INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/88

ALGERIA

April 2024

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ALGERIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Algeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 27, 2024 consideration of the staff report that concluded the Article IV consultation with Algeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 27, 2024 following discussions that ended on December 14, 2023, with the officials of Algeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 8, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Algeria.

The document listed below has been or will be released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

PR24/100

IMF Executive Board Concludes 2023 Article IV Consultation with Algeria

FOR IMMEDIATE RELEASE

Washington, DC – March 29, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Algeria on March 27, 2024.

The Algerian economy was still emerging from the Covid pandemic when spillovers from Russia's war in Ukraine and recurrent droughts pushed up inflation, while high international hydrocarbon prices boosted government revenue and exports. The Algerian economy is estimated to have grown by 4.2 percent in 2023, a robust performance owing to a rebound in hydrocarbon production and strong performance in the industry, construction, and service sectors. The external position remained solid with a current account surplus for the second year in a row. However, inflation pressures persisted (primarily due to high food prices) and monetary policy remained accommodative. The fiscal deficit is estimated to have widened, albeit less than foreseen in the 2023 revised budget because of relatively slow execution rates.

The near-term outlook is broadly positive, but inflation remains a concern. Real growth is forecast to remain strong in 2024, at 3.8 percent, supported in part by large fiscal spending. Inflation would start to decelerate, particularly thanks to easing fresh food prices, although entrenchment at a relatively elevated level is a concern. The current account surplus is projected to narrow further in 2024 as hydrocarbon prices decline.

Medium-term economic prospects hinge on efforts to diversify the economy and the ability to attract private investment, and are subject to several risks. Risks on the downside include stubborn inflation, volatility in international hydrocarbon prices, fiscal risks from contingent liabilities, large budgetary financial needs, and rising public debt. Extreme climate events would affect the economy and the budget while a disorderly energy transition is a longer-term risk. On the upside, sustained, bold, and deep structural reforms and resolute efforts to diversify the economy, improve the business climate, attract investment, and tap new export markets could spur growth and job creation further.

Executive Board Assessment[2]

In concluding the Article IV consultation with Algeria, Executive Directors endorsed staff's appraisal as follows:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Algeria's sustained solid growth and external position, despite multiple economic headwinds. While the near-term outlook is

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

broadly positive, inflation remains high and downside risks, including from volatile commodity prices and climate hazards, require continued vigilance. In this context, Directors emphasized that a sound policy mix, accompanied by sustained implementation of reforms to diversify the economy and reduce climate related risks, will be necessary to ensure macroeconomic stability and promote inclusive and sustainable growth.

Directors welcomed the authorities' commitment to medium-term fiscal sustainability. Noting the importance of maintaining social equity, they indicated that the large projected near-term fiscal deficit and financing needs could increase financial, fiscal, and inflationary vulnerabilities. In this vein, they encouraged the authorities to gradually rebalance fiscal policy to help preserve buffers and improve fiscal and debt sustainability, while ensuring targeted support for the most vulnerable. Directors underscored the role of fiscal policy in addressing climate mitigation and adaptation, including through reforming the energy subsidies and undertaking a C-PIMA. They also noted that improving public financial management and establishing a rules-based medium-term fiscal framework would help support the authorities' medium term fiscal plans.

Directors emphasized that proactive tightening of monetary policy, through raising the policy rate and reserve ratio, combined with continued liquidity absorption, will help support disinflationary efforts. Strengthening the monetary transmission mechanism and specifying price stability as the primary objective of monetary policy will also be critical. Directors welcomed the adoption of the Monetary and Banking Law aimed at modernizing financial markets and central bank operations and governance. They also underscored that greater exchange rate flexibility would enhance its role as shock absorber.

Directors welcomed the resilience of the banking system. They encouraged the authorities to reinforce bank supervision, monitor NPLs, and strengthen governance of state-owned banks and other SOEs. These will help reduce the systemic risks posed by the intertwined economic and financial links between the government, public enterprises and state-owned banks. Further improvements in financial inclusion will also be critical.

Directors welcomed the authorities' commitment to reforms, including efforts to boost investment, improve fiscal transparency, strengthen the AML/CFT framework, and address governance and corruption risks. They underscored the importance of continued structural reforms to improve the business environment, support youth and women labor force participation, and promote diversified, green, and private sector led growth. Directors also urged the authorities to improve the coverage and timeliness of statistics, supported by Fund capacity development, to better inform policy making.

It is expected that the next Article IV consultation with Algeria will be held on the standard 12-month cycle

Algeria: Selected Macroeconomic Indicators, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Projections						
Output and prices			(Annual percentage change)								
Real GDP	0.9	-5.0	3.8	3.6	4.2	3.8	3.1	2.5	2.1	2.1	2.1
Hydrocarbon sector	-4.9	-10.2	10.5	-0.6	4.5	2.7	1.5	1.0	0.5	0.5	0.5
Nonhydrocarbon sector	1.8	-4.3	2.9	4.2	4.1	4.0	3.3	2.7	2.3	2.3	2.3
Per capita	-1.0	-5.9	2.1	2.0	2.6	2.4	1.7	1.2	0.9	0.9	0.9
Consumer price index (period average)	2.0	2.4	7.2	9.3	9.3	7.6	6.4	6.1	5.5	5.2	5.0
Investment and savings			(In percent of GDP)								
Savings-investment balance	-8.7	-11.3	-2.4	8.4	2.2	0.1	-1.5	-2.5	-2.9	-3.4	-3.8
National savings	38.3	33.2	38.5	44.4	40.8	38.7	36.6	35.3	34.7	34.3	33.9
Central government	3.8	-1.5	1.5	4.0	4.2	-1.5	-1.4	-0.7	-0.9	-0.8	-0.8
Nongovernment 1/	34.5	34.6	37.0	40.4	36.6	40.3	38.0	36.0	35.6	35.1	34.7
Investment	47.0	44.5	40.9	36.0	38.6	38.6	38.1	37.9	37.6	37.7	37.7
Central government	12.3	9.1	7.8	6.5	7.2	7.0	6.5	6.1	5.9	5.9	5.9
Nongovernment 1/	34.7	35.5	33.1	29.5	31.4	31.6	31.7	31.8	31.7	31.8	31.8
o/w Nongovernment nonhydrocarbon	28.9	32.1	30.5	27.3	29.7	29.9	29.9	30.0	30.1	30.2	30.2
Central government finances			(In percent of GDP)								
Revenue	28.6	27.0	26.2	29.6	31.1	27.8	26.8	26.4	25.7	25.4	25.2
Expenditure (incl. net lending)	37.1	37.5	32.5	32.0	34.1	36.3	34.7	33.2	32.4	32.1	31.9
Overall budget balance	-8.5	-10.5	-6.3	-2.5	-3.0	-8.5	-7.8	-6.7	-6.7	-6.7	-6.7
Central bank financing (flow)	4.3	0.0	2.1	-0.1	-0.7	-1.1	-1.5	-0.5	-0.7	-1.3	-1.2
Gross government debt (excluding guarantees)	40.9	46.0	55.1	48.1	49.5	46.4	49.7	51.9	54.5	57.0	59.5
			(In percent of nonhydrocarbon GDP)								
Nonhydrocarbon primary balance excluding central bank dividends	-27.7	-25.8	-24.3	-27.8	-26.6	-26.6	-23.9	-21.5	-20.1	-19.3	-18.7
Nonhydrocarbon balance	-24.1	-22.4	-20.6	-27.4	-26.4	-27.0	-24.6	-22.5	-21.4	-20.8	-20.3
Revenue	34.4	30.7	32.4	40.2	38.6	33.7	32.2	31.5	30.4	30.0	29.5
Hydrocarbon	13.9	10.4	12.8	24.0	22.7	16.7	15.2	14.5	13.4	12.9	12.4
Nonhydrocarbon	20.5	20.2	19.5	16.2	15.9	17.0	17.0	17.0	17.0	17.1	17.1
Expenditure (including net lending)	44.6	42.6	40.2	43.5	42.3	44.0	41.6	39.5	38.4	37.9	37.4
Current expenditure	25.5	27.2	26.9	32.1	31.2	33.3	31.8	30.5	29.8	29.3	29.0
Capital expenditure	14.8	10.3	9.6	8.9	9.0	8.4	7.8	7.2	7.0	7.0	7.0
Net lending	4.3	5.1	3.7	2.5	2.1	2.2	2.0	1.8	1.7	1.6	1.4
External sector 2/											
Current account balance (percent of GDP)	-8.7	-11.3	-2.4	8.4	2.2	0.1	-1.5	-2.5	-2.9	-3.4	-3.8
Exports, f.o.b. (percent change)	-14.3	-37.9	76.2	69.6	-16.4	-0.6	1.0	1.5	0.8	0.8	0.6
Hydrocarbons	-14.5	-39.8	70.2	74.8	-16.7	-2.7	-0.9	-0.2	-1.0	-1.2	-1.4
Nonhydrocarbons	-7.6	-7.8	138.9	30.6	-13.9	19.5	16.3	12.7	11.4	11.7	9.9
Imports, f.o.b. (percent change)	-8.1	-20.4	5.4	3.7	12.7	11.2	8.9	6.0	3.2	2.8	2.3
Crude oil export unit value (US$/bbl)	64.5	41.9	72.3	103.9	84.0	81.2	77.1	74.2	72.4	71.4	70.9
Gross official reserves											
In US$ billions	62.8	48.2	45.3	61.0	68.9	71.3	69.3	64.2	57.7	49.8	40.5
In months of next year's imports of goods and services	17.6	13.0	11.6	13.9	14.1	13.5	12.4	11.1	9.7	8.2	6.6
Gross external debt (percent of GDP)	2.0	2.1	1.7	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Money and credit			(Annual percentage change unless otherwise indicated)								
Net foreign assets	-20.3	-14.9	-5.2	35.5	6.7	9.5	2.2	-3.0	-5.9	-10.2	-15.8
Credit to the economy	9.0	3.0	-12.1	3.2	5.8	5.4	4.5	5.0	5.6	5.9	6.0
Money and quasi-money	-0.8	7.4	13.2	14.3	5.9	14.1	9.5	7.2	7.3	7.0	6.8
Memorandum items:											
GDP (in billions of dinars at current prices)	23,090	20,902	25,158	32,028	33,225	36,764	40,152	43,634	46,947	50,347	53,855
Nominal GDP Growth	1.8	-9.5	20.4	27.3	3.7	10.7	9.2	8.7	7.6	7.2	7.0
NHGDP (in billions of dinars at current prices)	19,216	18,396	20,383	23,561	26,773	30,357	33,463	36,600	39,615	42,721	45,937
GDP capita per (in US$)	4,453	3,758	4,170	4,982	…	…	…	…	…	…	…
Exchange rate (DA per US$)	119.4	126.9	135.3	142.0	…	…	…	…	…	…	…
REER (percent change)	2.1	-4.4	-4.8	6.2	…	…	…	…	…	…	…

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Including public enterprises.
2/ In U.S. dollars unless otherwise indicated.

ALGERIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

March 8, 2024

KEY ISSUES

Context. The Algerian economy was still emerging from the Covid pandemic when it was hit by spillovers from Russia's war in Ukraine and by recurrent droughts. These shocks fueled inflation while high international hydrocarbon prices also boosted government revenue and exports. Algeria's economy likely recorded a robust growth in 2023 and the external position remained solid, with a current account surplus for the second year in a row and further accumulation of international reserves. Inflation remains elevated and could become entrenched. The 2023–24 budgets aim at supporting the purchasing power of households but risk depleting the buffers that protect the budget from revenue volatility. Structural reforms are advancing with the enactment of the Monetary and Banking law and the implementation of program budgeting and the 2022 Investment Law. Investment in digitalization would strengthen governance and transparency, reduce corruption risks, and improve service delivery.

Outlook and Risks. The near-term outlook is broadly positive, but inflation remains a concern. Economic growth would slow but remain robust, partly supported by high government spending, and the current account surplus would narrow, reflecting a decline in international hydrocarbon prices. Medium-term economic prospects depend on efforts to diversify the economy and attract private investment. Staff's baseline scenario projects real GDP growth slowing as hydrocarbon production moderates, financing constraints cap budget spending, and structural bottlenecks inhibit private sector growth. Volatility in international hydrocarbons prices and stubborn inflation are near-term risks. Other downside risks include climate hazards, an abrupt slowdown in Europe, materialization of contingent liabilities (including from state-owned enterprises, SOEs), and large fiscal financing needs together with rising public debt (particularly in the event of reform inertia). A disorderly global energy transition poses a long-term risk. On the upside, resolute efforts to diversify the economy, attract investment, and improve the business climate could spur growth and job creation, and economic prospects could further improve if bold and deep structural reforms took root.

Key Policy Recommendations

- *Fiscal Policy.* Gradual fiscal rebalancing is needed to rebuild financial buffers, reduce the vulnerability of the budget to hydrocarbon price volatility, and limit risks to macroeconomic and financial stability (including from large borrowing needs). This gradual rebalancing could be anchored on stabilizing the public debt ratio over the medium term, which itself would be a stepping stone to developing a rules-based medium-term fiscal framework. Fiscal policy can also support the authorities' comprehensive mitigation and adaptation strategy to respond to the challenges from climate change. A gradual reform of energy subsidies, accompanied by targeted support to vulnerable populations, would create space for investments in climate adaption and help build a financial buffer.

- *Monetary and Exchange Rate Policies.* Monetary policy tightening is needed to reduce inflation and signal the central bank's determination to address inflation risks. Monetary policy transmission would improve with reforms aiming at deepening financial markets and making them more competitive and market-based. More flexibility in the dinar rate would enhance its role as shock absorber and help develop the FX market.

- *Financial sector.* The reforms embodied in the Monetary and Banking Law could be an impetus to strengthen the credit market infrastructure, develop long-term savings products, and advance financial inclusion. Intertwined economic and financial links among the central government, state-owned banks (SOBs), and SOEs could amplify macro-financial risks from shocks. These call for closely monitoring the liquidity and solvency of the banking sector, ensuring that prudential rules are followed, and risks are being assessed regularly, as recommended by the 2019 FSAP. The authorities should also closely follow the financial risks of all public enterprises, strengthen their governance, and reconsider their role in the economy.

- *Structural reforms.* Sustained and bold reforms would tap the potential of the private sector as driver of sustained growth and job creation. The implementation of the Investment Law and the enactment of a new Land Law aim at fostering private sector initiative and investment and should be complemented with reforming the SOE sector (including by shedding non-strategic and loss-making ones) and making product and labor market more flexible. The authorities should continue to pursue their efforts to reduce corruption risks and improve transparency (leveraging digitalization) and to correct AML/CFT identified gaps. Improving the coverage and timeliness of statistics would help inform policy making.

Approved By
Taline Koranchelian and S. Jay Peiris

Discussions were held in Algiers during December 3–14, 2023. The mission team comprised Chris Geiregat (head), William Gbohoui, Véronique Salins (all MCD), and Thierry Tressel (MCM). Mr. Kamel Badsi (OED) joined most meetings. The mission met with Governor of the Bank of Algeria, Mr. Taleb; Finance Minister, Mr. Faid; Energy and Mines Minister, Mr. Arkab; Agriculture and Rural Development Minister, Mr. Cherfa; Commerce and Exports Promotion Minister, Mr. Zitouni; and Hydraulic Resources Minister, Mr. Derbal. The team also held discussions with other senior government and central bank officials and with representatives of the economic and financial sectors and civil society. Dalia Kadissi and Jarin Nashin provided excellent research support, and Rodrigo Huguet and Abigail Korman contributed to the production of the report.

CONTENTS

TABLES

ANNEXES

Acronyms

AAPI	*Agence algérienne de promotion des investissements* (Algerian Investment Promotion Agency)
ABEF	*l'Association des banques et établissements financiers* (Association of Banks and Financial Institutions)
BA	*Banque d'Algérie* (Bank of Algeria)
BDH	*Banque de l'Habitat* (Housing Bank)
CD	Capacity Development (technical assistance and training)
CPAT	Climate Policy Assessment Tool
C-PIMA	Climate-resilient Public Investment Management Assessment
Cour des Comptes	Audit Court
CTRF	*Cellule de Traitement du Renseignement Financier* (Financial Intelligence Unit)
EBA	External Balance Assessment
FRR	*Fonds de Régulation des Recettes* (Revenue Regulation Fund)
FSAP	Financial Sector Assessment Program
Haut Comité	*Haut Comité d'Évaluation et d'Alerte des Risques Budgétaires* (High-level Budget Risk Committee of the Ministry of Finance)
LF2024	*Loi de finances pour 2024 (*2024 budget law)
MOF	Ministry of Finance
NDC	Nationally Determined Contribution
MENA	Middle East and North Africa
NEER	Nominal Effective Exchange Rate
NHGDP	Nonhydrocarbon GDP
NHPD	Nonhydrocarbon Primary Deficit (excl. Bank of Algeria's dividends)
NPL	Non-Performing Loan
ONS	*Office National des Statistiques* (National Statistics Office)
PPPs	Public-Private Partnerships
PSR	*Programme Spécial de Refinancement* (Special Refinancing Program)
RAM	Risk Assessment Matrix
REER	Real Effective Exchange Rate
R&D	Research and Development
SIP	Selected Issues Paper
SMEs	Small and Medium-sized Enterprises
SOEs	State-Owned Enterprises
SOBs	State-Owned Banks
SR-DSA	Sovereign Risk and Debt Sustainability Assessment
TAP	*Taxe sur les Activités Professionnelles* (Tax on Professional Activities)
VAT	Value-Added Tax

CONTEXT

The Algerian economy was still emerging from the Covid pandemic when it was hit by spillovers from Russia's war in Ukraine, which impacted international commodity prices, and by recurrent droughts. While these shocks pushed inflation up, high international hydrocarbon prices also boosted government revenue and exports. The budgets for 2023 and 2024 (the latter a Presidential election year) aim to support the purchasing power of households but risk depleting the Revenue Regulation Fund, a key financial buffer to protect budget expenditure from revenue volatility. Containing inflationary pressures and maintaining fiscal sustainability and financial stability are key priorities for monetary and fiscal policy. The authorities seek to reduce Algeria's dependence on the hydrocarbon sector by diversifying the economy, attracting private investment, and tapping new export markets. Unleashing the economy's full potential to create high and sustained economic growth and job creation will require deep and bold structural reforms.

RECENT MACROECONOMIC DEVELOPMENTS

1. **Real growth was robust in 2023 but inflation remained high.** Real GDP is likely to have grown by 4.2 percent in 2023, supported by strong activity in industry, construction, and services, along with a rebound in hydrocarbon production. Average annual inflation has exceeded nine percent since mid–2022. Core inflation (excluding fresh food and administered prices) decelerated somewhat (to 7.8 percent at end-December 2023) but potential second-round effects pose risks of entrenchment.

2. **The current account has been in surplus for two consecutive years.** The surplus dropped by more than half in the first nine months of 2023 (to US$5.7 billion) mainly because of lower (but still high) hydrocarbon prices. Staff estimates that the current account surplus likely reached US$5.3 billion for the year. Algeria's financial account is largely closed and net FDI flows were below US$0.5 billion through 2023Q3. The nominal effective exchange rate appreciated by five percent y-o-y through end–December, 2023 and international reserves reached 14.1 months of imports at end–October, 2023.

3. **The budget deficit likely widened in 2023, albeit less than foreseen in the 2023 revised budget.** Staff estimates that it reached three percent of GDP (from 2.5 percent in 2022), although the nonhydrocarbon deficit was likely lower than in 2022 (26.4 percent of non-hydrocarbon GDP, down from 27.4 percent in 2022). The 2023 revised budget sought to support the purchasing power of households, including through salary increases, a new unemployment allowance for first-time job seekers, and food subsidies. However, a low execution rate and late adoption of the supplementary budget mitigated the increase in spending. The authorities

planned to finance the 2023 deficit in part by drawing from the Revenue Regulation Fund (FRR). Staff estimates that public debt rose to nearly 49.5 percent of GDP.[1]

4. The banking sector is liquid, solvent, and profitable but non-performing loans (NPL) weigh on balance sheets. Aggregate solvency and liquidity ratios exceed regulatory minima. The sector-wide NPL ratio has exceeded 19.5 percent since 2021 and NPLs of public banks (21.4 percent at end–June 2023) are more than double those of private banks. Credit to the private sector started to pick up in the second half of 2023, growing at 5.9 percent for the year compared with 2.5 percent in 2022.

OUTLOOK AND RISKS

5. The near-term outlook is broadly positive, but inflation remains a concern (Text Table 1). Staff projects real GDP growth of 3.8 percent in 2024, supported in part by large fiscal spending. Inflation would decelerate thanks to easing fresh food prices, thanks in part to the efforts to expand agricultural production and building a food security stock. The current account surplus would narrow further, assuming a gradual decline in oil prices.

Text Table 1. Algeria: Macroeconomic and Financial Indicators, 2019–29

	2021	2022	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Output and prices	(Annual percentage change)								
Real GDP	3.8	3.6	4.2	3.8	3.1	2.5	2.1	2.1	2.1
Hydrocarbon sector	10.5	-0.6	4.5	2.7	1.5	1.0	0.5	0.5	0.5
Nonhydrocarbon sector	2.9	4.2	4.1	4.0	3.3	2.7	2.3	2.3	2.3
Consumer price index (period average)	7.2	9.3	9.3	7.6	6.4	6.1	5.5	5.2	5.0
Central government finances	(In percent of GDP)								
Overall balance	-6.3	-2.5	-3.0	-8.5	-7.8	-6.7	-6.7	-6.7	-6.7
Gross government debt (excl. guarantees)	55.1	48.1	49.5	46.4	49.7	51.9	54.5	57.0	59.5
	(In percent of nonhydrocarbon GDP)								
Nonhydrocarbon balance	-20.6	-27.4	-26.4	-27.0	-24.6	-22.5	-21.4	-20.8	-20.3
External sector									
Current account balance (percent of GDP)	-2.4	8.4	2.2	0.1	-1.5	-2.5	-2.9	-3.4	-3.8
Gross official reserves									
In US$ billions	45.3	61.0	68.9	71.3	69.3	64.2	57.7	49.8	40.4
In months of next year's imports of G&S	11.6	13.9	14.1	13.5	12.4	11.1	9.7	8.2	6.6

Sources: Algerian authorities and IMF staff estimates and projections.

6. Medium-term economic prospects depend on efforts to diversify the economy and attract private investment. Staff's baseline scenario projects real GDP growth slowing to a little over two percent by 2029, as hydrocarbon production moderates, financing constraints cap budget spending, and structural bottlenecks inhibit private sector growth. Inflation would converge towards five percent. Current account deficits would return in 2025 but international reserves would remain relatively comfortable (around 6.6 months of imports by 2029). Budget

[1] This staff report incorporates the new national account data for 2001–22 (with base year 2001) published at end–2023, and which increase annual nominal GDP by around ten percent on average (Annex VIII).

execution would be constrained from lower hydrocarbon revenues and the policy to rely solely on domestic financing sources (mainly public banks). The nonhydrocarbon budget deficit would fall gradually, from an estimated 26.4 percent of NGDP in 2023 to about 20.3 percent of NHGDP over the medium term, while the public debt ratio would continue to increase.

7. **Risks.**[2]

- ***Downside.*** Volatile international hydrocarbon prices and stubborn inflation are near-term risks. Extreme climate events (droughts and floods) would affect agriculture and carry large fiscal costs, while a disorderly global energy transition is a longer-term risk. Algeria would be impacted in the event of an abrupt slowdown in Europe, its main export market. Domestic risks stem from contingent liabilities (including from SOEs), high fiscal financing needs and rising public debt, particularly in the event of reform inertia. Intertwined financial links between the central government, state-owned banks, and SOEs are a source of systemic risk to the economy and to financial stability, as these could potentially amplify the impact of shocks (such as to commodity prices). The systemic risk has remained about the same relative to the 2022 Article IV consultation.

- ***Upside.*** These are significant and depend on the implementation pace and impact of the government's action plan (investing in digitalization, improving governance), as well as the authorities' work towards attracting private investment, deepening domestic financial markets, and tapping new export markets. Economic prospects would further improve if bold and deep structural reforms took root (¶38 has details).

Authorities' Views

8. **The authorities are optimistic about medium-term growth while acknowledging the risks to the economic outlook.** They noted that their structural reform agenda would spur private sector investment and growth in the medium term, highlighting the expected impact of the 2022 Investment Law, the Land Law, and efforts to streamline administrative red tape for investors. They considered that the increase in non-hydrocarbon exports reflects the government' strategy to diversify the economy and strengthen its resilience to hydrocarbon price volatility. The authorities broadly agreed with staff's assessment of the main risks facing the economy, while noting that the fiscal-financial risks from contingent liabilities and sizable financing needs are being monitored and, in their view, contained.

[2] See Annex I (Risk Assessment Matrix).

POLICY DISCUSSIONS[3]

A gradual fiscal rebalancing would help build buffers against macroeconomic shocks and revenue volatility and contain medium-term risks of sovereign debt distress. Monetary policy tightening would signal the Banque d'Algérie's (BA) determination to fight inflation and avoid that it becomes entrenched. More exchange rate flexibility would help absorb shocks. Vulnerabilities from volatile international hydrocarbon prices, climate change, and interlinkages among public sector entities need to be better understood and managed. Creating sustained and inclusive growth and jobs will require deep and bold reforms that reduce the public sector footprint and address structural impediments to private sector initiative.

A. Fiscal Policy

Baseline Fiscal Projections

9. The 2024 budget eliminates the turnover tax on professional activities *("TAP"),* with the shortfall in revenues for local government partially compensated by of a new solidarity tax on hydrocarbon transport. It also introduces new tax advantages to support the private sector (for example, for start-ups and for the self-employed benefiting from the simplified *auto-entrepreneur* regime). On the spending side, the budget envisages a large increase in the wage bill: (i) a revision of the salary scale for 2.8 million public servants;[4] (ii) the full-year impact of hiring in the education sector in 2023 (about 31,000 positions); and (iii) new positions (about 37,000, mainly in education and health). The budget also increases the minimum pension and several allowances (for students, handicapped individuals, and the first-time unemployed), as maintaining the purchasing power of households remains a priority for the authorities. With the introduction of program budgeting, the authorities expect to improve the efficiency and execution rate of investment (Text Table 2).

Text Table 2. Algeria: 2022 Outturn and 2023 and 2024 Budgets

	2022				2023				2024		
	2022 Budget	2022 Supplementary budget	Outurn	Execution rate	2023 Budget[1]	2023 Supplementary Budget[1]	Staff Forecast	Forecast Execution rate	2024 Budget[1]	Staff Forecast	Forecast Execution rate
Total spending	30.8	36.2	30.2	83%	40.9	43.6	31.9	73%	40.9	34.0	83%
of which Current spending	19.7	24.0	23.6	98%	29.8	31.9	24.8	78%	30.8	29.9	97%
Capital spending	11.1	12.2	6.5	53%	11.2	11.8	7.1	61%	10.1	6.9	68%

1/ Assumes that "unallocated expenditures" are allocated fifty-fifty to current and capital spending.

