progress Algeria still faces the challenge of unemployment, especially among its young people, and a lack of housing.

The authorities have spent much energy over the past ten years trying to tackle unemployment. The official rate dropped from 30% in 2000 to 18% in 2004 to reach 10.2% in 2010. But the rate among young people remains high: 21.5% among 16-24 year olds. The unemployment rate among people with university qualifications is 21.4%: 33.6% of women graduates and 11.1% of males.

In June 2008 the authorities introduced an action plan to generate employment with a number of different bodies designed to assist people into work: i) a national agency to support young people looking for a job (ANSEJ); ii) an unemployment insurance fund (CNAC); iii) a body to promote employability among young people and in particular those graduating from university (DAIP); and iv) various initiatives such as labour-intensive community work and insertion via solidarity mechanisms. The action plan aims to create annually 40,000 micro-enterprises supplying 100 000 jobs. The new 2010 - 2014 plan approved in 2010 has seen a return to the policy of using major public works projects to fight unemployment. The decision has led to significant results: during the first 11 months of the year 30 464 projects were financed in this way, generating 73 956 jobs (in 2009 the 28 836 projects financed generated 75 572 jobs).

In February 2011 the government allocated a sum of USD 1.38 billion to public banks to finance long-term investments. It also launched an ambitious programme to develop 4 000 hectares of industrial zones throughout the country, involving local and regional authorities. To encourage the spirit of enterprise among young people the government also announced the granting of zero-interest loans of around USD 7 000 for young people setting up businesses to help them rent floor space, and USD 14 000 to young university graduates wanting to open an office or a consultancy.

Furthermore, Algeria has put a great deal of effort into housing. The 2005-09 plan resulted in the construction of 1 045 000 housing units, of which 59% were urban housing and 41% rural housing. The overall housing stock was estimated at more than 7 million units.

In the fight against social inequality and in favour of gender equality the constitutional change adopted by parliament on 15 November 2008 brought about major changes regarding the rights of women (article 31), by making it easier for women to gain access to elected office. The family code, the nationality code and the penal code were all recently modified to take account of the interests and the protection of women. In terms of education, the parity index (which measures the relative access to education of girls and boys) is 0.93. At a national level the number of girls attending school is higher (50.6% of the school population) than the number of boys. The literacy rate of those aged 15 and over was estimated at 75% in 2009 (80% for men and 60% for women).

The 2010-14 plan sets aside more than 40% of its resources to the improvement of human development. Budgetary spending in Algeria is given over as a matter of priority to the improvement of basic economic and social infrastructure in order to fight poverty and insecurity. In 2010 very large financial resources (nearly DZD 1 trillion) have been allocated to social transfers, prioritising grants and school meals, school transport, social housing and public health.