

Algeria

Growth in actual gross domestic product (GDP), estimated at 3.5% in 2010, was driven principally by: the oil and gas sector where prices generated a rise in fiscal revenue from exports; the continuation of major public sector infrastructure projects; and a rise in consumer consumption. Medium-term growth prospects are favourable.

Algeria is consolidating its economic performances of the past decade, which have been characterised by a stable macroeconomic framework and tangible progress at the social level. The country must intensify reforms aimed at improving the business climate and competitiveness and encourage private investment. This is essential to encourage diversification in the economy and to create jobs, in particular for young people.

In recent years Algeria has stepped up its economic, cultural and diplomatic ties with emerging countries such as China, Brazil, Russia and Turkey, thereby diversifying trade and developing new forms of co-operation to encourage investment. In 2009 procurement from China represented 12% of total imports; sales to China represented about 1.9% of total exports. The volume of trade between Algeria and Turkey climbed to USD 3.8 billion, placing Turkey in sixth place on Algeria's list of clients and seventh on its list of suppliers.

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.

Table 1: Macroeconomic indicators

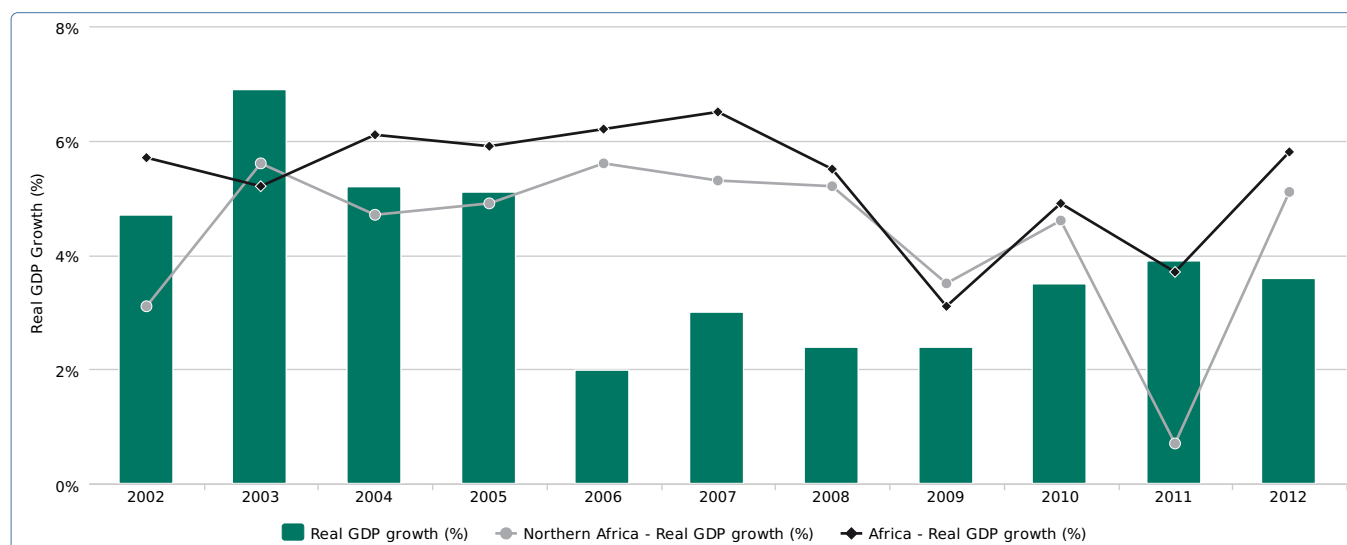
	2009	2010	2011	2012
Real GDP growth	2.4	3.5	3.9	3.6
CPI inflation	5.7	4.1	4.5	4.1
Budget balance % GDP	-6.9	-4.4	-5.3	-5.7
Current account % GDP	0.3	5.5	5	4.7

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

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

StatLink  <http://dx.doi.org/10.1787/888932406118>

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.

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