Sources: Algerian authorities and IMF staff estimates and projections.

[3] See Annex II (Implementation of past IMF recommendations).

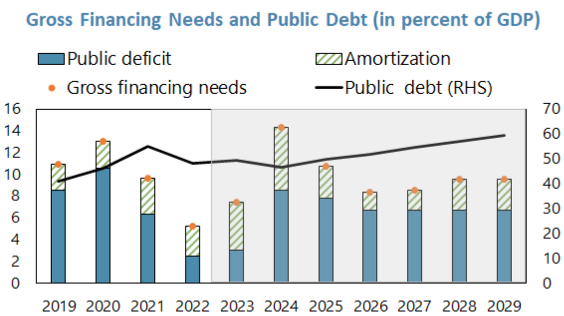
[4] This revision increases public salaries by about 15 percent in 2024 alone, and cumulatively over 2022–24 by about 47 percent.

10. The large projected fiscal deficit for 2024 (coming on top of the likely widened deficit in 2023) would erode financial buffers and increase vulnerabilities (Text Figure 1). The overall fiscal deficit would reach 8.5 percent of GDP in 2024 and the nonhydrocarbon deficit 27 percent of NHGDP. The budget deficits in 2023–24 would deplete the financial cushion in the Revenue Regulation Fund (FRR), exhaust fiscal space, and potentially fuel inflation.[5] These deficits would constrain fiscal policy in later years, as financing large gross financing needs may strain the domestic banking sector, crowd out private credit, and increase the risk of alternative financing schemes such as tapping SOE financial resources. Staff projects modestly declining fiscal deficits over the medium term, mainly reflecting binding financing constraints.

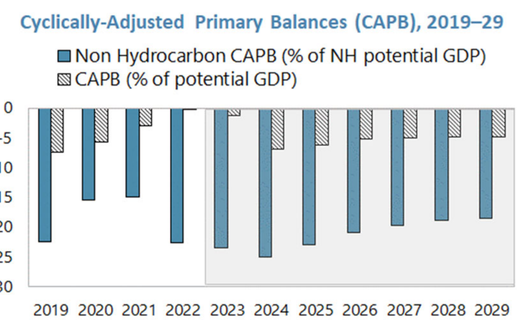
11. The Sovereign Risk–Debt Sustainability Analysis (SR-DSA) results suggest a "moderate" risk of sovereign stress for Algeria (Annex III). Even though the use of the FRR would limit the debt buildup in 2024, and fiscal deficits would gradually fall in later years, staff's baseline projections suggest continued increases in the public debt ratio, adding to debt vulnerabilities. Large uncertainty, especially from volatile hydrocarbon revenue, also increases the medium-term risk of sovereign stress. Mitigating factors to sovereign stress include the initial balances in the FRR (which reduce near-term risks), the large share of nonmarketable debt, and the near absence of external public debt (Annex IV).

Text Figure 1. Algeria: Fiscal Policy Developments, 2019–29

The public debt ratio would increase over the medium term because of large gross financing requirements…



… fueled by significant public deficits, despite the gradually tightening fiscal stance.



Sources: Algerian authorities and IMF Staff estimates.

Policy Focus: Increasing Budget Resilience to Shocks

12. A gradual rebalancing of fiscal policy and anchoring it on stabilizing public debt by 2026 would help improve the budget resilience. Staff analysis suggests that additional measures of three pps. of GDP over 2024–26 could stabilize the public debt ratio around 47 percent of GDP by 2026 (Text Figure 2 and Annex V). The additional effort over baseline

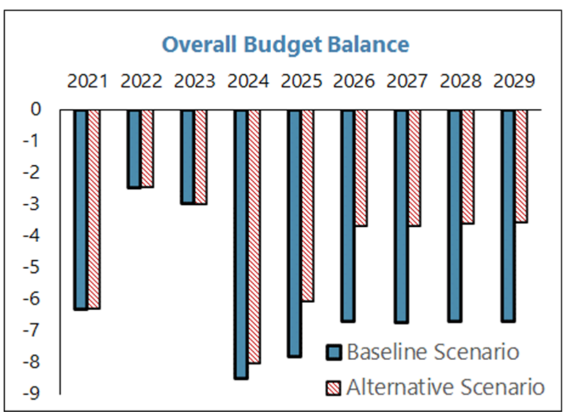
[5] As of end–December 2023, the FRR had a balance of DZD 2,268 billion (6.8 percent of GDP).

projections could come from revenue and expenditure measures, including: (i) eliminating inefficient tax expenditures;[6] (ii) spreading hiring and salary increases for public servants over multiple years; and (iii) gradually replacing universal subsidies with targeted transfers, starting with those on fuel products (see also ¶19). The additional fiscal restraint would help raise FRR savings and create fiscal space to absorb macroeconomic shocks and manage revenue volatility.[7] It would also reduce gross financing needs and the associated recourse to the domestic banking sector, thus leaving more space for private sector borrowing.

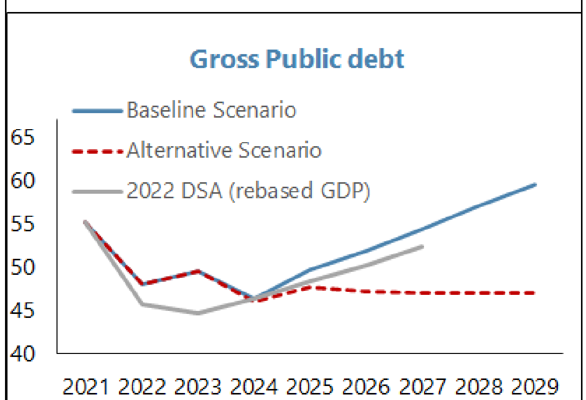
13. More broadly, staff reiterated its advice from the 2022 Art. IV consultations to guide medium-term fiscal projections with a rules-based framework to make the budget more resilient.[8] The framework proposed a buffer based on a dual-pillar approach: a public debt margin and a savings floor (funds held in the FRR), which, together, would suffice to cover 95 percent of simulated medium-term trajectories. Staff's current recommendation to anchor the fiscal trajectory on stabilizing the public debt ratio would be a stepping stone to developing a rules-based medium-term fiscal framework that also includes the financing side and a DSA.

Text Figure 2. Algeria: Impact of Additional Fiscal Measures on Fiscal Balances and Public Debt, 2021–29 (in percent of GDP)

Additional fiscal adjustment of three pps. of GDP over 2024–26 would lower the fiscal deficit …



…and stabilize the public debt ratio around 47 percent of GDP and thus help rebuild a buffer against shocks.



Source: IMF staff estimates and projections.

[6] A partial list of tax expenditures in the 2024 budget law has an amount of DZD 495 billion (1.3 percent of projected 2024 GDP).

[7] Windfall hydrocarbon revenue would be saved in the FRR.

[8] Selected Issues Paper "Designing a Rules-Based Fiscal Framework for Algeria".

Reform Agenda

14. Public finance management reforms advance at a steady clip. The authorities are implementing the new procurement and public accounting laws. Implementation of program budgeting is advancing as well, with 2023–24 as transition years. The Ministry adopted a code of conduct and performance contracts. A new data center brings for the first time together the Ministry's data platforms (customs, taxation, and property taxation).

15. Preparing a financing plan and strengthening cash and public debt management would enhance planning, execution, and transparency of the budget. In this regard, finalizing the "État D" (that is, the financing side) of the budget, as called for by the Organic Budget Law, and preparing monthly cash-flow forecasts would strengthen budget transparency and credibility. The Treasury is keen on improving debt management and is preparing reforms to improve the organization and transparency of the debt markets (new statutes for primary dealers, launching a website with information on debt auctions, etc.). These initiatives could be embedded in a medium-term debt management strategy that states the authorities' objectives for debt management, analyzes risks, discusses financing costs and tradeoffs, envisages the development of new debt instruments and of the debt market, and covers transparency requirements (such as publishing regular reports).

16. Systematic risk analysis and contingency planning would support decision making. A committee of general directors of the Ministry of Finance *("Haut Comité")* is charged with identifying and ranking potential risks to the budget and recommending how to manage them. It prepares an annual report for the Prime Minister. Staff recommended that the *Haut Comité* considers budget risks holistically, including by (i) analyzing their potential budgetary impact; (ii) preparing contingency plans and proposing mitigating actions; and (iii) issuing a risk report to the Council of Ministers, describing the main risks in the budget law, and eventually publishing a fiscal risk statement. Staff discussed the IMF's Risk Assessment Matrix (Annex I) and the methodology to assessing sovereign risk and debt sustainability (Annex III) as potential blueprints.

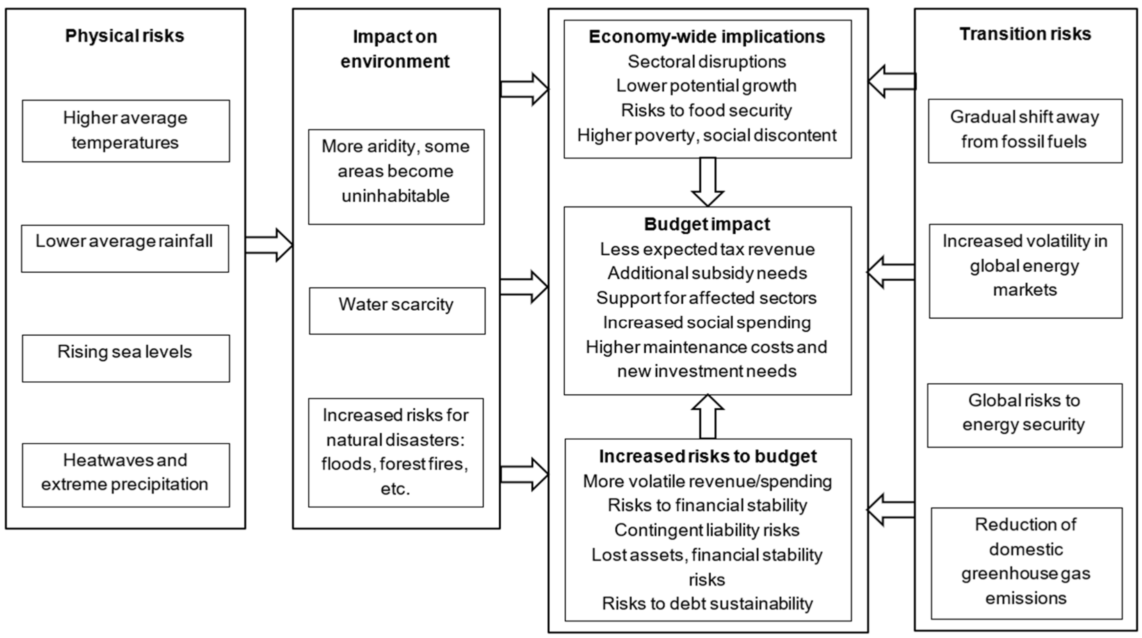
Policy Focus: Addressing Challenges for Fiscal Policy Arising from Climate Change[9]

17. Climate change is already affecting Algeria's economy and its risks are expected to increase over time (Text Figure 3). Climate change may affect Algeria in many ways. Recurrent drought and extreme temperatures have already strained agriculture and water supply. While concerns about energy security and lower global economic growth could increase revenue volatility in the near term, the global energy transition could reduce trend revenue and add to revenue volatility over the medium term. Affected sectors may need additional financial support from the budget and higher credit risks may affect the asset quality of state-owned banks (SOBs). These factors could increase the risk of sovereign debt distress.

[9] See Selected Issues Paper "Fiscal Reforms to Support Addressing Climate Change Challenges".

18. The Algerian authorities have developed a mitigation and adaptation strategy to respond to the challenges brought about by climate change. Algeria's Nationally Determined Contribution (NDC) pledges to reduce carbon emissions by seven percent by 2030 (from a business-as-usual scenario). The 2021 National Climate Plan lists 155 mitigation and adaptation actions. Conserving and creating new water resources (desalination, recycling of wastewater, etc.) and improving food security (better agriculture methods and increasing arable land) are priorities.

Text Figure 3. Algeria: Risks from Climate Change for the Economy and Public Finances



Source: IMF.

19. Fiscal policy can be a lever in supporting Algeria's mitigation and transition efforts. This includes:

- ***Energy subsidy reform.*** Staff analysis suggests that gradual adjustment of energy prices toward cost-recovery levels (over six years starting in 2024) could generate average annual fiscal revenue of about 6.4 percent of GDP over the next decade (Text Figure 4). It would reduce emissions by over one fifth by 2030 relative to a business-as-usual scenario.[10] The savings could be used for priority spending (targeted support, investing in climate adaptation) and to build a financial buffer. Staff emphasized that such reforms should be buttressed by a strong communications campaign and by targeted compensatory measures for vulnerable populations.

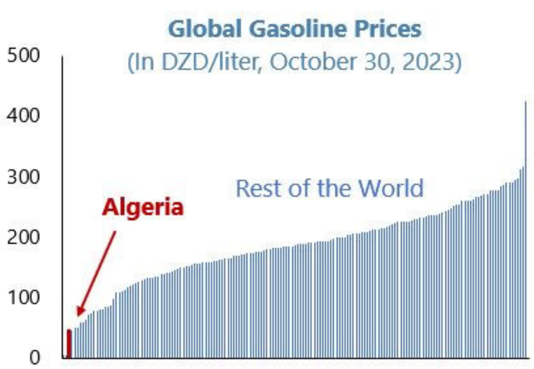
[10] Estimates are based on the stylized IMF-WB Climate Policy Assessment Tool (CPAT).

- ***Feebates and incentives for investing in renewables.***[11] Feebates could be included in the car registration system and home appliance sales and be applied to emissions by carbon-intensive industries and large farms. Incentives for renewable energy generation could include subsidies (tax credits, accelerated depreciation) or feed-in tariffs (guaranteed prices).

- ***Integrating climate considerations in public finance management processes.*** This includes: (i) strengthening public investment management (the authorities expressed an early interest in conducting a Public Investment Management Assessment (C-PIMA)) (ii) integrating "green" considerations into budget documents and processes; and (iii) empowering the *Haut Comité* to identify and quantify fiscal risks from climate change and assess policies to mitigate them.

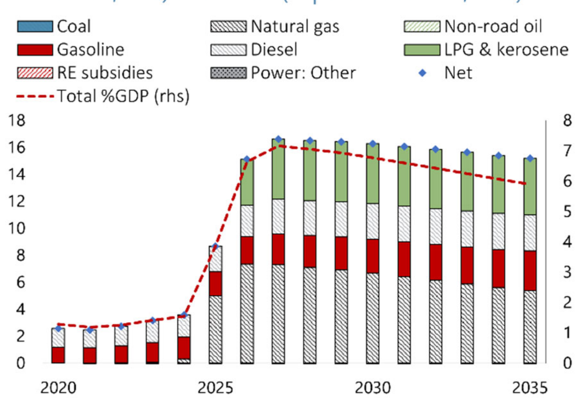
Text Figure 4. Algeria: Global Gasoline Prices and Impact of Subsidy Reform on Public Finances

With gasoline prices in Algeria among the lowest in the world…



… energy subsidy reform would yield average annual fiscal revenue of about 6.4 percent of GDP in the next decade.

Fiscal Revenue Raised by Fuel (constant 2021 US$ billion, LHS) **and Total** (in percent of GDP, RHS)



Sources: Global Petrol Prices, IMF staff calculations, and IMF/WB Climate Policy Assessment Tool (CPAT).

Authorities' Views

20. The authorities noted that the 2023–24 budgets reflect their immediate policy priorities and that they are committed to preserving sustainability of public finances over the medium term. Supporting the purchasing power of households in the context of the post-Covid high inflation is an immediate priority. Social equity and preserving the purchasing power of citizens will remain a key priority in the future. Program budgeting and enhanced governance and controls, and prioritizing investment projects, will improve the effectiveness and efficiency of public finances. The medium-term budgetary framework also envisages enhanced tax revenue

[11] See Parry (2021).

mobilization and diversified sources of financing. The authorities agree that Algeria's economy, and the budget, face multiple risks from climate change. They emphasized the comprehensive climate action plan that is being implemented across ministries and noted their openness to undertake subsidy reform, as was already envisaged in the 2022 budget law.

B. Monetary and Exchange Rate Policies

Monetary Policy

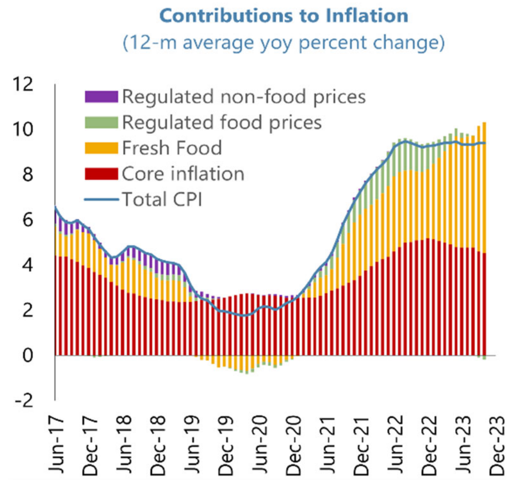
21. Headline inflation has remained high but there are signs that core inflation may be starting to decelerate (Text Figure 5). Fresh food inflation alone contributes about half to headline inflation, while the contribution from administered prices has tapered off, possibly because of increased controls and measures to boost supply. Core inflation (excluding administered prices and fresh food) still contributes the other half, although it has shown some signs of deceleration in recent months. Imported inflation is not a dominant factor; the appreciation of the dinar may have helped contain it.

22. Ample bank liquidity and negative real short-term interest rates indicate that monetary policy is accommodative (Text Figure 5). The BA in mid–April 2023 raised the required reserve ratio by one point, to three percent, and modestly expanded its bilateral liquidity absorption operation. The BA's communiqué noted a desire to reduce excess liquidity (which it considered potentially inflationary) while keeping liquidity sufficiently high to avoid crowding out or increase the cost of credit. The policy rate has remained at three percent since December 2020 while inflation exceeded nine percent.

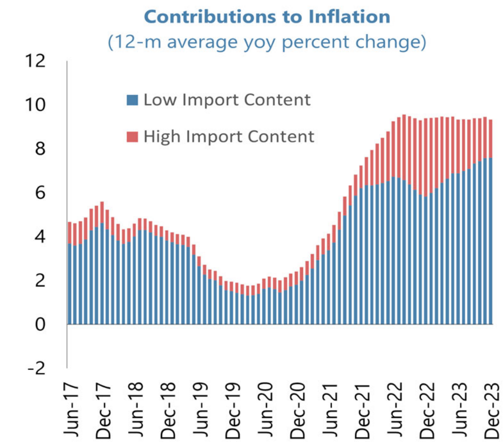
23. Monetary policy tightening is needed to reduce inflation. An increase in the required reserve ratio, broadening of liquidity absorption operations, and increase in the policy rate would signal the BA's determination to fight inflation. Even as fresh food price inflation may decelerate in the coming months and core inflation shows initial signs of easing, both headline and core inflation are still elevated and show persistence. Also, the loose fiscal policy in the near term could impact inflation as increased spending (including the salary raises of public servants) may stimulate aggregate demand and spill over to private sector salaries. A tightening stance would demonstrate that the BA proactively seeks to fend off such potential second-round effects.

Text Figure 5. Algeria: Inflation, Bank Liquidity, and Monetary Policy Instruments

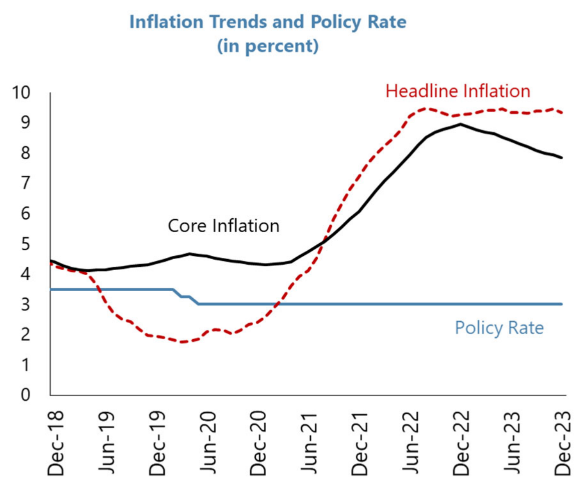
Fresh food prices and core inflation contribute about equally to inflation...



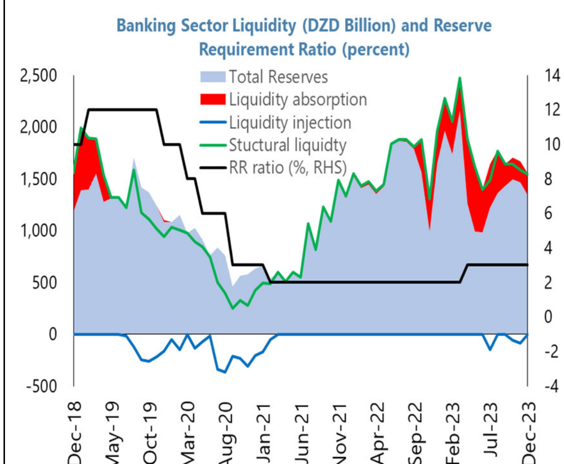
... while the contribution from high-import factors started to diminish in late 2022.



The policy rate has barely moved despite the large and sustained increase in inflation...



... and the required reserve ratio is low with ample bank liquidity.

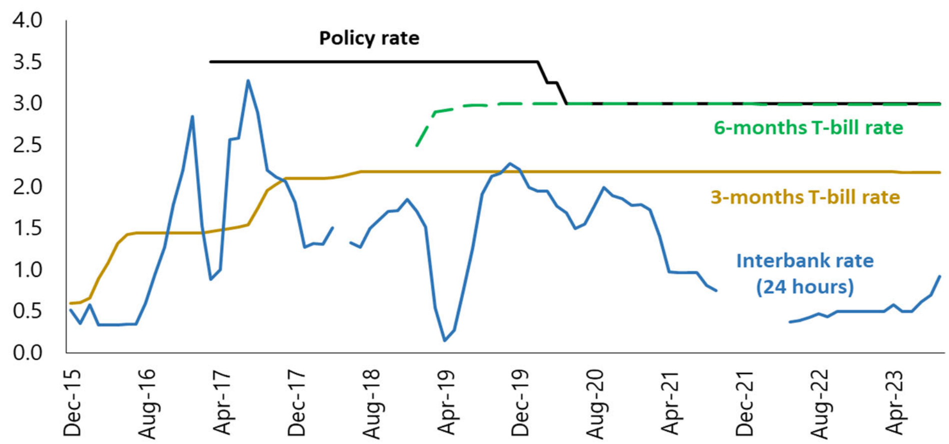


Sources: Algerian authorities and IMF Staff estimates.

24. Improving monetary policy transmission will require far-reaching reforms, including capacity building and financial market development. The BA is receiving IMF CD to enhance its modeling capacity for monetary policy decision-making. Regular communication by the BA, in the context of economic developments and prospects, would improve transparency of the BA's policy actions. Policy transmission would improve with reforms that deepen financial markets and make them more competitive and market-based (Text Figure 6). This requires reducing the dominance of the public sector in domestic financial markets, introducing competitive price-based public debt auctions, phasing out the quasi-fiscal activities of SOBs (and which result in government subsidies at low and fixed interest rates), and limiting the use of guarantees.

Text Figure 6. Algeria: Selected Short-Term Interest Rates (in percent)

The policy rate does not transmit to other short-term interest rates and T-bill rates do not appear to be market-based.



Sources: Algerian authorities and IMF Staff estimates.

25. Implementing the new *Monetary and Banking Law (LMB)* is a priority. The LMB is the authorities' cornerstone of reforms to modernize the central bank function and develop financial markets, by: (i) encouraging financial innovation (Islamic and digital banks, online payment services, etc.); (ii) strengthening financial surveillance and crisis management, as was recommended by the 2019 FSAP (for example, creating a financial stability committee and emergency liquidity assistance, ELA); and (iii) introducing new instruments of monetary policy, governance bodies, and control functions (for example, by putting in place requirements for internal controls and reporting). The BA issued new regulations for FX bureaus in September 2023 and the two vacant vice-Governor positions were filled. The ELA is being developed with IMF support and milestones for 2024 include regulation on Islamic, digital, and investment banking, online payment providers, and payment systems.

26. Staff welcomed these reforms and recommended that implementation texts or future revisions of the LMB:

a. ***Note price stability as the <u>primary</u> objective of monetary policy*** (ahead of other objectives such as creating and maintaining favorable credit conditions), all while safeguarding monetary and financial stability.

b. ***Specify the conditions, limits, modalities, and safeguards to extend monetary financing to the Treasury***, which Art. 48 of the LMB limits to be extended only in truly exceptional and unforeseen crisis situations.

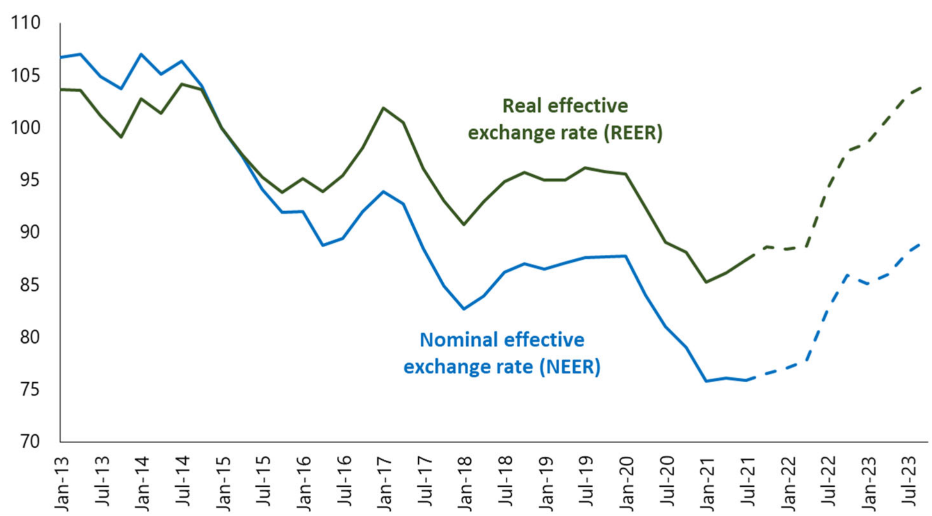
c. ***Clarify:*** (i) how to avoid overlaps between the Banking Commission and the BA on financial supervision; (ii) the organization, instruments, and resources for the BA's macroprudential mandate; (iii) the modalities of crisis management by the BA (in line with international best principles and separate from macroprudential surveillance).

Exchange Rate Policy

27. More flexibility in the dinar rate would enhance its role as shock absorber and help develop the FX interbank market.[12] The effective exchange rates appreciated in 2023 (Text Figure 7). The BA targets a medium-term equilibrium real effective exchange rate (REER) based on an empirical model, while day-to-day transactions occur within a narrow buy/sell band (DZD 0.015 per USD). Widening this band to allow more two-way flexibility would strengthen the role of the exchange rate in absorbing external shocks. Algeria's *de jure* exchange rate arrangement is "managed floating" and the *de facto* arrangement is "stabilized". Staff's External Balance Assessment analysis suggests that the external position was moderately stronger than the level implied by fundamentals and desirable policy settings in 2023, implying a moderate REER undervaluation of 10.3 percent based on the current account model (Annex VI).

Text Figure 7. Algeria: Effective Exchange Rates (Index, 2015Q1 = 100)

After years of near-steady depreciation, effective exchange rates have been appreciating since 2022.



Sources: Algerian authorities and IMF Staff estimates.

28. The authorities are studying a relaxation of foreign currency allocations for international travel. The premium on the parallel market reached 62 percent in

[12] The 2022 AREAER classified *de facto* exchange rate arrangement as "crawl-like". The exchange rate stabilized within a two percent band against the U.S. dollar between February and August 2023, which resulted in the reclassification to "stabilized".

November 2023.[13] Its increase may be due in part to the resumption of foreign travel following the end of the pandemic, possibly also stemming from informal (and illegal) market activity and over/under-invoicing of imports/exports. The basic allocation of FX for foreign travel is currently limited to about 100 euros and increasing it could reduce FX demand in the parallel market. Staff noted that developing the interbank FX market would also help reduce the premium.

Authorities' Views

29. The BA is carefully following inflationary and financial developments but did not see a need to tighten monetary policy, beyond the actions taken in April 2023. They emphasized that monetary tightening at this stage risks harming credit to the economy (whose growth has been modest) and that the sources of inflation are mainly from supply and external factors. They also expect bank liquidity to tighten with upcoming repayments of past monetary financing and the "Special Refinancing Program" *(PSR)*.[14] The BA agreed with the risk of inflation entrenchment and with the limited effectiveness of using the exchange rate to contain inflation. The BA reiterated their readiness to use all available policy tools to preserve price stability.

C. Financial Sector Policies

30. The implementation of the new LMB is an impetus to increase financial inclusion in Algeria (Annex VII). The authorities expect that the reforms will increase the use of financial services beyond basic operations (such as cash withdrawals). Fintech innovations (domestic and cross-border payment services, mobile money, internet banking, etc.) can also support financial deepening and inclusion, but their risks need to be managed carefully. Staff suggested that financial inclusion could also improve by:

a. ***Preparing a national financial inclusion strategy*** which would include articulating objectives, defining reform areas, setting targets and timelines to achieve those, etc.; and could, for example, aim at expanding digital financial services including to specific sectors such as SMEs and microfinance.

b. ***Improving financial literacy and awareness of consumer protection,*** including to familiarize the population with digital finance (making online payments, using credit cards, etc.).

c. ***Continuing to strengthen the credit market infrastructure,*** for example, by establishing a *Centrale des bilans* and a registry of movable collateral. It would also be beneficial to review and strengthen the existing platforms at the Bank of Algeria (such as the *Centrale des risques* and the *Centrale des incidents de paiement).*

[13] Source: https://devisesquare.com/#EUR.

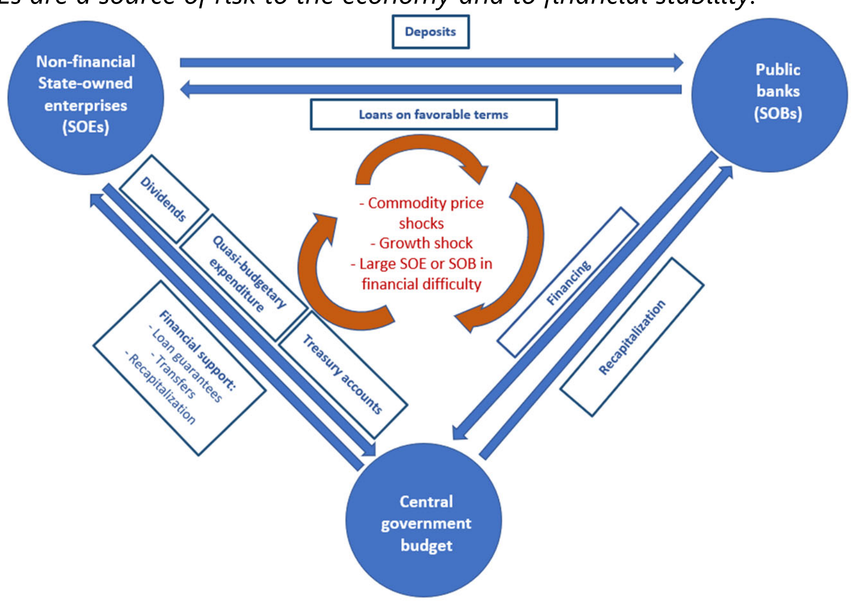
[14] See the 2021 Article IV Consultation Staff Report (CR No. 21/253) on the PSR.

d. ***Developing long-term savings products*** (for example, life insurance, issuance of bonds to the public).

31. The BA has multiple workstreams to reform the financial sector, in addition to implementing the LMB. It is working with METAC on developing a risk quotation of banks (to advance risk-based supervision) and on an in-house credit assessment for non-financial corporations (to expand the pool of eligible collateral). A new regulation on bank governance under preparation will require, for example, that financial institutions have audit and risk committees led by independent administrators. Additional reforms, as recommended by the 2019 FSAP, could usefully include: (i) reinforcing the commercial orientation of public banks, including by phasing out support schemes with subsidized loans from the public banks (and setting up a separate entity to manage those subsidies); (ii) updating the legal provisions for NPL management, including by modifying legal provisions to facilitate the write-off of NPLs and putting in place an asset management company for NPL recovery; (iii) increasing the BA's technical capacity for stress testing; (iv) developing an early warning system for systemic risk; and (v) preparing a financial stability report.

Text Figure 8. Algeria: Interlinkages Between Central Government and State-Owned Enterprises ("Nexus")

Financial links between the central government, state-owned banks, and other SOEs are a source of risk to the economy and to financial stability.



Sources: Algerian authorities and IMF Staff estimates.

Policy focus: Interlinkages ("nexus") between the central government, state-owned banks (SOB), and non-financial state-owned enterprises (SOE)

32. Economic and financial links among the central government, SOEs, and SOBs are intertwined and have increased over time (Text Figures 8–10).

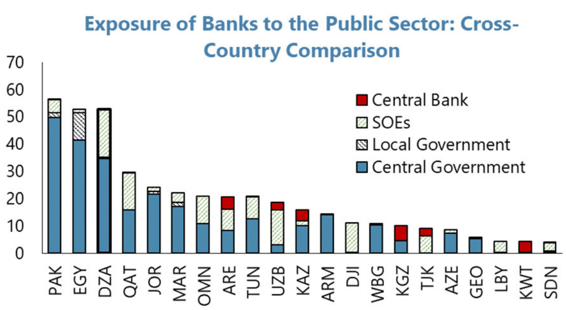
a. The exposure of banks to the public sector is among the largest in the MENA and has grown from 32 percent of bank assets in 2010 to 54 percent in 2023.

b. The central government has a prominent presence in the banking sector. The six largest banks in Algeria are publicly owned and account for over 85 percent of bank assets. About 62 percent of loans by public banks benefit from subsidized rates *("taux bonifiés"*, including for housing, youth employment, and SOEs*)*. Government guarantees likely reached about DZD 2,500 billion in 2023 (7.4 percent of GDP).

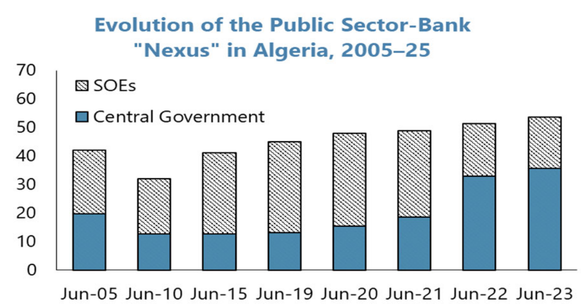
c. SOEs and SOBs engage in quasi-fiscal activities for which they are not always compensated and that could impact their financial situation (for example, the electricity company purchases domestic gas at a price well below international prices). Subsidized loans extended by SOBs have contributed to the increase in NPLs of those banks, weighing on their balance sheets.

Text Figure 9. Banks' Exposure to the Public Sector (in percent of total assets)

Algerian Banks are among the most exposed to the public sector compared to peers, …



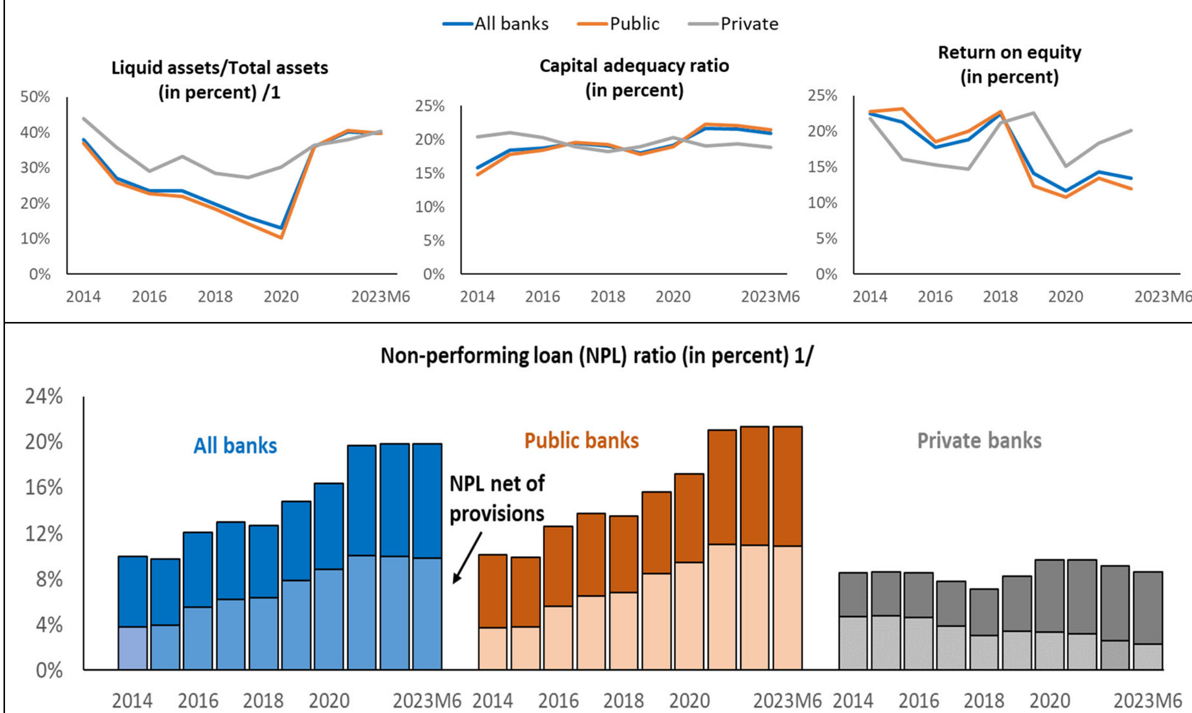
… and their exposure has been increasing over time.



Sources: Algerian authorities and IMF Staff estimates.

Text Figure 10. Algeria: Selected Indicators of Banking Sector Performance, 2014–23M6

The banking sector is liquid, solvent, and profitable but non-performing loans (NPL) weigh on balance sheets and are twice as large for public banks than those in the private sector.



Sources: Algerian authorities and IMF Staff estimates.

1/ Liquidity and NPL ratios in 2021 are affected by the Special Refinancing Program (PSR).

33. Such intertwined activities could amplify macro-financial risks from shocks such as a large drop in international hydrocarbon prices and create a feedback loop that would affect public debt sustainability, for example, if public enterprises needed to be recapitalized or guarantees were called.[15] Also, financial operations such as the monetary financing of the deficit in 2017 or the PSR in 2021 complicate monetary policy and can increase financial stability risks, especially if such operations involve non-marketable debt extended at below-market rates.

34. The BA should use all available tools to monitor the solvency and liquidity of the banking sector, ensure that prudential rules are followed, and assess risks;[16] while the central government could increase monitoring and reduce risks from the "nexus" by:

a. Establishing and coordinating the ownership policy of public enterprises, possibly through the *Conseil des Participations de l'Etat.*

[15] See [Managing the Sovereign-Bank Nexus (imf.org)](). for a general discussion of such risks and policy advice.

[16] Including through stress testing.

b. Adopting and enforcing performance contracts.

c. Analyzing the financial position of public enterprises (using the evaluation tool developed by the IMF), publishing financial statements, and reporting on the public enterprise sector as a whole (for example, as an annex to the budget law or on the website of the Ministry of Finance).

d. Strengthening the role of the *Haut Comité* to evaluate risk scenarios (for example, impact of shocks, materialization of contingent liabilities).[17]

e. Allowing markets and market prices to function properly to achieve the "true" financial performance and risk-taking of public enterprises, for example, by minimizing (implicit) subsidies and phasing out quasi-fiscal activities more generally, applying guarantees judiciously, and separating subsidies from lending conditions.

Authorities' Views

35. The authorities are confident in the financial health of the banking system and noted that the LMB implementation will further strengthen and modernize supervision and financial stability tools. They agreed that financial inclusion should be enhanced and are taking measures to achieve this goal, and for which the LMB is an impetus. They emphasized that SOBs are well capitalized and profitable, and that the high level of NPLs is partially due to the stringency of the NPL classification rules and judiciary constraints. They also underscored that most NPLs are provisioned or backed by guarantees and hence present limited risk for the stability of the financial system. They concurred with staff that the intertwined activities of the central government-SOEs-SOBs nexus pose risks that need to be closely monitored, but they consider that these risks are manageable.

D. Structural Reforms: Diversifying the Economy by Enabling Private Sector Initiative, Strengthening Governance and Transparency, and Reducing Corruption Risks

36. The Investment Law from mid–2022 is the cornerstone of the strategy to improve the business climate, promote private investment, and diversify the economy to create sustained growth and jobs. It created the Algerian Investment Promotion Agency (AAPI), which has set up a digital platform and "one-stop shop" for administrative processes and will implement a new Land Law which aims to streamline processes to obtain and own land for investment. The authorities are preparing to sell minority shares in two public banks and are investing in transportation infrastructure. Other recent initiatives include a Startup Fund which

[17] See also the contingent liability shock in the SR-DSA (Annex III).

provides seed money to new and innovative companies and the adoption of a new simplified regime for the *"auto-entrepreneur"* (to reduce informality).

37. The authorities seek to boost nonhydrocarbon exports and tap new markets. They prioritize energy-intensive products such as cement, fertilizers, and steel. A consortium of public banks has recently opened branches in Mauritania and Senegal, and there are plans to expand to other countries. The authorities also wish to reach markets in Sub-Saharan Africa (SSA) and leverage their membership in the African Continental Free Trade Agreement (whose full implementation is pending). Staff also recommended considering a resumption of Algeria's accession to the WTO and avoiding import compression policies (including by reducing tariffs).

38. Additional sustained and bold reforms would further increase the potential of the private sector as the main driver of sustained growth and job creation. SOEs still have a strong presence in several sectors of the economy, which may deter new entrants and reduce competition, innovation, and financial soundness. Shedding non-strategic and loss-making entities, and making product and labor market more flexible, would help reduce distortions, spur competition, and facilitate hiring (for example, to increase female labor force participation). Generalized import compression policies should be avoided as these can be counterproductive and result in shortages, evasion, lower productivity, and higher prices. Similarly, over-reliance on tax incentives, special regimes, and subsidization may make the tax code more complex (favoring incumbents) and result in contradictory economic policies (for example, by subsidizing both fuel and renewables).

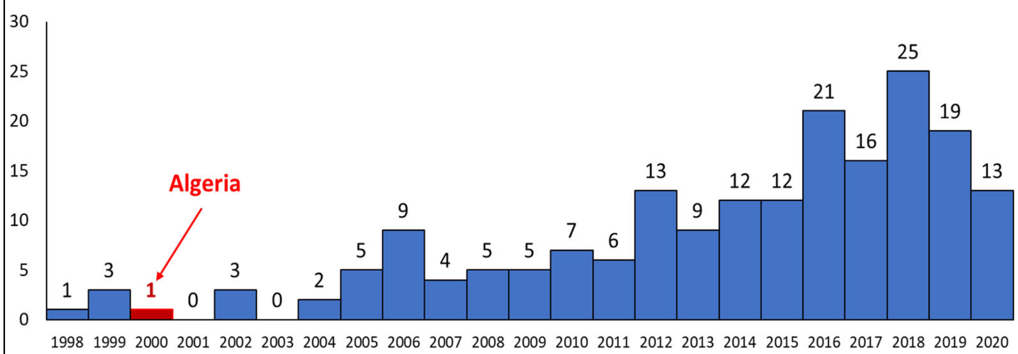
39. Digital solutions can help strengthen governance and transparency, reduce the risk of corruption, and improve service delivery. The Ministry of Digitalization and Statistics is spearheading digitalization initiatives—for example, by interconnecting databases on unemployment, social security, taxes, and real estate. A new Procurement Law establishes the principles of freedom of participation, equal treatment, and transparency in procedures; and its implementation includes a portal to streamline procedures and access information. A recent decree established a register on the ultimate business ownership (BO); staff advised the authorities to operationalize it in line with the FATF standards and to make it broadly accessible to the public. The government is also pursuing reforms to strengthen SOE governance, with performance contracts for SOE management and the professionalization of large SOEs' boards.

40. The recommendations of the May 2023 MENAFATF report spur reforms to strengthen the AML/CFT framework. The authorities have requested CD support from the IMF's Legal Department in several areas, including to help improve risk-based AML/CFT supervision of financial institutions by the BA, on which the work is ongoing. A national committee will conduct a national assessment of ML/FT risks and prepare a national strategy to address those. The February 2023 amendments to the AML/CFT law bring the definition of "politically exposed persons" largely in line with international standards (a MENAFATF recommendation) and the authorities adopted various decrees in late 2023, for example, on procedures for implementing UN targeted financial sanctions (TFS). Staff welcomed this progress and recommended fully staffing and equipping the Financial Intelligence Unit (CTRF) and ensuring its independence.

41. Improving the coverage and timeliness of statistics would better inform policy making. The recent upgrade of national account data, with 2001 as the new base, is an important achievement (Annex VIII). Nevertheless, deep macroeconomic data gaps persist and complicate surveillance, although data remains broadly adequate for this purpose. Key data are either missing (unemployment rate, intra-year budget execution), outdated (CPI, Text Figure 11), or transmitted with lengthy delays (budget data for national accounts). Staff stands ready to support the authorities with technical assistance.

Text Figure 11. Algeria: CPI Base Year, 1998–2020 (191 countries)

The base year for Algeria's CPI basket is severely outdated, complicating decision-making for policymakers.



Sources: Algerian authorities and IMF Staff estimates.

Authorities' Views

42. The authorities agreed that diversifying the economy through private sector promotion, strengthening governance and transparency, and reducing corruption risks would contribute to higher sustained growth and job creation. They highlighted significant strides in recent years to improve the business environment and attract foreign and domestic private investment. The authorities noted the initiatives to streamline administrative processes and improve service delivery to investors. They also highlighted that import regulations help fight fraud and encourage domestic production. The authorities are also committed to further improve transparency in the public sector (leveraging digitalization) and consider addressing the recommendations of the MENAFATF report as a key priority in the coming year. They noted that efforts are underway to overcome data deficiencies for policy making, and that the rebasing the national accounts is an important milestone to improve data quality.

STAFF APPRAISAL

43. The near-term outlook for the Algerian economy is broadly positive, although inflation remains a concern. Real GDP growth would be supported by large fiscal spending. Headline inflation would slow thanks to easing food prices, but large budget spending and potential second-round effects pose entrenchment risks. The current account would remain in surplus in 2024. Staff's baseline projects slower growth over the medium term as hydrocarbon growth moderates, financing constraints cap budget spending, and structural bottlenecks inhibit private sector growth. Staff assesses that the external position was moderately stronger than the level implied by fundamentals and desirable policy settings in 2023, implying a moderate REER undervaluation.

44. Large near-term deficits would erode financial buffers, increase vulnerabilities, and pose risks to macroeconomic and financial stability. Depleting the balances in the Revenue Regulation Fund (FFR) would over time strain the domestic financial sector's financing capacity and leave public finances exposed to shocks. Although staff projects gradually narrowing fiscal deficits over the medium term, the large financing needs would increase the public debt ratio.

45. Staff recommends a gradual rebalancing of fiscal policy and anchoring it on stabilizing the public debt ratio by 2026. Staff analysis suggests that additional measures of three pps. of GDP over 2024–26 could achieve this objective. The additional fiscal restraint and gradual rebuilding of the FRR would help create fiscal space to absorb macroeconomic shocks and manage revenue volatility.

46. Public finance management reforms advance at a steady clip and additional efforts would further improve planning, execution, and transparency of the fiscal framework. The introduction of program budgeting is advancing and investment in digitalization will improve governance, accountability, and service delivery. Staff urges the authorities to include a credible financing plan in the budget, develop a medium-term debt management strategy, and elevate the role of the *Haut Comité* in managing budget risks.

47. Fiscal policy can support the authorities' comprehensive mitigation and adaptation strategy to respond to the challenges from climate change. Staff recommends a gradual reform of energy subsidies, whose savings could target support to vulnerable populations, invest in climate adaption, and build a financial buffer. Climate considerations should be built in public finance management processes.

48. Monetary policy tightening is needed to reduce inflation. Ample bank liquidity and negative real short-term interest rates suggest that monetary policy is accommodative, warranting an increase in the required reserve ratio, broader liquidity absorption, and an increase in the policy rate. Such actions would signal the BA's determination to address inflation risks. More flexibility in the dinar rate would enhance its role as shock absorber and help develop the FX market.

49. The Monetary and Banking Law would encourage financial innovation, strengthen financial surveillance and crisis management, and introduce new instruments of monetary policy, governance bodies, and control functions. Staff advises that implementation texts include price stability as the *primary* monetary policy objective and specify the modalities of monetary financing, which the authorities would consider only under truly exceptional circumstances. Reforms to improve financial inclusion could include preparing a financial inclusion strategy, improving financial literacy, strengthening the credit market infrastructure, and developing long-term savings products.

50. Intertwined economic and financial links among the central government, public enterprises, and public banks are a source of systemic risk, as they could amplify macro-financial risks from shocks such as a large drop in international oil prices and create a feedback loop that would affect financial stability and debt sustainability. Systemic risk has remained about the same relative to the 2022 Article IV consultation. Staff urges the BA to use all available tools to monitor the solvency and liquidity of the banking sector, ensure that prudential rules are followed, and assess risks regularly. The central government should monitor and reduce risks by closely following the financial conditions of all public enterprises, strengthening their governance; and reconsider the role of public enterprises in the economy.

51. Sustained and bold reforms would tap the potential of the private sector as a driver of sustained growth and job creation. The Investment Law from mid–2022 is the cornerstone of the strategy to improve the business climate, promote private investment, and diversify the economy. Staff recommends further reforms, including of the SOE sector by shedding non-strategic and loss-making SOEs, and making product and labor market more flexible. Generalized import compression measures should be avoided as these can be counterproductive and result in shortages, evasion, lower productivity, and higher prices.

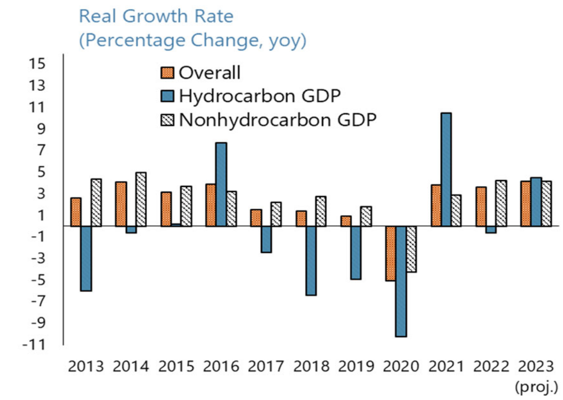
52. Staff welcomes reforms underway to improve transparency and service delivery through digital solutions, and those that aim at strengthening financial integrity and addressing governance and corruption risks, including by strengthening the AML/CFT framework. The February 2023 amendments to the AML/CFT law bring the definition of "politically exposed persons" largely in line with international standards and recent decrees aim to further improve in the areas of targeted financial sanctions and transparency of companies' beneficial ownership (for which a dedicated register is planned). Staff advises the authorities to pursue these efforts further, including by fully staffing and equipping the Financial Intelligence Unit (CTRF) and ensuring its independence, and operationalizing the beneficial ownership register in line with FATF standards and making it broadly accessible to the public.

53. Staff urges the authorities to improve the coverage and timeliness of statistics to better inform policy making. While recent upgrade of national account data is an important achievement, macroeconomic data gaps persist and complicate surveillance, although data remains broadly adequate for this purpose. The IMF stands ready to provide technical support.

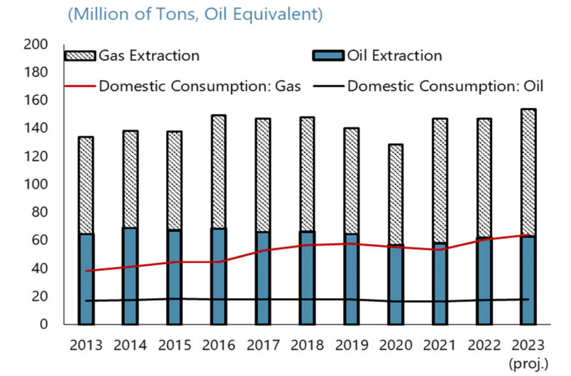
54. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Algeria: Selected Macroeconomic Indicators

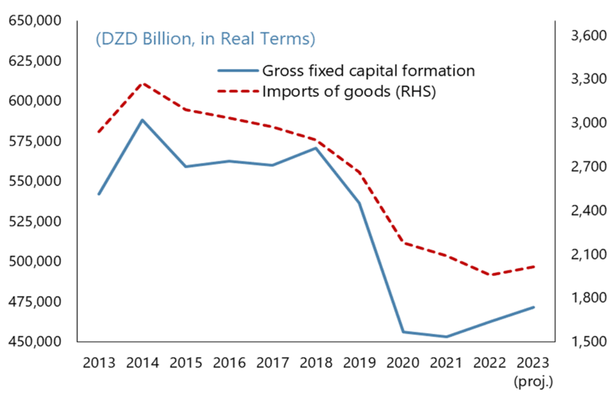
Real GDP growth has been robust in the post-Covid period, with a rebound in hydrocarbon production in 2023.



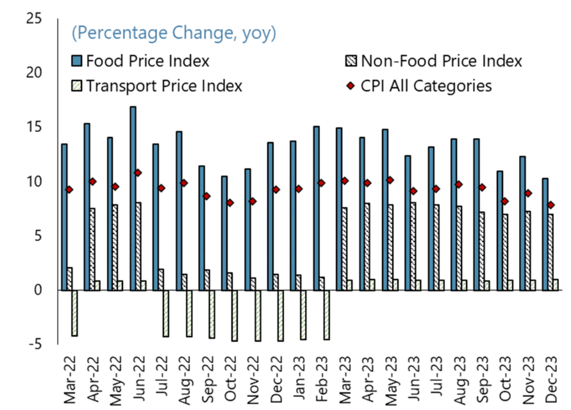
Gas production picked up after the Covid slump, pulled in part by stronger domestic consumption.



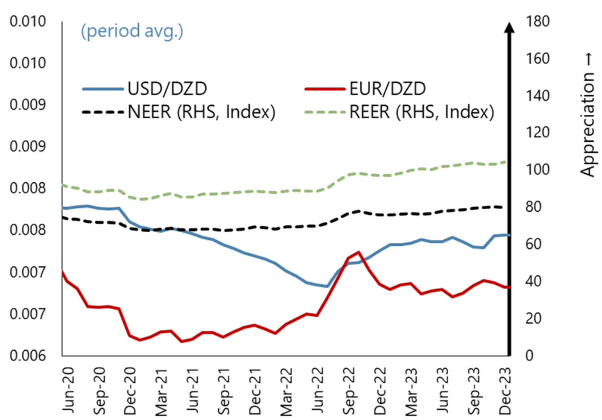
The link between investment and imports has become more tenuous in recent years, possibly due to import containment measures.



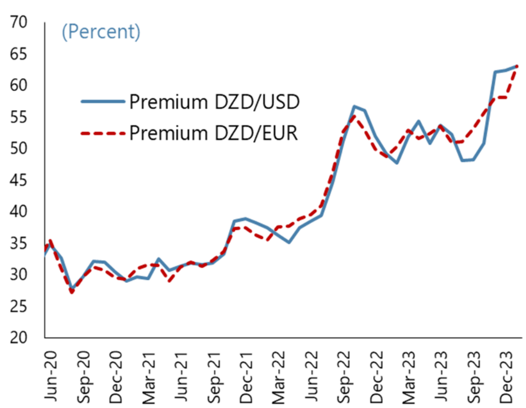
Inflation has been stubbornly high, driven by prices of food, and more recently also non-food.



The BA has allowed the US$/dinar rate to appreciate since mid–2022.



Parallel exchange rate premia have widened, reaching about 62.5 percent in December 2023.

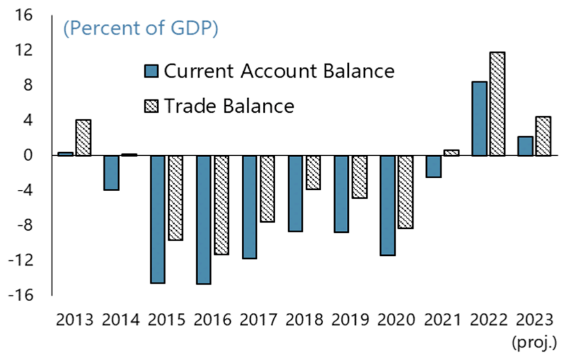


Note: Premium = 100*(parallel rate/official rate -1)

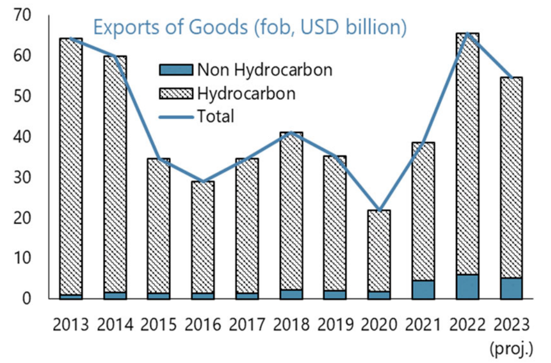
Sources: Algerian Authorities and IMF staff estimates; parallel exchange rate premia: https://devisesquare.com/#EUR.

Figure 2. Algeria: External Sector Developments

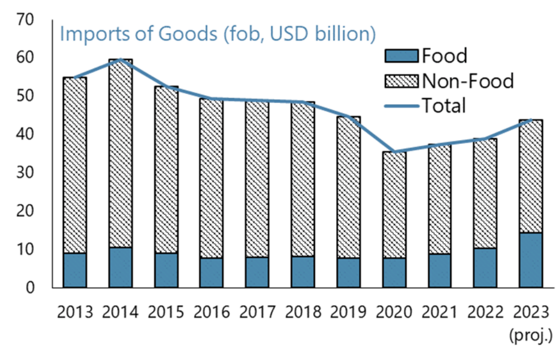
The current account balance likely posted another surplus in 2023, after years of deficits, …



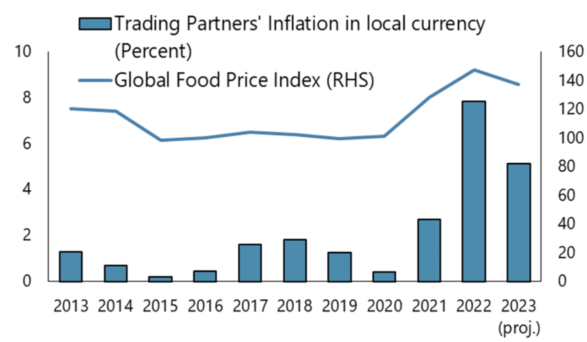
… thanks mainly to strong hydrocarbon export performance (though nonhydrocarbon exports have also increased in recent years).



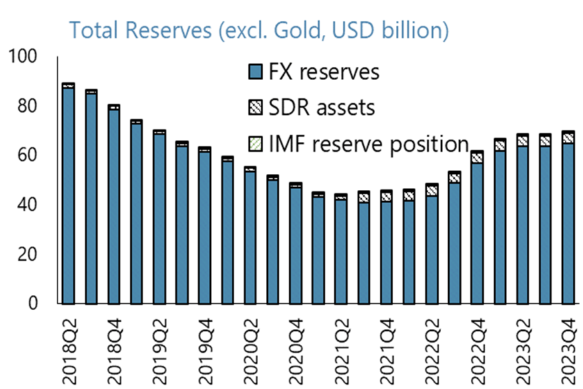
… while imports of goods increased relatively modestly…



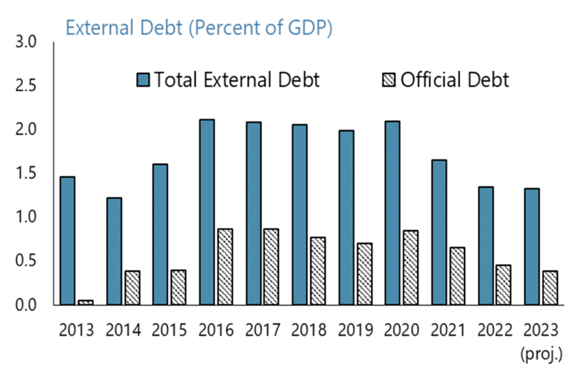
… with receding global price pressures starting to recede.



The current account surpluses boosted international reserves.



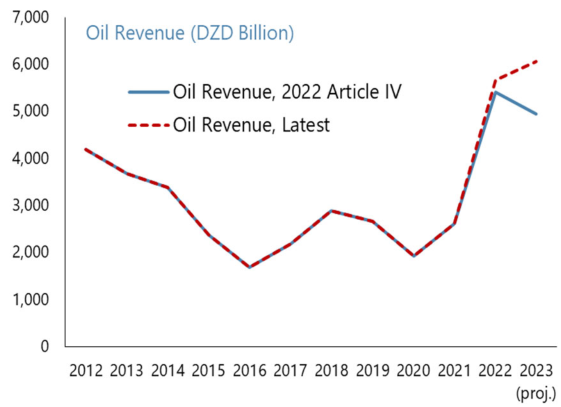
Algeria's external debt is low, owing to the closed financial account and the authorities' policy to finance budget deficits domestically.



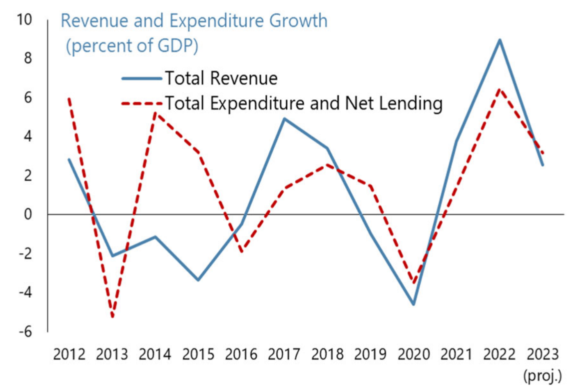
Sources: Algerian Authorities and IMF staff estimates.

Figure 3. Algeria: Fiscal Indicators

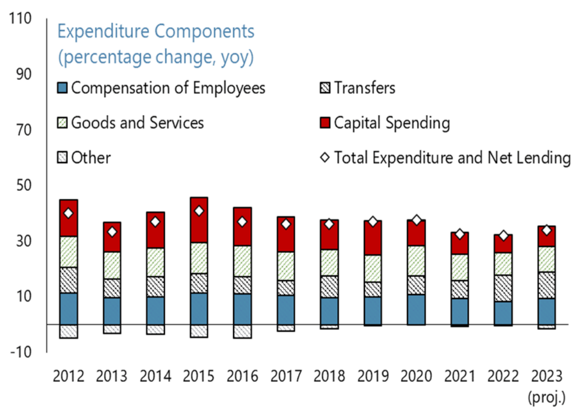
The high international prices for hydrocarbon products recently have been a boon for the budget…



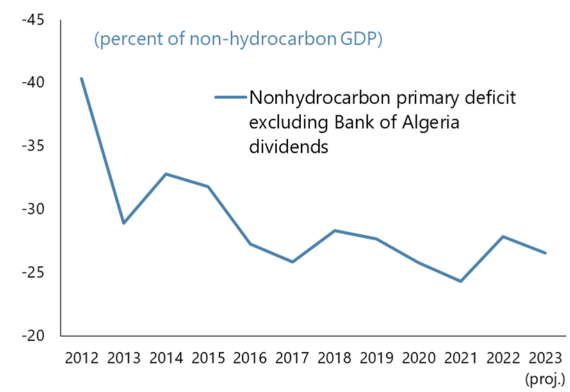
… which has also resulted in higher spending.



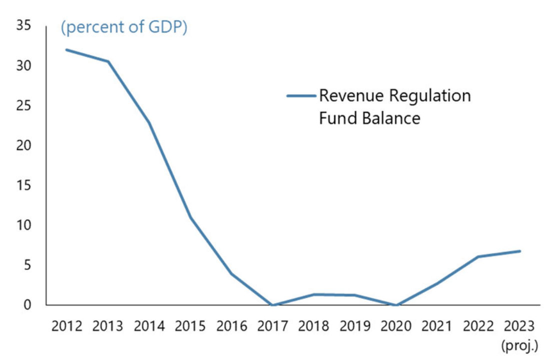
While the 2023 revised budget envisaged a large increase in spending, and capital expenditures), its late adoption and a low execution rate kept it limited…



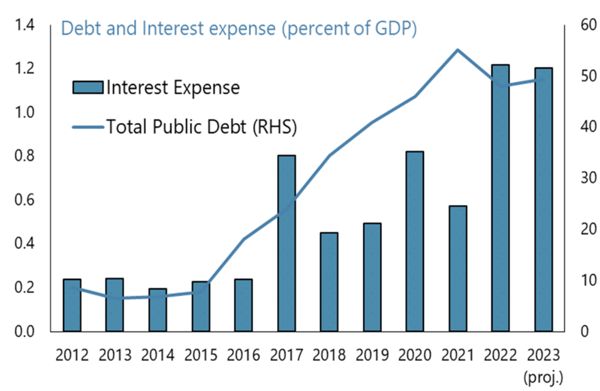
… resulting in a slight decrease of the nonhydrocarbon deficit.



The boost in hydrocarbon revenue supported the financial cushion in the Revenue Regulation Fund (FRR), although it is expected to finance 2023–24 deficits…



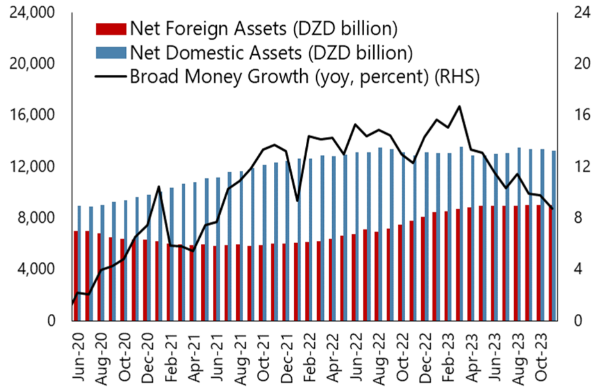
… while (temporarily) stabilizing the public debt ratio.



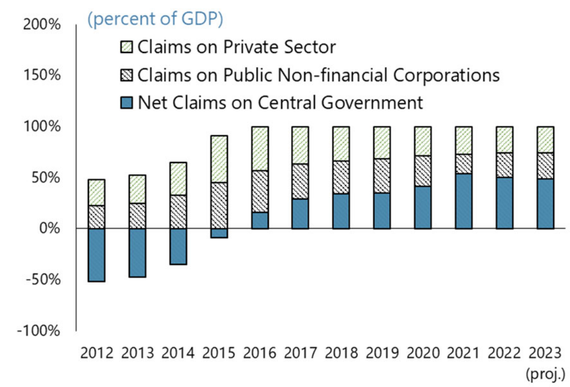
Sources: Algerian Authorities and IMF staff estimates.

Figure 4. Algeria: Monetary and Financial Sector Indicators

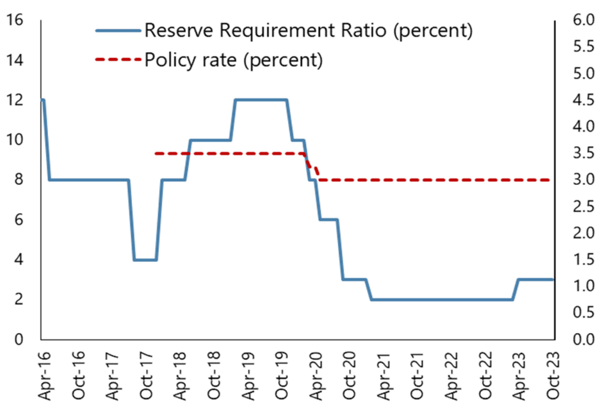
Broad money growth has slowed in recent months due to lower growth in net foreign and domestic assets.



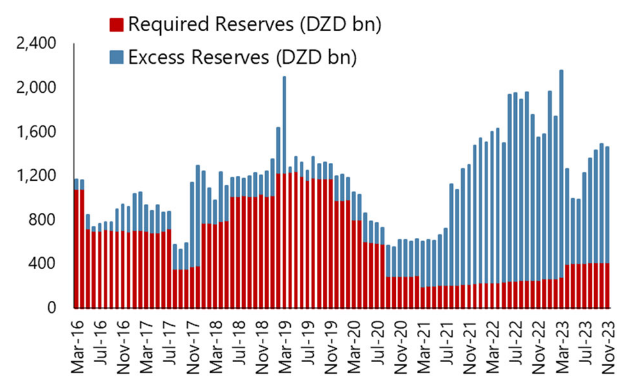
Public sector credit has been the main driver of net domestic assets, while credit to the private sector remains subdued.



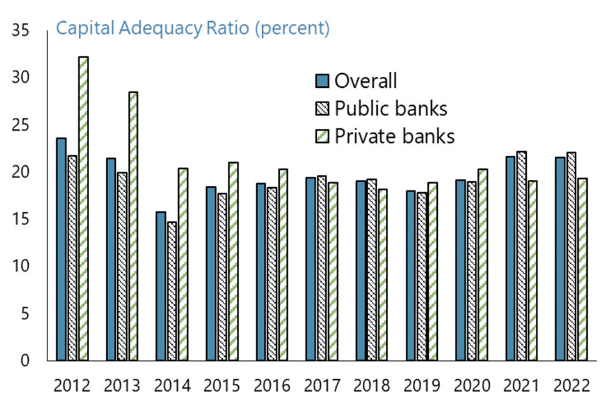
The BA increased the reserve requirement ratio by one percentage point in mid–April 2023…



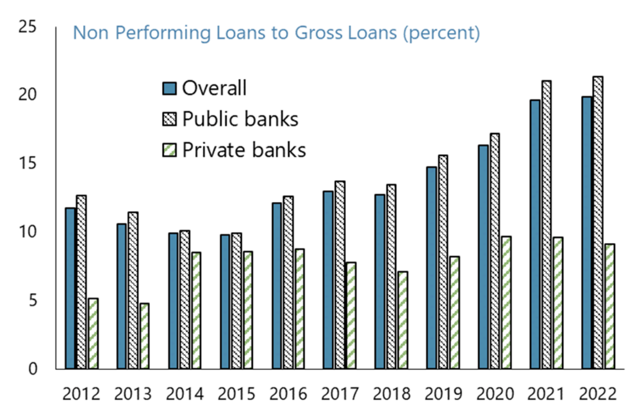
… but monetary policy remained accommodative, with ample liquidity in the banking system.



Banks are well capitalized…



… but non-performing loans remain high, especially among the public banks.



Source: Algerian Authorities.

Table 1. Algeria: Selected Economic and Financial Indicators, 2019–29

					Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output and prices				(Annual percentage change)							
Real GDP	0.9	-5.0	3.8	3.6	4.2	3.8	3.1	2.5	2.1	2.1	2.1
Hydrocarbon sector	-4.9	-10.2	10.5	-0.6	4.5	2.7	1.5	1.0	0.5	0.5	0.5
Nonhydrocarbon sector	1.8	-4.3	2.9	4.2	4.1	4.0	3.3	2.7	2.3	2.3	2.3
Per capita	-1.0	-5.9	2.1	2.0	2.6	2.4	1.7	1.2	0.9	0.9	0.9
Consumer price index (period average)	2.0	2.4	7.2	9.3	9.3	7.6	6.4	6.1	5.5	5.2	5.0
Investment and savings				(In percent of GDP)							
Savings-investment balance	-8.7	-11.3	-2.4	8.4	2.2	0.1	-1.5	-2.5	-2.9	-3.4	-3.8
National savings	38.3	33.2	38.5	44.4	40.8	38.7	36.6	35.3	34.7	34.3	33.9
Central government	3.8	-1.5	1.5	4.0	4.2	-1.5	-1.4	-0.7	-0.9	-0.8	-0.8
Nongovernment 1/	34.5	34.6	37.0	40.4	36.6	40.3	38.0	36.0	35.6	35.1	34.7
Investment	47.0	44.5	40.9	36.0	38.6	38.6	38.1	37.9	37.6	37.7	37.7
Central government	12.3	9.1	7.8	6.5	7.2	7.0	6.5	6.1	5.9	5.9	5.9
Nongovernment 1/	34.7	35.5	33.1	29.5	31.4	31.6	31.7	31.8	31.7	31.8	31.8
o/w Nongovernment nonhydrocarbon	28.9	32.1	30.5	27.3	29.7	29.9	29.9	30.0	30.1	30.2	30.2
Central government finances				(In percent of GDP)							
Revenue	28.6	27.0	26.2	29.6	31.1	27.8	26.8	26.4	25.7	25.4	25.2
Expenditure (incl. net lending)	37.1	37.5	32.5	32.0	34.1	36.3	34.7	33.2	32.4	32.1	31.9
Overall budget balance	-8.5	-10.5	-6.3	-2.5	-3.0	-8.5	-7.8	-6.7	-6.7	-6.7	-6.7
Central bank financing (flow)	4.3	0.0	2.1	-0.1	-0.7	-1.1	-1.5	-0.5	-0.7	-1.3	-1.2
Gross government debt (excluding guarantees)	40.9	46.0	55.1	48.1	49.5	46.4	49.7	51.9	54.5	57.0	59.5
				(In percent of nonhydrocarbon GDP)							
Nonhydrocarbon primary balance excluding central bank dividends	-27.7	-25.8	-24.3	-27.8	-26.6	-26.6	-23.9	-21.5	-20.1	-19.3	-18.7
Nonhydrocarbon balance	-24.1	-22.4	-20.6	-27.4	-26.4	-27.0	-24.6	-22.5	-21.4	-20.8	-20.3
Revenue	34.4	30.7	32.4	40.2	38.6	33.7	32.2	31.5	30.4	30.0	29.5
Hydrocarbon	13.9	10.4	12.8	24.0	22.7	16.7	15.2	14.5	13.4	12.9	12.4
Nonhydrocarbon	20.5	20.2	19.5	16.2	15.9	17.0	17.0	17.0	17.0	17.1	17.1
Expenditure (including net lending)	44.6	42.6	40.2	43.5	42.3	44.0	41.6	39.5	38.4	37.9	37.4
Current expenditure	25.5	27.2	26.9	32.1	31.2	33.3	31.8	30.5	29.8	29.3	29.0
Capital expenditure	14.8	10.3	9.6	8.9	9.0	8.4	7.8	7.2	7.0	7.0	7.0
Net lending	4.3	5.1	3.7	2.5	2.1	2.2	2.0	1.8	1.7	1.6	1.4
External sector 2/											
Current account balance (percent of GDP)	-8.7	-11.3	-2.4	8.4	2.2	0.1	-1.5	-2.5	-2.9	-3.4	-3.8
Exports, f.o.b. (percent change)	-14.3	-37.9	76.2	69.6	-16.4	-0.6	1.0	1.5	0.8	0.8	0.6
Hydrocarbons	-14.5	-39.8	70.2	74.8	-16.7	-2.7	-0.9	-0.2	-1.0	-1.2	-1.4
Nonhydrocarbons	-7.6	-7.8	138.9	30.6	-13.9	19.5	16.3	12.7	11.4	11.7	9.9
Imports, f.o.b. (percent change)	-8.1	-20.4	5.4	3.7	12.7	11.2	8.9	6.0	3.2	2.8	2.3
Crude oil export unit value (US$/bbl)	64.5	41.9	72.3	103.9	84.0	81.2	77.1	74.2	72.4	71.4	70.9
Gross official reserves											
In US$ billions	62.8	48.2	45.3	61.0	68.9	71.3	69.3	64.2	57.7	49.8	40.5
In months of next year's imports of goods and services	17.6	13.0	11.6	13.9	14.1	13.5	12.4	11.1	9.7	8.2	6.6
Gross external debt (percent of GDP)	2.0	2.1	1.7	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Money and credit				(Annual percentage change unless otherwise indicated)							
Net foreign assets	-20.3	-14.9	-5.2	35.5	6.7	9.5	2.2	-3.0	-5.9	-10.2	-15.8
Credit to the economy	9.0	3.0	-12.1	3.2	5.8	5.4	4.5	5.0	5.6	5.9	6.0
Money and quasi-money	-0.8	7.4	13.2	14.3	5.9	14.1	9.5	7.2	7.3	7.0	6.8
Memorandum items:											
GDP (in billions of dinars at current prices)	23,090	20,902	25,158	32,028	33,225	36,764	40,152	43,634	46,947	50,347	53,855
Nominal GDP Growth	1.8	-9.5	20.4	27.3	3.7	10.7	9.2	8.7	7.6	7.2	7.0
NHGDP (in billions of dinars at current prices)	19,216	18,396	20,383	23,561	26,773	30,357	33,463	36,600	39,615	42,721	45,937
GDP capita per (in US$)	4,453	3,758	4,170	4,982	...	...	...	...	...	...	...
Exchange rate (DA per US$)	119.4	126.9	135.3	142.0	...	...	...	...	...	...	...
REER (percent change)	2.1	-4.4	-4.8	6.2	...	...	...	...	...	...	...

Sources: Algerian authorities; and IMF staff estimates and projections.

1/ Including public enterprises.

2/ In U.S. dollars unless otherwise indicated.

Table 2a. Algeria: Balance of Payments, 2019–29
(Billions of US dollars)

					Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current account	-16.9	-18.7	-4.5	19.1	5.3	0.4	-4.2	-7.3	-8.6	-10.2	-11.6
Balance on goods	-9.3	-13.6	1.2	26.7	11.0	5.7	1.9	-0.5	-1.9	-3.0	-4.0
Exports, f.o.b.	35.3	21.9	38.6	65.5	54.8	54.4	55.0	55.8	56.2	56.7	57.0
Hydrocarbons	33.2	20.0	34.1	59.5	49.6	48.3	47.8	47.7	47.3	46.7	46.0
Other	2.1	1.9	4.6	6.0	5.2	6.2	7.2	8.1	9.0	10.0	11.0
Imports, f.o.b.	44.6	35.5	37.5	38.9	43.8	48.7	53.1	56.3	58.1	59.7	61.1
Balance on services Services (net)	-6.4	-4.3	-3.6	-4.3	-4.9	-5.6	-6.3	-6.8	-7.1	-7.4	-7.7
Exports	3.2	3.0	3.2	3.6	3.9	4.2	4.2	4.3	4.3	4.3	4.4
Imports	9.6	7.3	6.8	7.8	8.8	9.8	10.5	11.1	11.4	11.7	12.1
Primary Income (net)	-4.3	-3.0	-4.0	-5.4	-2.92	-2.3	-2.7	-3.3	-3.6	-3.8	-4.0
Inflows	1.0	0.8	0.7	0.8	2.3	2.9	2.5	2.0	1.8	1.6	1.3
Outflows	-5.3	-3.8	-4.7	-6.2	-5.2	-5.2	-5.2	-5.3	-5.3	-5.3	-5.3
Interest payments	-0.1	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary income (net)	3.0	2.3	2.0	2.0	2.2	2.6	2.9	3.3	3.9	4.0	4.2
Capital and financial account	17.0	18.8	4.7	-19.0	-5.2	-0.3	4.2	7.3	8.6	10.2	11.6
Capital account	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Direct Investment	1.4	1.1	0.9	0.0	0.9	1.9	2.0	2.1	2.1	2.2	2.2
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	-1.3	1.3	2.2	-0.7	0.2	0.2	0.2	0.0	0.0	0.0	0.1
Net Errors and omissions	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official reserves (increases (-))	16.9	16.4	1.5	-18.3	-6.3	-2.4	2.0	5.2	6.4	8.0	9.3
Memorandum items:											
Current account balance (in percent of GDP)	-8.7	-11.3	-2.4	8.4	2.2	0.1	-1.5	-2.5	-2.9	-3.4	-3.8
Algerian crude oil price (US$/barrel) 1/	64.5	41.9	72.3	103.9	84.0	81.2	77.1	74.2	72.4	71.4	70.9
Gross official reserves (in billions of US$) excl SDR holdings	61.5	46.9	41.4	56.8	64.7	67.1	65.1	59.9	53.5	45.5	36.3
Gross official reserves (in billions of US$) 2/	62.8	48.2	45.3	61.0	68.9	71.3	69.3	64.2	57.7	49.8	40.5
Idem, in months of next year's imports	17.6	13.0	11.6	13.9	14.1	13.5	12.4	11.1	9.7	8.2	6.6
Reserves (in percent of ARA EM metric) 3/	537.9	476.7	344.6	356.8	412.8	175.6	151.9	127.4	114.8	98.4	78.9
Net international investment position (in billions of US$)	47.7	32.4	27.8	44.4	49.6	50.0	45.8	38.5	29.9	19.7	8.1
Gross external debt (in billions of US$)	3.8	3.4	3.1	3.0	3.2	3.4	3.6	3.6	3.6	3.7	3.8

Sources: Algerian authorities; and IMF staff estimates and projections.

1/ Weighted average of quarterly data.

2/ Gross official reserves include holdings of SDR assets and, for 2021, Algeria's share of the general SDR allocation by the IMF in August 2021.

3/ ARA EM metric includes additional buffer for commodity intensive countries (projection period only).

Table 2b. Algeria: Balance of Payments, 2019–29
(Percent of GDP)

	2019	2020	2021	2022	Projections 2023	2024	2025	2026	2027	2028	2029
	(In percent of GDP; unless otherwise indicated)										
Current account	-8.7	-11.3	-2.4	8.4	2.2	0.1	-1.5	-2.5	-2.9	-3.4	-3.8
Balance on goods	-4.8	-8.3	0.6	11.8	4.5	2.1	0.7	-0.2	-0.6	-1.0	-1.3
Exports, f.o.b.	18.3	13.3	20.8	29.0	22.4	20.4	19.8	19.4	19.1	18.9	18.6
Hydrocarbons	17.2	12.1	18.3	26.4	20.3	18.1	17.2	16.6	16.1	15.5	15.0
Other	1.1	1.2	2.5	2.7	2.1	2.3	2.6	2.8	3.1	3.3	3.6
Imports, f.o.b.	23.1	21.6	20.2	17.2	17.9	18.3	19.1	19.6	19.8	19.9	20.0
Balance on services Services (net)	-3.3	-2.6	-1.9	-1.9	-2.0	-2.1	-2.3	-2.4	-2.4	-2.5	-2.5
Exports	1.7	1.8	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4
Imports	5.0	4.4	3.7	3.5	3.6	3.7	3.8	3.9	3.9	3.9	3.9
Primary Income (net)	-2.2	-1.8	-2.2	-2.4	-1.2	-0.8	-1.0	-1.1	-1.2	-1.3	-1.3
Inflows	0.5	0.5	0.4	0.4	0.9	1.1	0.9	0.7	0.6	0.5	0.4
Outflows	-2.7	-2.3	-2.5	-2.7	-2.1	-1.9	-1.9	-1.8	-1.8	-1.8	-1.7
Interest payments	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary income (net)	1.6	1.4	1.1	0.9	0.9	1.0	1.0	1.1	1.3	1.3	1.4
Capital and financial account	8.8	11.4	2.5	-8.4	-2.1	-0.1	1.5	2.5	2.9	3.4	3.8
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Direct Investment	0.7	0.7	0.5	0.0	0.4	0.7	0.7	0.7	0.7	0.7	0.7
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	-0.7	0.8	1.2	-0.3	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Net errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official reserves (increases (-))	8.8	9.9	0.8	-8.1	-2.6	-0.9	0.7	1.8	2.2	2.6	3.0
Memorandum items:											
Current account balance (in percent of GDP)	-8.7	-11.3	-2.4	8.4	2.2	0.1	-1.5	-2.5	-2.9	-3.4	-3.8
Algerian crude oil price (US$/barrel) 1/	64.5	41.9	72.3	103.9	84.0	81.2	77.1	74.2	72.4	71.4	70.9
Gross official reserves (in billions of US$) 2/	62.8	48.2	45.3	61.0	68.9	71.3	69.3	64.2	57.7	49.8	40.5
Idem, in months of next year's imports	17.6	13.0	11.6	13.9	14.1	13.5	12.4	11.1	9.7	8.2	6.6
Reserves (in percent of ARA EM metric) 3/	537.9	476.7	344.6	356.8	412.8	175.6	151.9	127.4	114.8	98.4	78.9
Net international investment position (in percent of GDP)	24.7	19.6	14.9	19.7	20.3	18.7	16.5	13.4	10.2	6.6	2.7
Gross external debt (in percent of GDP)	2.0	2.1	1.7	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Weighted average of quarterly data.
2/ Gross official reserves include holdings of SDR assets and, for 2021, Algeria's share of the general SDR allocation by the IMF in August 2021.
3/ ARA EM metric includes additional buffer for commodity intensive countries (projection period only).

Table 3a. Algeria: Summary of Central Government Operations, 2019–29 1/

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Projections						
					(In billions of Algerian dinars)						
Budget revenue and grants	6,602	5,641	6,598	9,467	10,322	10,216	10,773	11,541	12,062	12,811	13,563
Hydrocarbon revenue 2/	2,668	1,922	2,609	5,658	6,065	5,070	5,093	5,317	5,319	5,505	5,718
Nonhydrocarbon revenue	3,933	3,719	3,982	3,810	4,257	5,146	5,680	6,224	6,743	7,307	7,845
Tax revenue	2,843	2,625	2,762	2,943	3,429	4,115	4,682	5,192	5,646	6,107	6,590
Nontax revenues	1,090	1,094	1,220	866	828	1,031	998	1,032	1,096	1,200	1,256
o/w Fees	204	178	208	262	271	293	315	357	399	443	468
Bank of Algeria dividends and interests	800	800	900	503	457	526	530	506	512	557	572
Other	86	116	111	102	100	213	154	169	185	201	216
Grants	0	0	6	0	0	0	0	0	0	0	0
Total expenditure (incl. net lending and special Treasury accounts)	8,566	7,839	8,186	10,259	11,314	13,345	13,919	14,470	15,225	16,177	17,179
Current expenditure	4,895	5,009	5,480	7,574	8,352	10,119	10,653	11,160	11,798	12,534	13,311
Current non-interest	4,781	4,838	5,336	7,184	7,952	9,467	9,896	10,268	10,755	11,346	11,997
Personnel expenditure	2,283	2,283	2,397	2,626	3,091	3,822	3,970	4,086	4,312	4,590	4,920
Mudjahidins' pensions	253	267	266	241	234	252	268	284	300	315	331
Material and supplies	216	109	171	201	213	321	354	387	419	452	486
Current transfers	2,029	2,178	2,502	4,114	4,414	5,072	5,304	5,511	5,724	5,989	6,260
Interest payments	114	172	144	390	400	652	757	893	1,042	1,187	1,314
Capital expenditure	2,846	1,894	1,956	2,086	2,397	2,560	2,600	2,643	2,761	2,978	3,202
Net lending and special Treasury accounts net operations	825	937	750	599	566	666	666	666	666	666	666
Budget balance	-1,140	-1,262	-839	-193	-427	-2,463	-2,480	-2,263	-2,497	-2,700	-2,950
Overall balance	-1,965	-2,199	-1,589	-791	-993	-3,129	-3,146	-2,929	-3,163	-3,366	-3,616
Nonhydrocarbon balance	-4,633	-4,120	-4,198	-6,449	-7,058	-8,199	-8,239	-8,246	-8,482	-8,871	-9,334
Nonhydrocarbon primary balance (excluding Bank of Algeria dividends)	-5,319	-4,748	-4,961	-6,562	-7,115	-8,072	-8,011	-7,859	-7,952	-8,240	-8,591
Net financing	1,965	2,199	3,669	1,343	993	3,129	3,146	2,929	3,163	3,366	3,616
Domestic	1,966	2,200	3,675	1,352	1,004	3,140	3,158	2,941	3,176	3,380	3,616
Bank 3/	1,842	1,302	3,267	612	300	2,473	2,384	2,360	2,681	2,982	3,317
o/w gross central bank financing	1,001	1	517	-40	-247	-405	-584	-200	-320	-652	-652
Nonbank 4/	125	898	408	740	704	666	773	582	495	398	299
Foreign	-2	-2	-7	-10	-11	-11	-12	-12	-13	-13	0
Memorandum items											
Gross financing requirements	2,525	2,716	2,429	1,673	2,466	5,266	4,297	3,651	3,994	4,806	5,104
Financing need to be filled with new domestic debt issuance	2,172	623	4,987	2,768	2,517	2,748	4,047	3,401	3,744	4,556	4,854
Principal payments on public debt	561	517	841	881	1,473	2,137	1,151	722	831	1,440	1,488
Oil stabilization fund											
in billions of Algerian dinars	306	0	682	1,967	2,268	0	0	0	0	0	0
in percent of GDP	1.3	0.0	2.7	6.1	6.8	0.0	0.0	0.0	0.0	0.0	0.0
Gross government debt, including guarantees (percent of GDP)	55.6	65.1	71.1	52.1	54.6	51.0	53.9	55.8	58.1	60.3	62.7
Gross government debt, excluding guarantees (percent of GDP)	40.9	46.0	55.1	48.1	49.5	46.4	49.7	51.9	54.5	57.0	59.5
o/w owed to central bank	28.4	31.4	26.1	20.3	18.1	14.2	10.1	8.4	6.4	3.4	0.7

Sources: Algerian authorities; and IMF staff estimates and projections.

1/ On a cash basis.

2/ Including Sonatrach dividends.

3/ Bank financing includes domestic debt issuance and a drawdown of the oil stabilization fund and other government deposits at the central bank. It includes the repurchase of syndicated loans owed by SOEs for a total amount of DZD 2,080 billion in 2021 and DZD 520 billion in 2022, under the financial scheme including the PSR.

4/ Includes proceeds from sales of state-owned assets.

Table 3b. Algeria: Summary of Central Government Operations, 2019–29 1/

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Projections						
				(In percent of GDP)							
Budget revenue and grants	28.6	27.0	26.2	29.6	31.1	27.8	26.8	26.4	25.7	25.4	25.2
Hydrocarbon revenue 2/	11.6	9.2	10.4	17.7	18.3	13.8	12.7	12.2	11.3	10.9	10.6
Nonhydrocarbon revenue	17.0	17.8	15.8	11.9	12.8	14.0	14.1	14.3	14.4	14.5	14.6
Tax revenue	12.3	12.6	11.0	9.2	10.3	11.2	11.7	11.9	12.0	12.1	12.2
Nontax revenues	4.7	5.2	4.8	2.7	2.5	2.8	2.5	2.4	2.3	2.4	2.3
o/w Fees	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9
BA dividends and interests	3.5	3.8	3.6	1.6	1.4	1.4	1.3	1.2	1.1	1.1	1.1
Other	0.4	0.6	0.4	0.3	0.3	0.6	0.4	0.4	0.4	0.4	0.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure (incl. net lending and special accounts)	37.1	37.5	32.5	32.0	34.1	36.3	34.7	33.2	32.4	32.1	31.9
Current expenditure	21.2	24.0	21.8	23.6	25.1	27.5	26.5	25.6	25.1	24.9	24.7
Current non-interest	20.7	23.1	21.2	22.4	23.9	25.8	24.6	23.5	22.9	22.5	22.3
Personnel expenditure	9.9	10.9	9.5	8.2	9.3	10.4	9.9	9.4	9.2	9.1	9.1
Mudjahidins' pensions	1.1	1.3	1.1	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Material and supplies	0.9	0.5	0.7	0.6	0.6	0.9	0.9	0.9	0.9	0.9	0.9
Current transfers 3/	8.8	10.4	9.9	12.8	13.3	13.8	13.2	12.6	12.2	11.9	11.6
Interest payments	0.5	0.8	0.6	1.2	1.2	1.8	1.9	2.0	2.2	2.4	2.4
Capital expenditure	12.3	9.1	7.8	6.5	7.2	7.0	6.5	6.1	5.9	5.9	5.9
Net lending and special Treasury accounts net operations	3.6	4.5	3.0	1.9	1.7	1.8	1.7	1.5	1.4	1.3	1.2
Budget balance	-4.9	-6.0	-3.3	-0.6	-1.3	-6.7	-6.2	-5.2	-5.3	-5.4	-5.5
Overall balance	-8.5	-10.5	-6.3	-2.5	-3.0	-8.5	-7.8	-6.7	-6.7	-6.7	-6.7
Primary overall balance	-8.0	-9.7	-5.7	-1.3	-1.8	-6.7	-5.9	-4.7	-4.5	-4.3	-4.3
Nonhydrocarbon balance	-20.1	-19.7	-16.7	-20.1	-21.2	-22.3	-20.5	-18.9	-18.1	-17.6	-17.3
Nonhydrocarbon primary balance (excl. BA dividends)	-23.0	-22.7	-19.7	-20.5	-21.4	-22.0	-20.0	-18.0	-16.9	-16.4	-16.0
Net financing	8.5	10.5	14.6	4.2	3.0	8.5	7.8	6.7	6.7	6.7	6.7
Domestic	8.5	10.5	14.6	4.2	3.0	8.5	7.9	6.7	6.8	6.7	6.7
Bank 3/	8.0	6.2	13.0	1.9	0.9	6.7	5.9	5.4	5.7	5.9	6.2
o/w gross central bank financing	4.3	0.0	2.1	-0.1	-0.7	-1.1	-1.5	-0.5	-0.7	-1.3	-1.2
Nonbank 4/	0.5	4.3	1.6	2.3	2.1	1.8	1.9	1.3	1.1	0.8	0.6
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of non-oil GDP)							
Budget revenue and grants	34.4	30.7	32.4	40.2	38.6	33.7	32.2	31.5	30.4	30.0	29.5
Hydrocarbon revenue 2/	13.9	10.4	12.8	24.0	22.7	16.7	15.2	14.5	13.4	12.9	12.4
Nonhydrocarbon revenue	20.5	20.2	19.5	16.2	15.9	17.0	17.0	17.0	17.0	17.1	17.1
Tax revenue	14.8	14.3	13.6	12.5	12.8	13.6	14.0	14.2	14.3	14.3	14.3
Nontax revenues	5.7	5.9	6.0	3.7	3.1	3.4	3.0	2.8	2.8	2.8	2.7
Fees	1.1	1.0	1.0	1.1	1.0	1.0	0.9	1.0	1.0	1.0	1.0
Bank of Algeria dividends and interests	4.2	4.3	4.4	2.1	1.7	1.7	1.6	1.4	1.3	1.3	1.2
Other	0.4	0.6	0.5	0.4	0.4	0.7	0.5	0.5	0.5	0.5	0.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure (incl. net lending and special accounts)	44.6	42.6	40.2	43.5	42.3	44.0	41.6	39.5	38.4	37.9	37.4
Current expenditure	25.5	27.2	26.9	32.1	31.2	33.3	31.8	30.5	29.8	29.3	29.0
Current non-interest	24.9	26.3	26.2	30.5	29.7	31.2	29.6	28.1	27.1	26.6	26.1
Personnel expenditure	11.9	12.4	11.8	11.1	11.5	12.6	11.9	11.2	10.9	10.7	10.7
Mudjahidins' pensions	1.3	1.5	1.3	1.0	0.9	0.8	0.8	0.8	0.8	0.7	0.7
Material and supplies	1.1	0.6	0.8	0.9	0.8	1.1	1.1	1.1	1.1	1.1	1.1
Current transfers	10.6	11.8	12.3	17.5	16.5	16.7	15.9	15.1	14.4	14.0	13.6
Interest payments	0.6	0.9	0.7	1.7	1.5	2.1	2.3	2.4	2.6	2.8	2.9
Capital expenditure	14.8	10.3	9.6	8.9	9.0	8.4	7.8	7.2	7.0	7.0	7.0
Net lending and special Treasury accounts net operations	4.3	5.1	3.7	2.5	2.1	2.2	2.0	1.8	1.7	1.6	1.4
Budget balance	-5.9	-6.9	-4.1	-0.8	-1.6	-8.1	-7.4	-6.2	-6.3	-6.3	-6.4
Overall balance	-10.2	-12.0	-7.8	-3.4	-3.7	-10.3	-9.4	-8.0	-8.0	-7.9	-7.9
Primary overall balance	-9.6	-11.0	-7.1	-1.7	-2.2	-8.2	-7.1	-5.6	-5.4	-5.1	-5.0
Nonhydrocarbon balance	-24.1	-22.4	-20.6	-27.4	-26.4	-27.0	-24.6	-22.5	-21.4	-20.8	-20.3
Nonhydrocarbon primary balance (excl. BA dividends)	-27.7	-25.8	-24.3	-27.8	-26.6	-26.6	-23.9	-21.5	-20.1	-19.3	-18.7
Net financing	10.2	12.0	18.0	5.7	3.7	10.3	9.4	8.0	8.0	7.9	7.9
Domestic	10.2	12.0	18.0	5.7	3.7	10.3	9.4	8.0	8.0	7.9	7.9
Bank 3/	9.6	7.1	16.0	2.6	1.1	8.1	7.1	6.4	6.8	7.0	7.3
o/w central bank	5.2	0.0	2.5	-0.2	-0.9	-1.3	-1.7	-0.5	-0.8	-1.5	-1.4
Nonbank 4/	0.6	4.9	2.0	3.1	2.6	2.2	2.3	1.6	1.2	0.9	0.7
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Algerian authorities; and IMF staff estimates and projections.

1/ On a cash basis.

2/ Including Sonatrach dividends.

3/ Bank financing includes domestic debt issuance and a drawdown of the oil stabilization fund and other government deposits at the central bank. It includes the repurchase of syndicated loans owed by SOEs for a total amount of DZD 2,080 billion in 2021 and DZD 520 billion in 2022, under the financial scheme including the PSR.

4/ Includes proceeds from sales of state-owned assets.

Table 4. Algeria: Monetary Survey, 2019–29

					Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(In billions of Algerian dinars; at end of period)										
Net foreign assets	7,429	6,321	5,994	8,119	8,667	9,486	9,697	9,407	8,848	7,944	6,688
o/w Bank of Algeria	7,472	6,384	6,036	8,189	8,735	9,514	9,692	9,375	8,793	7,870	6,597
Foreign assets (BA)	7,672	6,615	6,636	8,754	9,288	10,095	10,302	10,015	9,466	8,576	7,338
Foreign liabilities (BA)	200	231	600	565	553	581	610	640	672	706	741
Foreign assets (comm. banks)	90	82	95	100	97	102	107	113	118	124	131
Foreign liabilities (comm. banks)	134	144	137	169	166	130	103	81	64	50	40
Net domestic assets	9,082	11,419	14,085	14,836	15,654	18,260	20,676	23,156	26,083	29,419	33,210
o/w Bank of Algeria	-839	495	2,107	1,030	1,112	2,108	2,915	4,485	5,968	8,090	10,354
Domestic credit	16,828	19,126	21,259	21,605	22,498	25,560	28,459	31,420	34,808	38,569	42,733
Credit to government (net) 1/	5,820	7,788	11,296	11,319	11,619	14,093	16,477	18,836	21,517	24,499	27,816
Credit to the economy	11,008	11,338	9,964	10,286	10,878	11,468	11,982	12,584	13,290	14,070	14,918
o/w Private sector	5,291	5,459	5,700	5,842	6,174	6,500	6,797	7,144	7,550	8,000	8,490
Other items net	-7,746	-7,707	-7,174	-6,769	-6,843	-7,300	-7,783	-8,264	-8,725	-9,150	-9,523
Money and quasi-money (M2)	16,511	17,740	20,079	22,955	24,321	27,746	30,372	32,563	34,931	37,363	39,898
Excluding Sonatrach deposits	16,073	17,496	19,143	21,361	22,944	26,388	28,960	31,082	33,381	35,757	38,236
o/w Money	10,979	11,931	13,616	15,370	16,510	18,988	20,838	22,365	24,019	25,729	27,513
Reserve money	6,633	6,879	8,143	9,219	9,847	11,622	12,607	13,859	14,762	15,960	16,951
	(In percent change over 12-month period)										
Money and quasi-money (M2)	-0.8	7.4	13.2	14.3	5.9	14.1	9.5	7.2	7.3	7.0	6.8
Credit to the economy[2]	9.0	3.0	-12.1	3.2	5.8	5.4	4.5	5.0	5.6	5.9	6.0
o/w Private sector	4.2	3.2	4.4	2.5	5.7	5.3	4.6	5.1	5.7	6.0	6.1
Memorandum items:											
Credit to the economy/GDP	47.7	54.2	39.6	32.1	32.7	31.2	29.8	28.8	28.3	27.9	27.7
Credit to the economy/NHGDP	57.3	61.6	48.9	43.7	40.6	37.8	35.8	34.4	33.5	32.9	32.5
Credit to private sector/NHGDP	27.5	29.7	28.0	24.8	23.1	21.4	20.3	19.5	19.1	18.7	18.5

Sources: Bank of Algeria; and IMF staff estimates and projections.

1/ Net credit to government excludes Treasury postal accounts ("dépôts CCP") deposited at the BA.

2/ The decline in credit to the economy in 2021 reflects the effect of a debt buyback operation by the Treasury which reduced banks' claims on state-owned enterprises (the public sector).

Table 5. Algeria: Financial Soundness Indicators, 2012–23H1
(in percent)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Jun-23
Capital adequacy ratio	23.6	21.5	15.8	18.4	18.8	19.5	19.0	18.0	19.2	21.6	21.5	20.9
- Public banks	21.7	19.9	14.7	17.8	18.4	19.6	19.2	17.8	19.0	22.2	22.0	21.4
- Private banks	32.2	28.5	20.4	21.0	20.3	18.9	18.2	18.9	20.3	19.1	19.3	18.8
Tier I capital adequacy ratio	17.5	15.5	13.2	15.8	16.2	15.0	15.0	14.3	15.4	17.7	17.7	17.4
- Public banks	14.8	13.1	11.6	14.6	15.4	14.3	14.4	13.5	14.6	17.6	17.6	17.3
- Private banks	29.7	26.3	19.7	20.3	19.6	18.1	17.4	18.2	19.5	18.2	18.5	17.9
NPLs net of provisions/Regulatory capital	16.1	17.1	24.8	26.5	35.0	36.4	39.3	52.6	59.6	58.2	56.2	54.7
- Public banks	20.3	21.7	28.1	29.6	40.0	40.8	44.9	60.7	69.2	67.4	65.6	21.4
- Private banks	3.2	2.6	14.5	15.8	16.7	16.2	13.4	14.6	14.0	13.3	10.5	18.8
NPLs/total loans	11.7	10.6	9.9	9.8	12.1	13.0	12.7	14.8	16.4	19.6	19.9	19.8
- Public banks	12.7	11.4	10.1	9.9	12.6	13.7	13.4	15.6	17.2	21.1	21.4	21.4
- Private banks	5.2	4.8	8.5	8.6	8.7	7.8	7.1	8.2	9.7	9.6	9.1	8.6
NPLs net of provisions/total loans	3.5	3.4	3.8	3.9	5.5	6.2	6.3	7.9	8.8	10.1	9.9	9.8
- Public banks	3.9	3.7	3.7	3.8	5.6	6.5	6.8	8.4	9.5	11.1	11.0	10.9
- Private banks	1.3	0.9	4.7	4.7	4.6	3.9	3.0	3.4	3.4	3.2	2.6	2.3
Provisions/classified loans	69.8	68.2	61.8	59.9	54.6	52.3	50.1	46.7	46.1	48.7	49.9	50.5
- Public banks	69.5	67.4	63.6	61.5	55.4	52.4	49.4	45.9	44.8	47.5	48.7	49.1
- Private banks	74.1	80.3	45.0	45.3	46.1	50.6	57.3	58.7	65.2	67.1	71.7	73.2
Return on equity	22.7	19.0	23.7	21.3	17.8	18.8	22.4	13.7	8.3	14.4	13.5	NA
- Public banks	22.0	18.0	25.1	23.1	18.9	20.0	22.7	11.9	7.3	13.5	12.0	NA
- Private banks	24.4	21.5	20.0	16.1	15.3	14.7	21.2	22.4	13.6	18.3	20.1	NA
Return on assets	1.9	1.7	2.0	1.9	1.8	2.0	2.4	1.5	1.4	1.7	1.4	NA
- Public banks	1.5	1.3	1.8	1.7	1.7	2.0	2.3	1.2	1.2	1.5	1.1	NA
- Private banks	4.5	3.7	3.4	3.1	2.8	2.6	3.4	3.2	2.7	2.9	3.1	NA
Interest margin/gross revenues	64.2	69.5	67.2	66.8	72.5	73.0	78.8	78.9	73.4	78.5	78.7	NA
- Public banks	72.1	73.3	66.7	65.8	72.3	72.7	80.8	81.7	73.0	78.3	79.1	NA
- Private banks	45.2	59.1	69.1	71.5	73.4	74.2	71.1	69.7	75.3	79.1	77.4	NA
Non-interest expenses/earnings before tax	35.6	33.5	40.7	40.0	34.1	36.0	29.3	30.8	35.8	35.3	40.0	NA
- Public banks	38.1	34.0	40.6	39.2	31.4	33.7	26.4	28.1	34.3	33.1	38.2	NA
- Private banks	29.8	32.3	41.3	43.4	46.3	46.2	40.5	39.5	41.5	43.0	45.5	NA
Liquid assets/total assets	45.9	40.5	38.0	27.1	23.5	23.5	19.8	16.0	13.1	36.0	40.2	39.7
- Public banks	45.1	39.4	37.0	25.8	22.7	21.9	18.4	14.2	10.3	35.9	40.5	39.7
- Private banks	50.9	46.5	44.0	35.9	29.1	33.1	28.5	27.3	30.3	36.3	37.9	40.4
Liquid assets/short-term debt	107.5	93.5	82.1	61.6	58.4	53.7	47.4	44.2	37.1	102.1	108.5	114.1
- Public banks	110.5	95.7	83.4	60.2	58.8	52.2	46.3	42.2	31.5	110.2	115.6	122.7
- Private banks	93.5	84.1	75.4	69.8	56.2	60.6	52.6	52.5	59.5	68.9	73.8	76.6

Source: Bank of Algeria.

Annex I. Risk Assessment Matrix[1]

Risks	Likelihood	Economic Impact	Policy Response
Conjunctural risks (Global)			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**Low.** Algeria has little direct exposure to Russia's war in Ukraine. Indirect exposure could result from the impact of the war on Europe (trade channel), energy security, and the international prices for hydrocarbons, food, and other commodities (per below). Algeria could benefit from higher natural gas prices as Europe seeks to diversify supply.	Reduce procyclicality of the budget and build financial buffers, build emergency food stock, diversify the economy and export markets. Allow the exchange rate to play its role as shock absorber. Continue reforms to diversify the economy, including nonhydrocarbon exports and tapping new export markets.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**High.** Algeria's economy is highly dependent on hydrocarbon exports and food imports. The volatility would transmit via the current account (and international reserves), the budget (hydrocarbon revenues, food subsidies), inflation, and economic growth.	Reduce the procyclicality of the budget including by diversifying revenue and funding sources and by building a financial savings buffer when hydrocarbon prices are high. Allow the exchange rate to play the role of shock absorber, in the context of tighter policies. Continue reforms to diversify the economy.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial	**Medium**	**High.** Transmission would likely mainly come from trade with Europe, Algeria's main export market, which would affect hydrocarbon exports. Financial spillovers	Build savings buffer to help absorb the impact of lower hydrocarbon exports and revenues, including through prudent monetary and fiscal policies; allow the exchange

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Economic Impact	Policy Response
channels, and market fragmentation triggering sudden stops in EMDEs.		would be limited because Algeria's financial account is largely closed.	rate to play its role of shock absorber.
• **Europe:** Intensifying fallout from Russia's war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn.	Medium	**High.** Algeria's exports are highly dependent on the European market. A slowdown in Europe would mainly affect the current account (less hydrocarbon exports), international reserves, and the budget.	Prepare for downside risks by building fiscal space, including a savings buffer and broad-based fiscal rebalancing. Allow the exchange rate to play its role as shock absorber, in the context of aligned monetary and fiscal policies. Continue efforts to diversify the economy and export markets.
Structural risks (Global)			
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	**Medium.** Deepening geographic fragmentation and geopolitical tensions could disrupt trade flows and hamper economic diversification. Algeria could nevertheless benefit if disruptions caused an increase in hydrocarbon prices.	Accelerate diversification and economic resilience through well-timed and sequenced implementation of the reforms outlined in the Government Action Plan, and measures to strengthen the fiscal and monetary policy frameworks.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	**High.** Algeria is vulnerable, like other countries in North Africa, to climate shocks. In addition to the impact on lives and livelihoods, these shocks could carry large fiscal costs and add to inflationary pressures.	Invest in climate-resilient infrastructure and agriculture; implement the authorities' Climate Action Plan. Accelerate economic diversification, including by harnessing the potential of renewable energies.

Risks	Likelihood	Economic Impact	Policy Response
Disorderly energy transition. A disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	**Medium**	**High.** The high dependence on hydrocarbon production and exports makes the Algerian economy vulnerable to transition risks.	Accelerate efforts to diversify the economy (including by investing in renewables), create fiscal space to build financial buffers, and reduce the procyclicality of the budget. Allow the exchange rate to play its role as shock absorber. Further open the economy (and SOEs) to private sector involvement, building on the Investment Law.
Idiosyncratic risks			
Calls on government-guaranteed debt or capital injection needs for public banks and SOEs.	**Medium**	**High.** The banking sector appears liquid and profitable but NPLs weigh on balance sheets, especially for public banks, and some of these are government-guaranteed.	Monitor and manage fiscal risks. Streamline SOE governance and condition state support on transparency, restructuring, and reforms. Develop a government shareholder policy focused on enhancing profitability and efficiency. Divest from non-core assets and open the capital of selected SOEs to the private sector.
Deepening sovereign-SOE-SOB nexus.	**Medium**	**High.** Fiscal financing needs are projected to remain significant in the absence of fiscal rebalancing and/or diversification of funding sources. The strengthening of the feedback loop weakens the transmission of monetary policy and raises financial stability concerns.	Refrain from (in)direct financing of the budget deficit by the central bank, consistent with the new *Loi Monétaire et Bancaire*, and explore new sources of financing, such as from deepening the public debt market. Expand fiscal space by mobilizing nonhydrocarbon revenue and reducing spending, within a medium-term fiscal adjustment

Risks	Likelihood	Economic Impact	Policy Response
			plan. Reform SOB governance, focus their lending on profitable projects, and conduct asset quality review.
Partial or delayed implementation of macroeconomic adjustment and necessary structural reforms.	Medium	**High.** Partial or delayed reform implementation could have significant costs to the budget and raise financing needs, especially in the event of sharply lower international gas prices, while yielding limited growth dividends, increasing the risk of policy inconsistency, and reform reversals.	Increase transparency about the state of the economy including through timely publication of economic data and communication. Adopt a medium-term fiscal adjustment plan supported by coherent monetary and exchange rate policies. Mitigate the social impact of reforms to low-income households through temporary and targeted fiscal support.

Annex II. Implementation of Past IMF Recommendations

Recommendation	Implementation Status
Monetary/Exchange Rate Policies and Operations	
Tighten monetary policy to forestall possible de-anchoring of expectations and persistent high inflation.	The *Banque d'Algérie* (BA) in April 2023 increased the required reserve ratio by one percentage point (to three percent) and increased its bilateral liquidity operation. The policy rate was unchanged and there remained ample liquidity in the banking system.
Include a formal ban on monetary financing in the *Loi Monétaire et Bancaire (LMB)* to enhance BA's independence and ability to defend price stability.	Art. 48 of the LMB allows the BA to extend to the Treasury overdrafts on the current account up to a limit of maximum ten percent of ordinary revenue of the previous budget year and with a duration not exceeding 240 days (whether or not consecutive), during a calendar year. The LMB also allows the BA to extend an advance to the Treasury in the event of an exceptional, unforeseen, and declared crisis, and under the conditions and modalities set by the *Conseil monétaire et bancaire*.
Use the new *Loi Monétaire et Bancaire (LMB)* to strengthen the governance framework of the BA.	The *LMB* includes a governance framework covering mandates, autonomy, and controls. Staff recommends that implementation regulations or future updates of the law further clarify and strengthen the governance framework in a number of areas (such as the eligibility criteria for nominating (Vice)-Governors), the role of external auditors, etc.)
Reform the FX and trade regulatory frameworks, including measures to deepen the interbank FX market, and allow for greater exchange rate flexibility in the medium term.	The BA targets a real effective exchange rate that is derived from an econometric model that considers various variables (e.g., oil price, budget deficit, etc.) The buy/sell spread of the BA's transactions in FX is very narrow (e.g., 0.015 DZD on U.S.

Recommendation	Implementation Status
	dollar transactions). Since 2021, businesses are no longer required to surrender their FX to the BA (except for the hydrocarbon and mining sectors, which accounts for the bulk of Algeria's FX revenue). Exporters can use their FX to finance imports and operations to promote export activities. Banks can also offer FX term contracts.
Fiscal Policies and Operations	
Proceed with gradual fiscal rebalancing, guided by a rules-based fiscal framework, to enhance the resilience of public finances and safeguard macroeconomic stability in the medium term.	The authorities envisaged a fiscal expansion in 2023 and 2024 with the aim of supporting the purchasing power of civil servants and households and increasing investment spending.
Adopt a medium-term fiscal framework based on well-calibrated rules comprising a savings floor and nominal debt anchor.	The authorities include three-year projections in their budget documents, but without a clear anchor.
Accelerate preparatory work and launch the gradual phase-out of universal subsidies, part of which could finance targeted support to low-income households.	The 2020 budget law envisaged gradually phasing out universal subsidies and replacing those with a targeted compensation mechanism to support households. The authorities are collaborating with the World Bank on identifying appropriate compensatory measures, building on a household survey.
Diversify budget financing sources.	The authorities have a policy of financing the budget only with domestic sources. The authorities are looking into optimizing debt financing with different maturities of debt instruments.
Strengthen the fiscal framework with PFM reforms, including by (i) fully implementing the Organic Budget Law in 2023; (ii) keeping budget projections in line with execution capacity and available	Implementation of the Organic Budget Law is well advanced, especially with the adoption of program budgeting. The 2024 budget law introduced an initial version of *Etat D* ("Annex D"),

Recommendation	Implementation Status
fiscal space; (iii) incorporating comprehensive and transparent financing plans; and (iv) strengthening cash management and transparency on budget execution.	albeit without specifying the financing side of the budget. Further efforts are needed to strengthen cash management and transparency on budget execution.
Private Sector Initiative	
Lift constraints to private sector financing, level the playing field, and enable the financial system to better support growth, including through: (i) strengthening SOB governance; (ii) reforming loan subsidy programs; (iii) developing prudential policies to boost credit to small and medium-sized enterprises and households; (iv) introducing an effective public credit registry and a personal bankruptcy framework; and (v) deepening the government debt market and encouraging private debt issuance.	The LMB will be the impetus for reforms to modernize and develop financial markets and payment systems, including by facilitating the development of Islamic finance and digital banking. They are preparing reforms to deepen the government debt market, develop long-term savings, and reinvigorate the stock market (including through the listing of shares of two public banks).
Create an economic environment conducive for the private sector, enhance competitiveness, and stimulate economic diversification, including through more trade openness and reforms in product and labor markets.	The authorities relaxed the 49/51 investment rule (except in the hydrocarbon and mining sectors). A new investment law was adopted in mid–2022. It has incentives for investments in special zones and priority sectors. This law also created the Algerian Agency for Promotion of Investment (AAPI) tasked with promoting Algeria as an investment destination and easing administrative burdens (including through a one-stop shop window and electronic platform). The authorities are adopted a Land Management Law *(Loi Foncier)* which would make it easier for private investors to purchase land. They are pursuing diversification of (non-hydrocarbon) exports and are exploring new export markets (for example, they recently opened bank branches in Senegal and Mauritania). A new law on the "auto-entrepreneur" creates a legal statute for self-employed individuals and aims at reducing informality.

Recommendation	Implementation Status
Governance and Vulnerabilities to Corruption	
Further strengthen efforts to improve governance, reduce corruption risks, and reinforce the legal AML/CFT framework, in line with past IMF recommendations; strengthen institutional safeguards against conflicts of interest and the operational autonomy of anti-corruption and judicial institutions.	The authorities adopted a May 2022 law which established a High Committee of transparency, prevention, and fight against corruption *(Haute autorité de transparence, de prévention et de lutte contre la corruption)* and a February 2023 law on AML/CFT, which defined "politically exposed persons". They established a national taskforce to follow up on the recommendations in the MENAFATF report, including the preparation of a national risk strategy (and coordinated by the Ministry of Justice). The authorities are also receiving TA from the IMF's LEG department.
Data Provision	
Prioritize actions to improve the quality and availability of macroeconomic data, including efforts to improve the timely provision of data to the IMF such as data on budget outturns.	Although data provision remains broadly adequate for surveillance, there is ample room for improvement. Key data are either missing (unemployment rate), outdated (CPI), or transmitted with long delays (budget execution). The authorities are rebasing the national accounts and the Minister of Digitalization and Statistics is preparing a digital platform to speed up data transmission.

Annex III. Sovereign Risk and Debt Sustainability Assessment

Algeria faces a "Moderate" risk of sovereign stress. The public debt ratio is projected to increase over the medium term and beyond, on the back of projected large primary deficits, including those expected for 2023–24. Large uncertainty, especially from volatile hydrocarbon revenue, add to medium-to-long term risks of sovereign stress. Significant gross public financing needs could put pressure on the domestic banking system, crowd out private activity, and potentially aggravate the sovereign-bank nexus (all in the context of the authorities' policy to avoid external borrowing). Staff recommends additional fiscal rebalancing to stabilize the debt ratio over the medium term and urges the Algerian authorities to expand the perimeter of available debt data, prepare a debt management strategy, and develop domestic debt markets.

1. **Public debt is almost entirely denominated in dinars and a large share is non-marketable.** As of 2022, nearly all the central government debt was held domestically and about 43 percent was held by the central bank, the former reflecting the authorities' policy to avoid external borrowing and the latter due to monetization of the budget deficit during 2017–19. The reported data used for this SR-DSA underestimates central government debt as it does not include some intra-government claims (e.g., use of deposits of the postal office) and does not consider contingent liabilities, such as from future social security deficits.

2. **Algeria's central government debt-to-GDP ratio is projected to increase over the medium-to-long term, in the absence of additional fiscal rebalancing.** High commodity prices supported the primary deficit reduction in 2022, which, together with large denominator effects and negative real interest rates, reduced the public debt ratio to 48.1 percent of GDP. Withdrawals from the Revenue Regulation Fund (FRR) in 2023 and 2024 would reduce the need for new borrowing to cover financing needs in those years, pausing the increase in the public debt ratio up to 2025 even as primary deficits widen. However, with the balances in the FRR depleted, the public debt ratio would increase again from 2025 onwards and a gradual reduction in fiscal deficits would not be sufficient to stabilize the debt ratio.

3. **Staff assesses Algeria's overall risk of sovereign stress as "Moderate".** The financial cushion from the FRR is expected to mitigate the need for debt financing in 2023–24. Additional mitigating factors to sovereign stress include the large share of non-marketable debt and the near absence of external public debt. However, risks would build up over the medium term as the FRR buffer is exhausted, gross financing needs are sizeable, and the public debt ratio is not projected to stabilize. Large uncertainty, notably from volatile hydrocarbon revenue, create additional risks over the medium term. Stress tests suggest that an (illustrative) banking crisis shock would worsen public debt and gross financing needs, underscoring the risks of large reliance on domestic bank financing and the sovereign-SOB "nexus". The SR-DSA also triggered two (illustrative) long-run risk modules: (i) significant gross financing needs in the next years would push large amortizations falling due over the long term; these would need to be rolled over and their costs would further fuel the increase in the public debt ratio; and (ii) in the absence of significant discoveries of new hydrocarbon fields, and possibly because of shifting

global demand during the energy transition, a gradual decline in hydrocarbon production (and associated fiscal revenue) would increase public deficits and result in additional debt build-up.

4. Staff recommends expanding the perimeter of available debt data, preparing a comprehensive debt management strategy, and developing domestic debt markets.

Annex III. Figure 1. Algeria: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	Staff assesses the overall risk of sovereign stress as 'Moderate'. While medium-term projections indicate a 'high' risk of sovereign stress, there are mitigating factors as well. Algeria has a fiscal cushion in the Revenue Regulation Fund (FRR) thanks to the currently high international prices for hydrocarbons, which would however be fully eroded by 2024 if the authorities pursued the large fiscal impulse currently included in staff's baseline projections. A more prudent fiscal stance would help stabilize the debt ratio (per staff's alternative scenario). Also, Algeria has almost no external public debt and the authorities do not plan to borrow externally.
Near term 1/			
Medium term	High	High	Staff assesses medium-term risks of sovereign stress as 'High', consistent with the mechanical signal, reflecting the baseline's non-stabilization of public debt over the medium term, the risks from volatile hydrocarbon revenues (which contribute to the wide range of possible outcomes over a five-year horizon), and elevated gross financing needs. A banking sector shock, natural disasters and/or the realisation of contingent liabilities could significantly add to financing constraints.
Fanchart	High	…	
GFN	High	…	
Stress test	Banking crisis, Commodity prices, Contingent liabilities, Natural disasters	…	
Long term	…	High	Staff assesses long-term risks of sovereign stress as 'High', as pressures from social security deficits would add to pressures on public debt on top of the factors that result in the assessment of 'High' medium-term risk of sovereign stress. Transition and physical risks from climate change add to long-term vulnerabilities.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Staff assesses Algeria's public debt to have a 'Moderate' overall risk of sovereign stress. While high commodity prices helped the country improve its fiscal stance in 2022, projected sizable primary deficits over the medium term and associated debt service will increase the public debt level and Gross Financing Needs (GFNs) significantly. Accordingly, staff projects that public debt will not stabilize in the baseline scenario. The fiscal path is also subject to large uncertainty, reflecting the dependence on volatile hydrocarbon revenue. Medium-term risks are also high because of large (re)financing needs in a context of heavy reliance on domestic bank financing. Mitigating factors include the small share of external public debt and the large share of non-marketable debt on favorable financing terms.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex III. Figure 2. Algeria: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					0	

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes
				2	Extra budgetary funds (EBFs)	No
				3	Social security funds (SSFs)	No
				4	State governments	No
				5	Local governments	No
				6	Public nonfinancial corporations	No
				7	Central bank	No
				8	Other public financial corporations	No

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

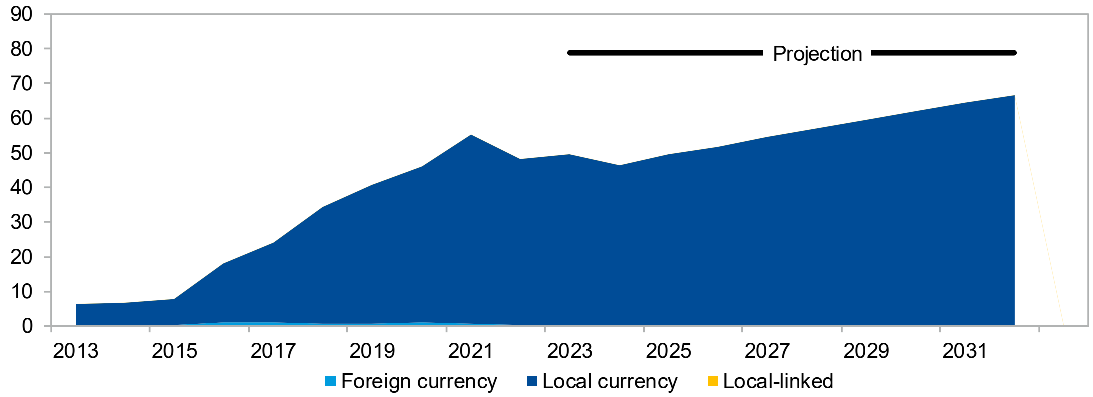
					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The fiscal data used in this SR-DSF cover the central government. Intra-public sector claims could add to the debt stock, as use of deposits of public entities (like those from the post office) have supported financing the deficit and are not recorded in the debt stock. Algeria will also face deficits in social security funds over the medium-to-long term, adding to contingent liabilities.

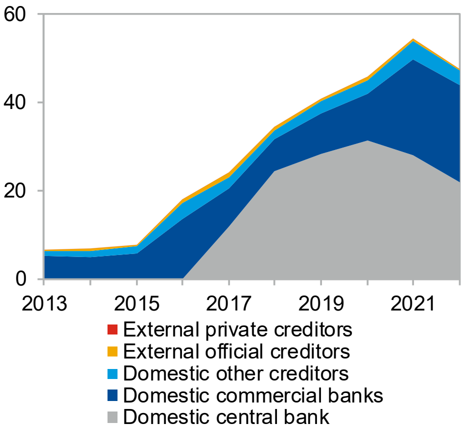
Annex III. Figure 3. Algeria: Public Debt Structure Indicators

Debt by currency (percent of GDP)



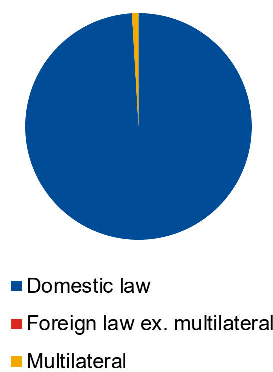
Note: The perimeter shown is central government.

Public debt by holder (percent of GDP)



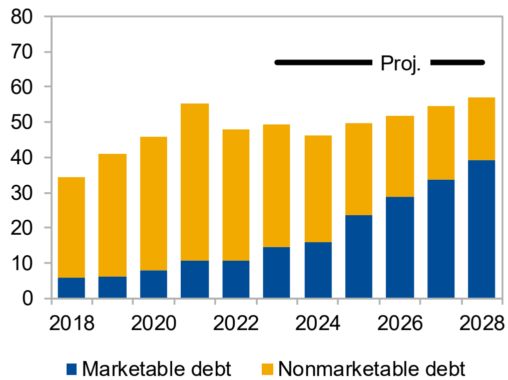
Note: The perimeter shown is central government.

Public debt by governing law, 2022 (percent)



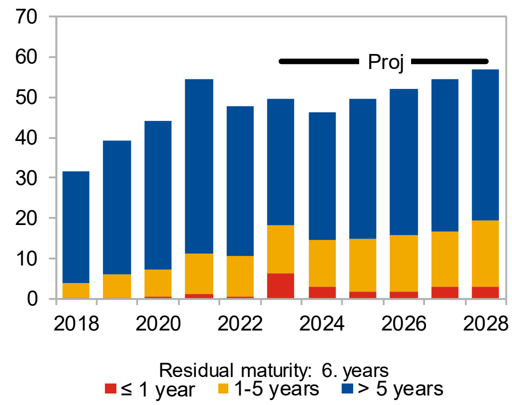
Note: The perimeter shown is central government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is central government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is central government.

Commentary: Public debt is primarily domestic and owed to the central bank and commercial banks reflecting the authorities' policy of avoiding external borrowing and the run-up of non-marketable debt in recent years (including monetary financing). Around 99 percent of debt is held domestically and denominated in dinars. While this policy limits public debt foreign exchange rate exposure, it raises concerns regarding the domestic banking market capacity to absorb projected growing GFN.

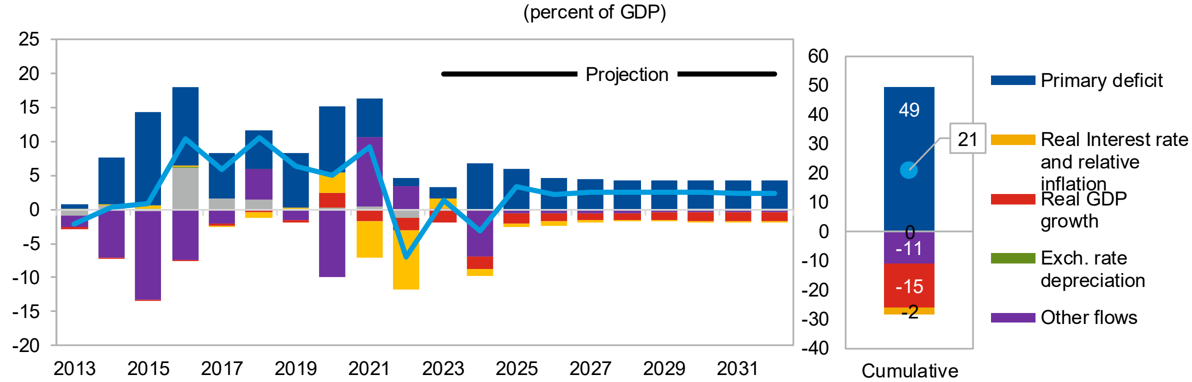
Annex III. Figure 4. Algeria: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	48.1	49.5	46.4	49.7	51.9	54.5	57.0	59.5	62.0	64.4	66.7
Change in public debt	-7.0	1.4	-3.1	3.3	2.2	2.6	2.5	2.5	2.5	2.4	2.3
Contribution of identified flows	-5.9	1.4	-3.1	3.3	2.2	2.6	2.5	2.5	2.5	2.3	2.3
Primary deficit	1.3	1.8	6.7	5.9	4.7	4.5	4.3	4.3	4.3	4.2	4.2
Noninterest revenues	29.6	31.1	27.8	26.8	26.4	25.7	25.4	25.2	25.1	25.1	25.1
Noninterest expenditures	30.8	32.9	34.5	32.8	31.1	30.2	29.8	29.5	29.4	29.3	29.3
Automatic debt dynamics	-10.6	-0.5	-3.0	-2.0	-1.9	-1.4	-1.3	-1.3	-1.4	-1.5	-1.5
Real interest rate and relative inflation	-8.6	1.4	-1.1	-0.6	-0.7	-0.4	-0.2	-0.1	-0.1	-0.2	-0.2
Real interest rate	-8.7	1.4	-1.2	-0.6	-0.7	-0.4	-0.2	-0.1	-0.1	-0.2	-0.2
Relative inflation	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.9	-1.9	-1.8	-1.4	-1.2	-1.1	-1.1	-1.2	-1.2	-1.3	-1.3
Real exchange rate	-0.1	…	…	…	…	…	…	…	…	…	…
Other identified flows	3.4	0.2	-6.8	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	3.4	0.2	-6.8	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4
Contribution of residual	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Gross financing needs	5.2	7.4	14.3	10.7	8.4	8.5	9.5	9.5	10.6	10.3	10.3
of which: debt service	4.0	5.6	7.6	4.8	3.7	4.0	5.2	5.2	6.3	6.1	6.1
Local currency	3.9	5.6	7.6	4.7	3.7	4.0	5.2	5.2	6.3	6.1	6.1
Foreign currency	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	3.6	4.2	3.8	3.1	2.5	2.1	2.1	2.1	2.1	2.1	2.1
Inflation (GDP deflator; percent)	22.9	-0.4	6.5	5.9	6.0	5.4	5.0	4.8	4.8	4.8	4.8
Nominal GDP growth (percent)	27.3	3.7	10.7	9.2	8.7	7.6	7.2	7.0	6.9	6.9	6.9
Effective interest rate (percent)	2.8	2.6	4.0	4.4	4.5	4.6	4.6	4.6	4.5	4.4	4.4

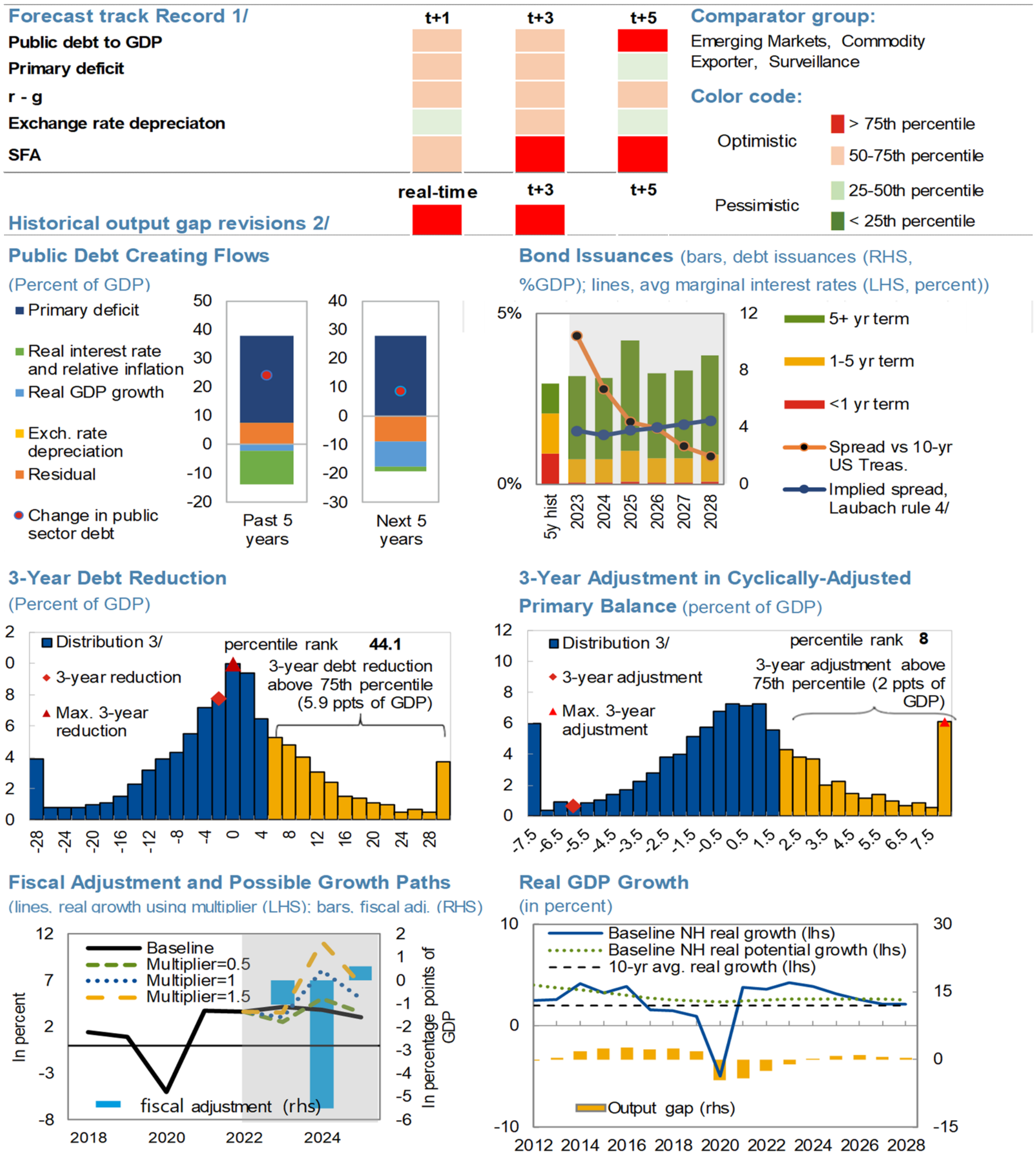
Contribution to change in public debt

(percent of GDP)



Staff commentary:Public debt is expected to rise over the forecast horizon in spite of a medium-term consolidation envisaged in the staff baseline scenario; the fiscal expansion planned for 2024 is expected to add pressure on financing needs over the medium term. A more ambitious fiscal adjustment would help stabilize the public debt path.

Annex III. Figure 5. Algeria: Realism of Baseline Assumptions



Commentary: The realism analysis does not suggest any major concerns, though it highlights near-term fiscal expansion envisaged by the authorities. Staff considers that the fiscal measures would have a modest impact on economic activity, given Algeria's relatively low multipliers.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 6. Algeria: Medium-Term Risk Analysis

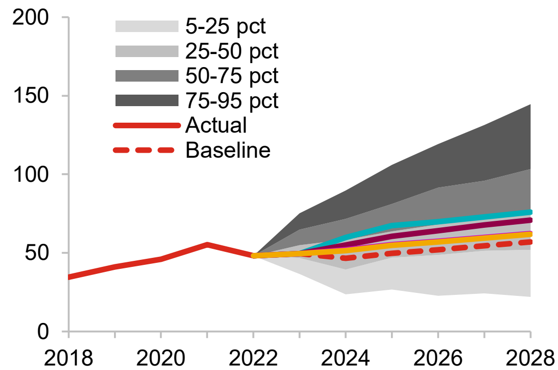
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

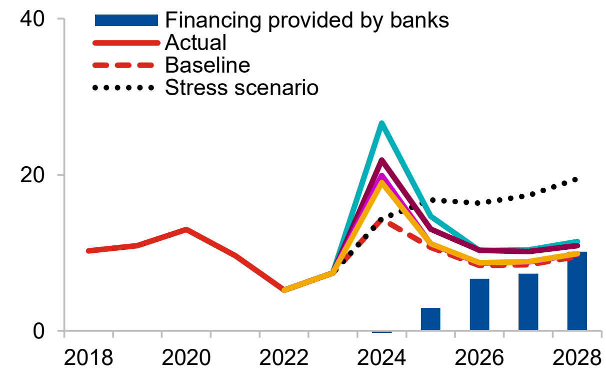
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 / 25 / 50 / 75 / 100)
Debt fanchart module	Fanchart width	122.6	1.8	…	
	Probability of debt not stabilizing (pct)	98.1	0.8	…	
	Terminal debt level x institutions index	63.2	1.4	…	
	Debt fanchart index	**…**	**4.0**	**High**	
GFN finance-ability module	Average GFN in baseline	9.8	3.3	…	
	Bank claims on government (pct bank assets)	35.5	11.5	…	
	Chg. in claims on govt. in stress (pct bank assets)	37.2	12.4	…	
	GFN financeability index	**…**	**27.3**	**High**	

Legend: Interquartile range; Algeria

##



Gross Financing Needs (pct of GDP)

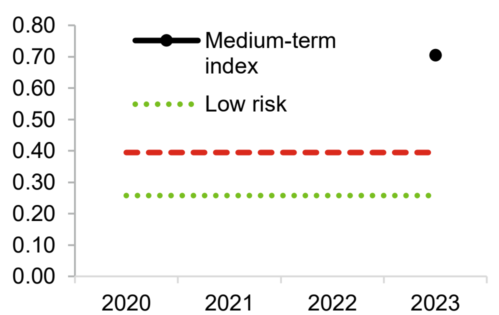


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.9
GFN financeability index	7.6	17.9	0.5	0.5
Medium-term index (MTI)	0.3	0.4	…	0.7, High

Prob. of missed crisis, 2023-2028 (if stress not predicted): 81.8 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 1.1 pct.

Commentary: Both the Debt Fan chart Module and Gross Financing Needs (GFN) Financeability Module suggest a 'High' risk of sovereign stress over the medium term. Stress tests indicate that Algeria's public debt path and associated GFNs would be impacted by an (illustrative) banking stress shock, which would push the public debt ratio to 76 percent of GDP by 2028. Such a shock illustrates the sovereign/bank nexus (i.e., debt feedback loop) with would also challenge the government's ability to meet its funding needs given its nearly exclusive reliance on domestic financial markets.The impact of a commodity price shock would also be sizable, pushing the public debt ratio to 71 percent of GDP by 2028. The effects of a natural disaster shock and a contingent liability shock on debt are more moderate but they would also raise significant liquidity challenges with GFNs increasing by about 5 percentage points of GDP the year of the shock.

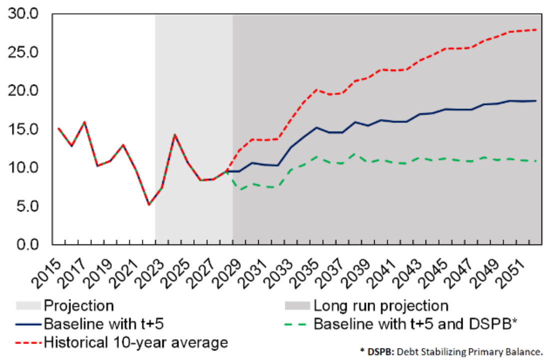
Annex III. Figure 7. Algeria: Long-Term Risk Analysis

Large Amortization Trigger

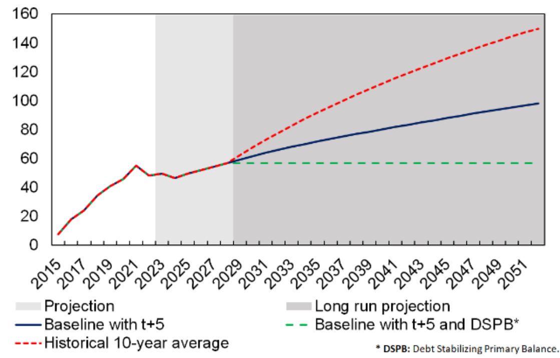
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

Alternative Baseline Long-term Projections

GFN-to-GDP ratio



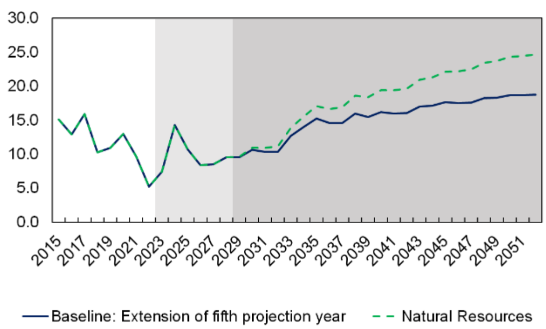
Total public debt-to-GDP ratio



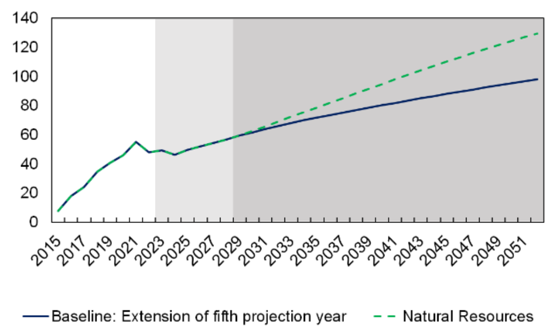
Commentary: Baseline long-term projections point to a "High" risk of sovereign stress with growing GFN (due to an increasing debt service) leading to a non-stabilized debt-to-GDP path. In the absence of reforms, pressures from social security deficits could add to fiscal vulnerabilities over the long term.

Natural Resources

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Commentary: In the absence of new field discoveries, the progressive erosion of oil and gas reserves over the long term would weigh on hydrocarbons revenues, widening the GFN-to GDP ratio. However, the authorities current structural reforms to support the diversification of the economy could mitigate this risk.

Annex IV. External Debt Sustainability Analysis

Total external debt Algeria is low and expected to remain stable over the medium term. Its trajectory is nevertheless sensitive to several risks, notably negative current account shocks.

Algeria's low external debt level would further decline over the medium term as the government avoids borrowing externally and the financial account is relatively closed. External debt fell from 2.1 percent of GDP in 2020 to 1.3 percent in 2022 (Annex IV Figure 1). Staff estimates that total external debt would stabilize at around 1.3 percent of GDP in 2023. External debt is projected to further decline to 1.2 percent of GDP through 2028, as FX reserves are used to finance the predicted widening current account deficit from 2025 onwards. Bound stress tests indicate that the external debt dynamics are subject to risks, notably an adverse current account shock (Annex IV Figure 2).

Annex IV Figure 1. Algeria: External Debt Sustainability Framework

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Debt-stabilizing non-interest current account 6/
Baseline: External debt	2.1	2.0	2.1	1.7	1.3	1.3	1.3	1.3	1.3	1.2	1.2	**-0.7**
Change in external debt	0.0	-0.1	0.1	-0.4	-0.3	0.0	-0.1	0.0	0.0	0.0	0.0	
Identified external debt-creating flows (4+8+9)	8.3	8.1	11.0	1.7	-8.7	-2.6	-0.9	0.7	1.8	2.2	2.6	
Current account deficit, excluding interest payments	8.7	8.7	11.3	2.4	-8.5	-2.2	-0.1	1.5	2.5	2.9	3.4	
Deficit in balance of goods and services	8.1	8.1	10.9	1.3	-9.9	-2.5	0.0	1.6	2.5	3.0	3.5	
Exports	22.8	19.9	15.1	22.5	30.6	24.0	22.0	21.3	20.9	20.6	20.3	
Imports	30.9	28.0	26.0	23.8	20.7	21.5	21.9	22.9	23.5	23.6	23.8	
Net non-debt creating capital inflows (negative)	-0.3	-0.7	-0.7	-0.5	0.0	-0.4	-0.7	-0.7	-0.7	-0.7	-0.7	
Automatic debt dynamics 1/	0.0	0.0	0.4	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	
Contribution from nominal interest rate	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Contribution from real GDP growth	0.0	0.0	0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	
Contribution from price and exchange rate changes 2/	0.0	0.0	0.2	-0.2	-0.2	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-8.3	-8.1	-10.9	-2.1	8.4	2.5	0.9	-0.7	-1.8	-2.2	-2.6	
External debt-to-exports ratio (in percent)	9.0	9.9	13.8	7.3	4.4	5.5	5.8	6.0	6.0	6.0	6.0	
Gross external financing need (in billions of US dollars) 4/	19.1	19.3	21.0	6.7	-17.0	-3.0	2.3	7.2	10.6	12.1	13.8	
in percent of GDP	9.8	10.0	12.8	3.6	-7.5	-1.2	0.9	2.6	3.7	4.1	4.6	
Scenario with key variables at their historical averages 5/						**1.3**	**8.5**	**14.1**	**18.5**	**22.4**	**25.9**	**0.0**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	1.4	0.9	-5.0	3.8	3.6	4.2	3.8	3.1	2.5	2.1	2.1	
GDP deflator in US dollars (change in percent)	0.9	-1.5	-10.3	8.7	17.1	4.1	5.0	0.8	1.0	0.4	0.0	
Nominal external interest rate (in percent)	1.1	1.7	1.1	3.8	5.9	1.2	1.1	0.9	0.8	0.7	0.7	
Growth of exports (US dollar terms, in percent)	17.7	-13.1	-35.4	68.0	65.0	-15.1	-0.1	1.0	1.5	0.8	0.8	
Growth of imports (US dollar terms, in percent)	-0.1	-9.7	-20.9	3.4	5.4	12.7	11.2	8.6	5.9	3.2	2.9	
Current account balance, excluding interest payments	-8.7	-8.7	-11.3	-2.4	8.5	2.2	0.1	-1.5	-2.5	-2.9	-3.4	
Net non-debt creating capital inflows	0.3	0.7	0.7	0.5	0.0	0.4	0.7	0.7	0.7	0.7	0.7	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

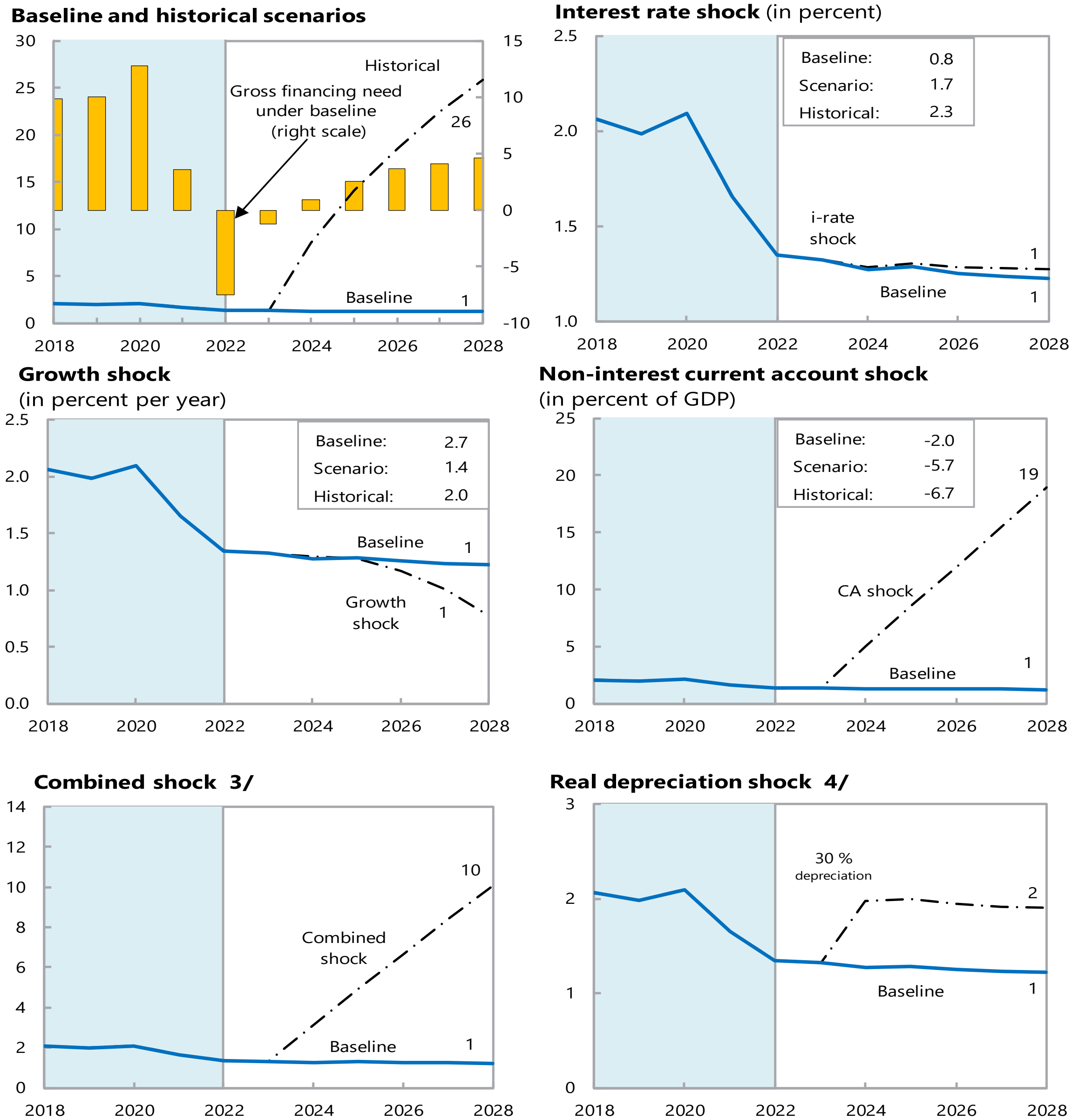
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex IV Figure 2. Algeria: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2023.

Annex V. Alternative Fiscal Scenario

Additional fiscal adjustment of three percentage points of GDP over 2024–26 would support macroeconomic stability by rebuilding fiscal buffers. It would stabilize public debt to GDP ratio at about 47 percent of GDP and any additional windfall would accumulate in the FRR. The additional deficit reduction would provide some relief for public borrowing from the banking sector, leaving more space for private sector borrowing.

1. **During the 2022 Article IV consultations staff proposed the introduction of a rules-based framework to guide medium-term fiscal projections, with the aim of reducing the vulnerability of budget execution to revenue volatility.** The framework proposed a two-pillar approach to building buffers: first, by creating a margin for public debt (the distance between the projected debt ratio and a benchmark upper limit), and second, by creating a liquidity buffer (funds held in the Revenue Regulation Fund, FRR). A value-at-risk (VAR) type simulation exercise found that a combined buffer of 36 percent of GDP would avoid breaching the debt anchor in 95 percent of the simulated medium-term debt trajectories.

2. **In the run-up towards implementing such a rules-based medium-term fiscal framework, staff proposed anchoring the fiscal path on stabilizing the public debt ratio over the medium term.** The projection period would be three years (2024–26), which is the same horizon as that of the medium-term budget projections prepared by the authorities.

3. **Staff prepared an alternative fiscal scenario with fiscal measures of three pps. of GDP over three years and which would stabilize the public debt to GDP ratio at about 47 percent of GDP by 2026** (Annex V Table 1 and Figure 1). The alternative scenario assumes that the adjustment would be obtained through additional revenue mobilization (1.25 pps. of GDP over three years) and spending restraint (1.75 pps. of GDP, also spread over three years). The adjustment would be gradual, recognizing that measures take time to implement and that the execution of the 2024 budget (a Presidential election year) is already underway. The additional revenue could be raised by eliminating inefficient VAT exemptions,[1] capturing gains from digitalization through improved compliance, and improving procedures for tax debt recovery. Spending restraint could focus on the gradual phasing out of universal subsidies (partially compensated by cash transfers to vulnerable households) as envisaged by the authorities; limiting transfers to SOEs including by strict enforcement of performance contracts;

[1] A partial list of tax expenditures included in "État H" of the 2024 budget law amounts to DZD 495 billion (about 1.3 percent of GDP), with customs rights and VAT on imports accounting for more than half of this amount.

and containing the wage bill (for example, by spreading the introduction of additional benefits and hiring over a longer period).

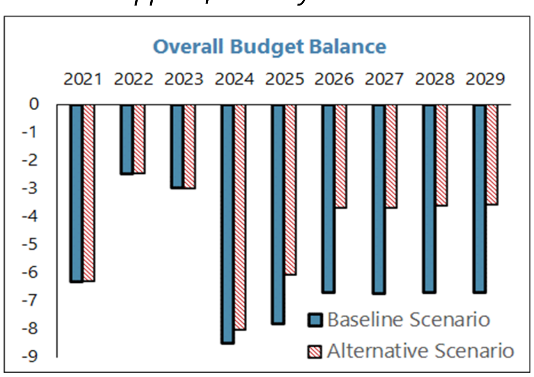
Annex V. Table 1. Algeria: Alternative Fiscal Scenario (with public debt stabilization by 2026), 2022–26

	2022	2023	2024	2025	2026	Δ2022–26	Δ2023–26
	(In percent of GDP, unless otherwise indicated)						
Baseline							
Total revenue	**29.6**	**31.1**	**27.8**	**26.8**	**26.4**	**-3.1**	**-4.6**
Non-hydrocarbon revenue	11.9	12.8	14.0	14.1	14.3	2.4	1.5
Total expenditure (excluding net lending)	**30.2**	**32.4**	**34.5**	**33.0**	**31.6**	**1.5**	**-0.7**
Current expenditure	23.6	25.1	27.5	26.5	25.6	1.9	0.4
o.w. Transfers	12.8	13.3	13.8	13.2	12.6	-0.2	-0.7
Overall balance	**-2.5**	**-3.0**	**-8.5**	**-7.8**	**-6.7**	**-4.2**	**-3.7**
Non-hydrocarbon balance (% Non-hydro GDP)	-27.4	-26.4	-27.0	-24.6	-22.5	4.8	3.8
Gross government debt	**48.1**	**49.5**	**46.4**	**49.7**	**51.9**	**3.8**	**2.4**
Alternative							
Total revenue	**29.6**	**31.1**	**28.1**	**27.7**	**27.8**	**-1.7**	**-3.2**
Non-hydrocarbon revenue	11.9	12.8	14.3	14.9	15.5	3.6	2.7
Total expenditure (excluding net lending)	**30.2**	**32.4**	**34.3**	**32.1**	**30.0**	**-0.2**	**-2.4**
Current expenditure	23.6	25.1	27.3	25.5	23.9	0.2	-1.3
o.w. Transfers	12.8	13.3	13.7	12.5	11.3	-1.5	-2.0
Overall balance	**-2.5**	**-3.0**	**-8.0**	**-6.1**	**-3.7**	**-1.2**	**-0.7**
Non-hydrocarbon balance (% Non-hydro GDP)	-27.4	-26.4	-26.5	-22.6	-19.1	**8.3**	7.3
Gross government debt	**48.1**	**49.5**	**46.1**	**47.7**	**47.2**	**-0.9**	**-2.3**
Additional fiscal measures (% Baseline GDP)			**0.50**	**1.25**	**1.25**		**3.00**
Non-hydrocarbon revenue			0.25	0.50	0.50		1.25
Current expenditure			-0.25	-0.75	-0.75		-1.75
o.w. Transfers			-0.10	-0.60	-0.60		-1.30

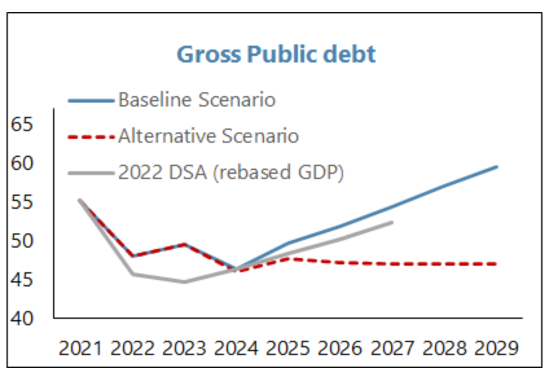
Source: IMF staff estimates and projections.

Annex V. Figure 1. Algeria: Impact of Additional Fiscal Measures on Fiscal Balances and Public Debt, 2021–29 (in percent of GDP)

A more ambitious fiscal adjustment over 2024–26 would reduce the overall deficit by about three pps. of GDP by 2026…



… and stabilize the public debt ratio around 47 percent of GDP.

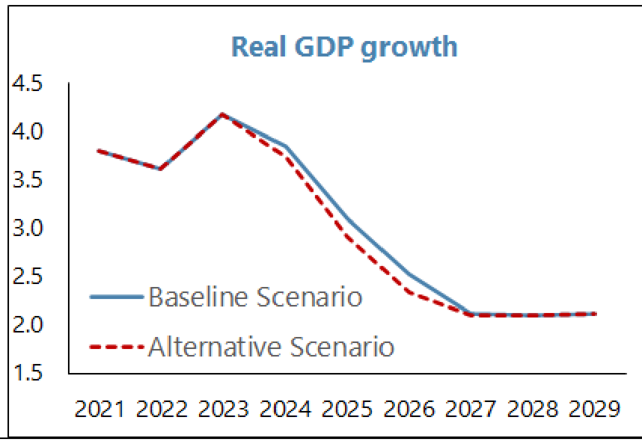


Source: IMF staff estimates and projections.

5. Staff estimates that the fiscal measures would have a modest impact on economic activity, given Algeria's relatively low fiscal multipliers. The suggested tighter fiscal policy would reduce average real GDP growth by 0.15 pps. per year over 2024–26 (Annex V Figure 2) as fiscal multipliers for Algeria are estimated to be low.[2] The reduction in gross financing requirements would provide some relief from public borrowing from the banking sector, leaving more space for private sector borrowing.

Annex V. Figure 2. Algeria: Impact of Additional Measures on Real GDP Growth (percentage change, y-o-y)

The additional fiscal measures would have a modest impact on real GDP growth, given Algeria's low multipliers.



Sources: IMF Staff estimates and projections.

[2] See Elkhadari, M., Souissi M., and Jewell A, 2018. Empirical Estimation of Fiscal Multipliers in MENA Oil-Exporting Countries with an application to Algeria, IMF Working paper 18/24.

Annex VI. External Sector Assessment

Overall Assessment: *Algeria's external position in 2023 was moderately stronger than the level implied by fundamentals and desirable policy settings, based on the results of the IMF's EBA-lite current account model.[1] The current account gap is estimated at 1.7 percent of GDP in 2023, compared with 4.7 percent in 2022. After a historical surplus in 2022 owing to the rally in hydrocarbon prices, the current account likely posted a modest surplus in 2023. The relatively weaker performance of the external sector in 2023 compared with 2022 mainly reflects lower hydrocarbon prices, though nonhydrocarbon exports also slowed. Foreign exchange reserves continued to increase in 2023. They are projected to further increase in the near term but would start falling over the medium term as the current account returns to deficits, while remaining above adequacy benchmarks. External debt is low, reflecting the authorities' policy not to borrow public debt externally and the largely closed financial account.*

Potential Policy Responses: *A gradual fiscal rebalancing anchored in a credible medium-term framework, complemented by structural reforms—to promote economic diversification and strengthen non-price competitiveness—and greater flexibility of the nominal exchange rate would contribute to maintaining external sustainability over the medium-term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The largest component of Algeria's external assets is international reserves, which considerably outweigh its Foreign Direct Investment (FDI) liabilities and external debt. After a steady decline to a low of US$45.3 billion (or 11.6 months of imports) at end–2021, international reserves, excluding monetary gold but including SDRs, recorded a notable rise in 2022 to US$61.0 billion in 2022 and increased further to US$68.9 billion (14.1 months of imports) in 2023. Likewise, the Net International Investment Position (NIIP) increased from US$27.8 billion in 2021 to US$49.6 billion in 2023, mirroring the sharp increase in reserves assets.

Assessment. The trajectory of Algeria's NIIP reflects the dependence of the economy on hydrocarbon exports revenue, highlighting its vulnerability to price fluctuations in the medium term. Under staff's baseline scenario, international reserves are projected to decline to US$40.4 billion (6.6 months of imports) by 2029 as the current account is projected to return to deficits starting in 2025. Accordingly, the NIIP is projected to decline to US$8.1 billion (2.7 percent of GDP) by 2029.

2023	NIIP	Gross Assets	Debt Assets	Gross Liabilities	Debt Liabilities
(in percent of GDP)	20.3	31.7	1.9	15.6	6.6

Current Account

[1] The assessment uses the 2023 EBA-lite template with staff projections for 2023 data.

Background. Algeria's external current account balance is primarily determined by the trade balance. Hydrocarbons dominate Algeria exports, although the share of non-hydrocarbon exports has increased in recent years, partly reflecting the authorities' policy to diversify exports. The share of hydrocarbons is declining but remains substantial, averaging 84 percent of total exports over 2019–23. The current account balance is projected to have posted a surplus of 2.2 percent of GDP in 2023, lower than the historical record of 8.4 percent in 2022, mainly reflecting lower hydrocarbon prices. Imports have stabilized at around 21 percent of GDP following a fast-paced downwards trend since 2015 following the introduction of various import compression policies with the aim of protecting FX reserves and reducing over-invoicing and fraud. Goods imports declined from 28.1 percent of GDP in 2015 to (likely) 17.9 percent in 2023.The narrowing current account surplus in 2023 also reflects a deterioration of the government balance (with public investment increasing) and an overall decline in savings.

Annex VI Table 1. Algeria: EBA-lite Model Results, 2023

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**2.2**	
Cyclical contributions (from model) (-)	0.2	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**1.9**	
CA Norm (from model) 2/	**0.2**	
Adjusted CA Norm	**0.2**	
CA Gap	**1.7**	**0.3**
o/w Relative policy gap	6.2	
Elasticity	-0.2	
REER Gap (in percent)	**-10.3**	**-1.7**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Sources: Algerian authorities and IMF Staff estimates.

Assessment. The EBA-lite current account (CA) model approach of the Fund's external balance assessment methodologies (updated in 2022) suggests that Algeria's current account balance, while slightly deteriorating, remained above its norm in 2023, which in turn translates into a moderate REER undervaluation. The relatively weaker external performance underscores the strong correlation between fiscal and external balances. Going forward, a gradual fiscal rebalancing combined with greater nominal exchange rate flexibility would help close policy gaps and maintain the current account balance closer to its norm, especially as hydrocarbon prices are projected to continue to decline over the medium term.

- The EBA-lite current account model indicates that the (likely) realized current account was moderately stronger than warranted by medium-term fundamentals and desirable policies in 2023. The current account gap estimated using this approach was 1.7 percent of GDP, of which 1.7 percent of GDP reflects the contribution from the increase in reserves in 2023. With an assumed elasticity of the current account with respect to the REER of -0.2, the current account gap translates into a REER undervaluation of 10.3 percent. However, this estimate is subject to considerable uncertainty as it is sensitive to various underlying assumptions—including long-term hydrocarbon prices, trade elasticities, and desirable policies. As highlighted in previous assessments, the existence of a parallel exchange market (with an exchange rate premium that is currently well over 50 percent) also complicates the interpretation of model results.
- According to the *consumption allocation rules* for exporters of exhaustible resources, the estimated current account norm in the medium term is 15.5 percent of GDP for Algeria against a projected cyclically adjusted current account balance of -4.0 percent of GDP (over the medium term). Thus, this consumption-based model (which accounts for the exhaustibility of resources to assess the sustainability of the current account path) suggests that the projected medium-term path for the current account is inconsistent with intergenerational equity, despite the surplus in the near term. Under this methodology, for example, a current account path is deemed sustainable if the Net Present Value (NPV) of future wealth (hydrocarbon revenues plus income on financial assets or investment) is greater than or equal to the NPV of imports of goods and services net of non-oil exports.[1] This intertemporal constraint on the trajectory for imports ("annuities" or "allocation rules") then generates a current account norm consistent with intergenerational equity.[2] When import trajectories are computed using an allocation rule based on a constant real per capita annuity (which incorporates the impact of population growth), the resulting current account norm for the medium term is 15.5 percent of GDP. Comparing this trajectory against the projected path for the current account results in a substantial current account gap (-19.5 percent of GDP) over the medium term.

Real Exchange Rate

Background. Reversing several years of depreciation, the real appreciation of the dinar that began in the second half of 2022 has continued in 2023. The year-average REER depreciated by more than 15 percent over 2014–21. But the slow pace of this depreciation along with the relatively small size of the nonhydrocarbon tradable sector and supply-side constraints mitigated the impact on competitiveness, and current account deficits remained large. More recently, the nominal appreciation of the dinar (by 2.4 percent y-o-y against the U.S. dollar through December 2023), combined with relatively high inflation in Algeria, resulted in a gradual real appreciation since May 2022. The real effective exchange rate appreciated by 10.2 percent between 2022 and 2023.

Assessment. The IMF's EBA-REER model estimates suggest an undervaluation of 1.7 percent while the EBA-lite CA model indicates an undervaluation of 10.3 percent. Staff assessment places greater emphasis on the EBA-lite CA model, which has frequently demonstrated better reliability compared to the REER model. The latter tends to be less suitable for many countries as it does not sufficiently account for their unique characteristics (IMF, 2019).[3]

Capital and Financial Accounts: Flows and Policy Measures

Background. Algeria's openness to external capital flows continued to be severely constrained in 2023. Financial flows consist mainly of foreign direct investment (FDI) which are small. FDI inflows declined from 0.8 percent of GDP in 2018 to 0.5 percent of GDP in 2021 and declined further in 2022 (to less than 0.1 percent of GDP). The latter was due mainly to the repurchase by the National Investment Fund of equity shares from foreigners in a domestic telecommunication company. Inward FDI slightly is projected to have recovered to around 0.4 percent of GDP in 2023 and is forecast to reach 0.75 of GDP in the short term, on account for the impact of reforms and changes in regulations (below).

Assessment. The removal of the cap of 49 percent for foreign ownership in Algerian investment projects (in non-strategic sectors) is a positive step in relaxing restrictions on FDI. The abolition in 2021 of the surrender requirements of export revenue, excluding hydrocarbon and mineral products, could make it easier to import inputs, thus alleviating constraints on supply and facilitating export diversification. The implementation of a new investment law as well as ongoing reforms to incentivize private investment in strategic sectors—including through digitalization and the setup of "one-stop shop" to handle administrative processes—could further enhance the appeal for FDI and foster private sector development in the medium term, if combined with sustained efforts to enhance the business climate and ensure policy predictability.

FX Intervention and Reserves Level

Background. High hydrocarbon prices have continued to benefit Algeria and resulted in accumulation of international reserves in the past two years. The country had been running sizable current account deficits since 2015 and these were financed by official reserves which consequently declined steadily, from US$178.9 billion (33.7 months of imports) in 2014 to US$45.3 billion (11.6 months of imports) in 2021, and this despite continued measures to contain imports. The surge in hydrocarbon prices since 2022 reversed this downward trend and official reserves reached US$68.9 billion (14.1 months of imports) in 2023, a further increase from US$61 billion in 2022. International reserves are projected to continue to build up through 2024 but start falling afterwards mirroring the re-emergency of current account deficits. Algeria's *de jure* exchange rate arrangement is "managed floating", while the *de facto* exchange rate arrangement is a "stabilized" arrangement. The Banque of Algeria (BA) intervenes in the foreign exchange market directly by proposing its own rates and by making foreign exchange available to banks at their request. The BA sets the buying and selling rates of the dinar against the US dollar in this market within a narrow margin of 0.015 dinar.

Assessment. The level of FX reserves in 2023 is comfortable and projected to increase through 2024. However, the downward trajectory in FX reserves is anticipated to return from 2025 onwards. Nevertheless, FX reserves are expected to remain adequate over the medium term, projected at nearly seven months of imports and 78.7 percent of the ARA metric in 2029.

[1] Proven hydrocarbon reserves at end–2021 were estimated at 12,200 million barrels for crude oil and 4,504 cubic meters for natural gas (OPEC, Annual Statistical Bulletin 2022). Staff projections assume that hydrocarbons production grows at a constant rate of one percent, peaking in 2040. From 2041 onwards, both production and consumption decline by one percent annually. Hydrocarbon prices are assumed to increase in line with the US GDP deflator by 1.9 percent. Future hydrocarbons revenues are discounted at a rate of five percent (the assumed rate of return on foreign assets) and population growth is 1.4 percent.

[2] Bems, R. and I. de Carvalho Filho. 2009. "Exchange Rate Assessments: Methodologies for Oil-Exporting Countries", IMF Working Paper 09/281.

[3] IMF 2019. "The External Balance Assessment Methodology: 2018 Update", IMF Working Paper 19/65,

Annex VII. Improving Financial Inclusion in Algeria[1]

The new central bank law has given the Bank of Algeria a mandate and responsibilities regarding financial inclusion and the development of digital finance. This note assesses the state of financial inclusion in Algeria and reviews the various institutional factors and policies that can help spur financial inclusion, including Fintech, and pitfalls to avoid.

A. Why is Financial Inclusion Important?

1. **Financial inclusion has a vital role in economic development.** Financial development has been shown to promote economic growth and enhance productivity growth and capital accumulation (Beck et al. (2020)). Financial inclusion has been shown to reduce income inequality and poverty by increasing the supply of financial services to lower-income households and SMEs (Cihak and Sahay, 2020). Barajas et al. (2020a) find that greater financial inclusion is associated with lower income inequality. Provided the quality of regulation and supervision is high, financial inclusion and stability can be pursued simultaneously.

2. **Algeria's new *Monetary and Banking Law (LMB)* includes financial inclusion and digital finance as part of the mandates and objectives of the central bank.[2]** Article 36 of the LMB stipulates that the central bank takes measures to facilitate the supply of financial services to enhance financial inclusion, including by disseminating payment means such as cash and ensuring that branches of financial institutions cover the entire country. Article 64 of the LMB brings Payment Service Providers (PSP) within the perimeter of the central bank's supervisory, regulatory, licensing, and sanctioning powers, and Article 76 allows licensed PSPs to perform payment services offered by banks. Article 2 of the LMB includes a central bank digital currency (CBDC), *Dinar Algérien Digital*, as a possibility of a currency, together with fiduciary money.

B. What is the State of Financial Inclusion in Algeria?

3. **Financial deepening and outreach have moderately improved in the past decades in Algeria, but gaps remain relative to peer countries (Annex VII Figure 1).** Loans to the private sector increased by some ten percentage points of GDP between 2004 and 2022, while bank deposits increased by about four percentage points of GDP.[3] As for outreach, the number of ATMs has increased by about seven per 100,000 adults since 2004, while the number of deposit-

[1] Prepared by Thierry Tressel (MCM) with support from Jarin Nashin (MCD).

[2] Implementation of the law will be detailed in regulations of the central bank.

[3] Loans to households accounted for less than four percent of GDP at end–2022.

taking institutions' branches has remained broadly stable since 2004.[4] When compared with peer countries in the region, it appears that notable gaps remain in Algeria in terms of financial depth and outreach, suggesting opportunities for more progress.[5]

4. Access to financial services and availability of new technologies seem broadly aligned with the regional average, although the use of traditional banks and of Fintech remain comparatively underdeveloped (Annex VII Figure 2). The extent to which individuals have bank accounts and store financial savings broadly aligns with the regional and EMDE average; likewise, ownership of mobile phones and internet access seem widespread in Algeria and on par with other countries. However, fewer individuals borrow from a financial institution in Algeria than in the MENA and SSA regions, and among EMDE, on average. The use of Fintech—such as mobile phones and internet—to perform financial transactions is also well below average in Algeria than in comparator groups of countries. In Algeria, the number of debit cards has increased but the number of loan accounts has remained broadly unchanged.

5. There remains a gender gap (Annex VII Figure 3). The use of financial services (savings and borrowing) is in Algeria notably higher among males than among females, as is the case in peer countries.

C. What Policies Would Help Increase Financial Inclusion in Algeria?

Credit Market Infrastructure

6. A sound legal, regulatory, and oversight framework must be in place to contain risks in the banking system as credit grows. A sound banking system—able to mitigate, assess credit risk, provision for such risks, and deal with defaulted exposures ex-post—is a prerequisite for improving financial inclusion. Thus, the reforms of the regulatory and supervisory framework set out in the new LMB are critical.

7. Crisis management: a sound framework should deal efficiently and in a least cost manner with failure and restructuring of financial institutions when they fail. This would minimize disruptions in payment systems and credit supply.

[4] The authorities noted that statistics on bank branches may not always be comparable to other countries, due to omission of post office branches offering financial services.

[5] A central bank regulation adopted on September 21, 2023, set out the condition to license and regulate a network of foreign exchange bureaus to be established in Algeria. Such initiative should contribute to reinforcing financial inclusion in term of access and geographical outreach to financial services.

8. Information sharing: platforms to share borrower information among financial institutions would enhance financial inclusion.

a. Credit bureaus or credit registries—with records of risks regarding past and current loans taken out by firms—can help improve access to credit for sound borrowers. Introducing a credit bureau would be useful in Algeria.[6]

b. The BA could usefully review and strengthen the existing platforms—*Centrale des Risques*, *Centrale des Incidents de Paiement*, and *Centrale des Bilans*.

c. Information sharing can be strengthened by better corporate accounting and by supporting information-sharing among banks, utility companies, and suppliers (for example, with databases on payments).

9. Collateral: A movable collateral registry would enhance access to credit for MSMEs. Such movable collateral registries can help improve access to finance provided a sound legal and regulatory framework is in place.

10. Insolvency regimes: Financial institutions may be less willing to lend in case of legal gaps where insolvency frameworks cannot handle corporates or SMEs effectively. Such gaps may also make it difficult for financial institutions to write off defaulted exposures and clean up their balance sheets.

Country Level Strategy and Public-Private Sector Commitment

11. Direct Public Sector Involvement (such as directed lending, subsidies) has been used extensively in Algeria but may be challenging to design and manage properly. Government-to-person payments (such as wages, pensions, etc. as already done for public sector employees) and reliance on the postal office branches can also foster financial inclusion.

12. Financial Inclusion Strategy: developing and publishing a financial inclusion strategy can be an effective way to secure public and private sector commitments to meet financial inclusion objectives. A national strategy of financial inclusion is a roadmap of actions, agreed and defined at the national or subnational level, which stakeholders follow to achieve financial inclusion objectives. The strategy: (i) articulates objectives and outlines reform areas to achieve these; (ii) can lay out quantitative targets and a timeline to meet milestones;

---

[6] METAC is working with the Algerian authorities to design a ratings system of non-financial firms, for the purpose of collateral in emergency liquidity assistance. Such a rating system could potentially be expanded to facilitate information sharing with banks for the purpose of credit risk assessment.

(iii) communicates the commitment of authorities; and (iv) secures buy-in from public and private sector stakeholders to help achieve the financial inclusion objectives.[7]

13. Financial literacy initiatives and consumer protection laws: these raise awareness, lead to more responsible use of traditional finance and Fintech and are often part of a financial inclusion strategy.

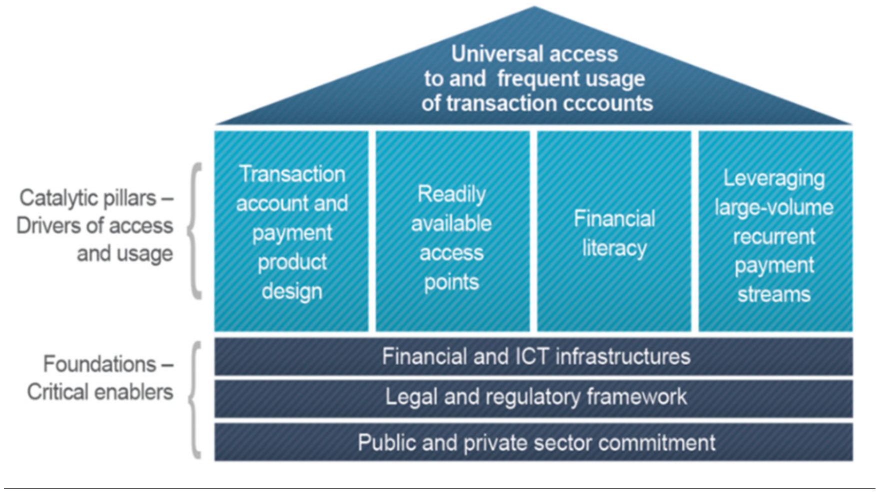
Fintech and CBDC

14. Fintech innovations such as domestic and cross-border payment services, mobile money, and internet banking can support financial inclusion and financial deepening, but they can also raise risks in various areas: (i) financial stability; (ii) financial integrity; (iii) regulations; (iv) market integrity; (v) cybersecurity; and (vi) data privacy.

15. Properly developing Fintech and maximizing the impact on financial inclusion, while mitigating risks, requires that multiple layers of policies be in place. These should cover: (i) facilitating infrastructures such as telecommunications and digital and financial infrastructures (such as broadband internet, mobile data services, data repositories, and payment and settlement services); (ii) enabling competition and committing to open and contestable markets, which can incentivize new entrants to gain market shares and incumbents to develop their own Fintech initiatives; (iii) including Fintech in a national financial inclusion strategy; (iv) identifying and monitoring emerging opportunities and risks and facilitate policy responses, including through regular dialogue with private sector; (v) adapting the legal, regulatory, and supervisory framework to address emerging risks and safeguard the integrity of the financial system**;** (vi) analyzing and understanding the implications of Fintech innovations for financial stability; and (vii) developing data infrastructure.

[7] Jordan has published a national financial inclusion strategy on the central bank's website, laying out the goals and sub-objectives by themes (see Annex VII Box 1). Saudi Arabia has a strategy for developing and diversifying its Fintech sector. For more cross-country references, see: Overview: National Financial Inclusion Strategies (worldbank.org).

Annex VII Figure 4. Fintech and Payment Systems Architecture

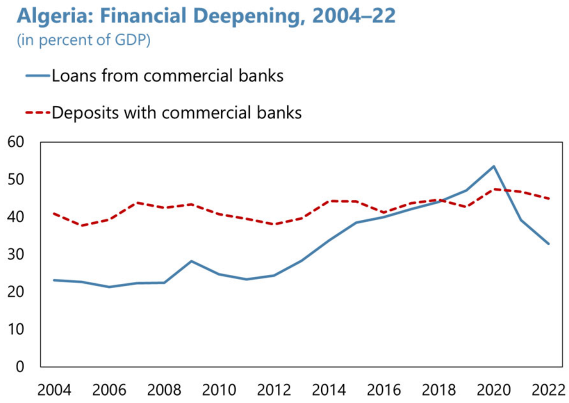


16. A properly designed CBDC could support financial inclusion but is no panacea. There is a growing interest in CBDC among central banks of several countries, including in the region. CBDC would create competition in the payments system by allowing for transactions to be settled more directly through reduced intermediation, thus reducing the cost of financial products and services. However, CBDC could face the same potential barriers as for other FinTech solutions, such as limited identifications and financial literacy, distrust in financial institutions, low wealth and high informality, and a preference for cash.

17. CBDC also has risks. Benefits and risks are difficult to estimate and depend on country-specific factors, including the central bank's capacity and legal framework. CBDCs could lead to financial stability risks, data privacy and legal challenges, financial integrity, cyber risks, and central bank operational risks.

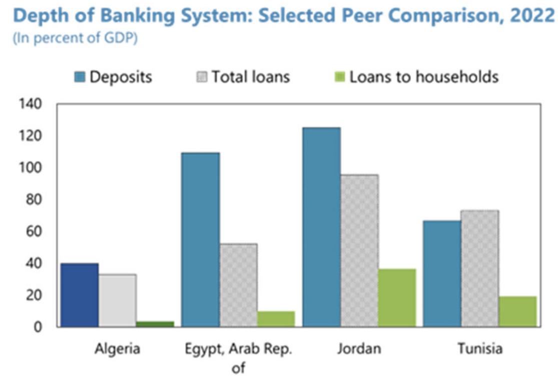
Annex VII Figure 1. Financial Depth and Outreach

Financial deepening has moderately improved in Algeria over the past two decades.



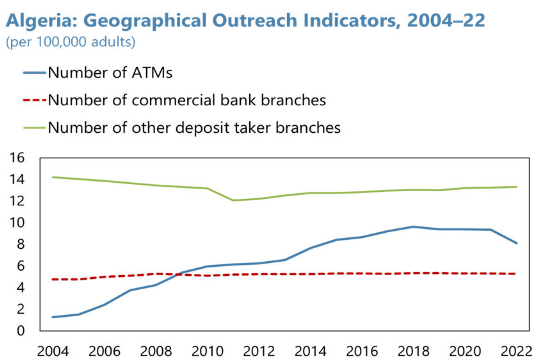
Source: Financial Access Survey, 2023.

However, there remain gaps in the level of financial depth relative to peer countries.



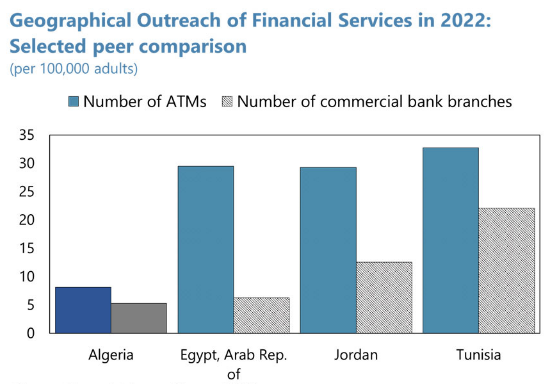
Source: Financial Access Survey, 2023.

The geographical outreach of financial services has improved in terms of ATMs…



Source: Financial Access Survey, 2023.

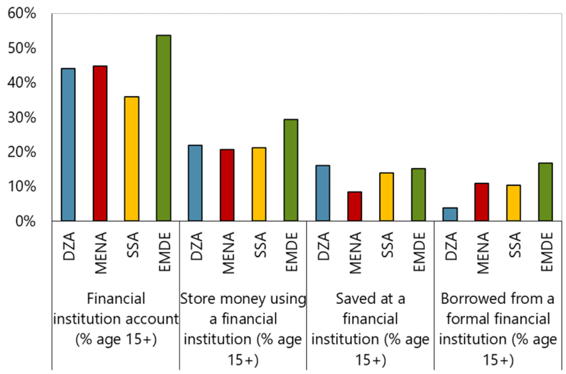
… but a gap remains relative to peer countries.



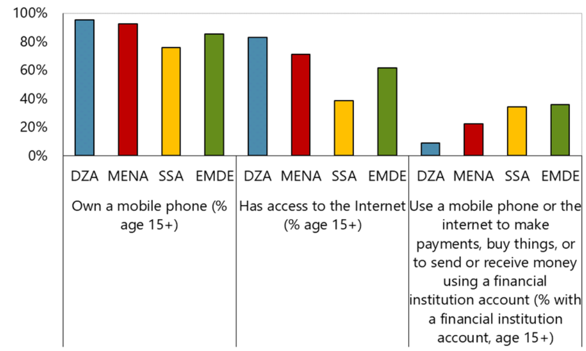
Source: Financial Access Survey, 2023.

Annex VII Figure 2. Access and Use of Financial Services

Bank account ownership is well developed but use of borrowing is lagging various country groups.

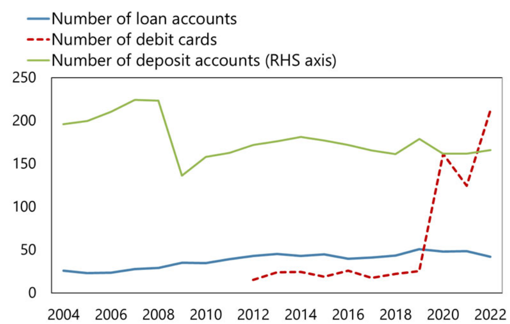


Similarly, ownership of mobile phones and internet access are developed but these has not translated into use of digital financial services.



The use of financial services has remained stable over the past two decades, except for the surge in debit cards.

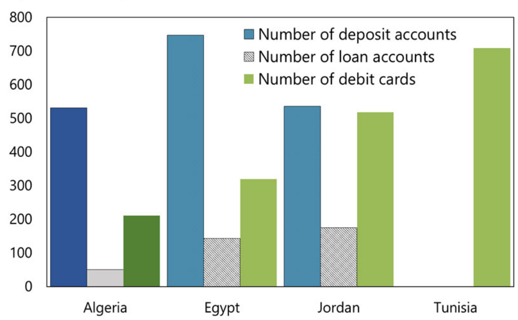
Use of Financial Services in Algeria, 2004–22
(per 1,000 adults)



Source: Financial Access Survey, 2023.

The use of financial services is similar to selected peer countries.

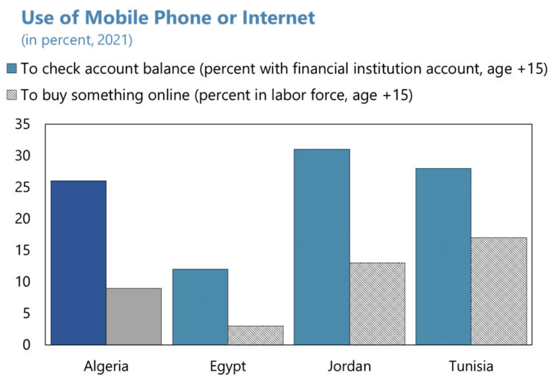
Use of Financial Services: Selected Peer Comparison
(per 1,000 adults)



Source: Financial Access Survey, 2022.

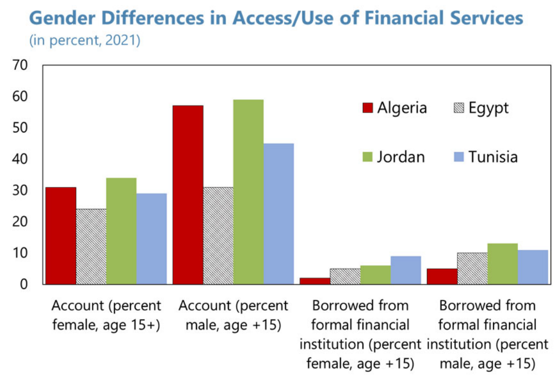
Annex VII Figure 3. Use of Digital Tools and Gender Gap

The use of mobile phones for digital finance has scope for growth.



Source: World Bank Global Findex.

There is a gender gap in the access and use of financial services.



Source: WorldBank Global Findex.

References

Bakker, N., and others, 2023, "The Rise and Impact of Fintech in Latin America", Fintech Note 2023/003.

Barajas, A., Chen, S., Cihak, Fouejieu, A., Sahay, R., and Xie, P., 2020, "Finance and Inequality", IMF Staff Discussion Note SDN/20/01.

Beck, T., R. Levine and N. Loayza , 2000, "Finance and the Sources of Growth", Journal of Financial Economics 58, 261-300.

Blancher, N. and others, 2019, "Financial Inclusion of Small and Medium-Sized Enterprises in the Middle East and Central Asia", Departmental Paper No. 2019/002.

Cihak, M. and R. Sahay, 2020, "Finance and Inequality", IMF Staff Discussion Note 2000/001.

Khera, P., Ng, S., Ogawa, S., and R. Sahay, 2021a, "Measuring Digital Financial Inclusion in Emerging Market and Developing Economies: a New Index", IMF WP/21/90.

Khera, P., Ng, S., Ogawa, S., and R. Sahay, 2021b, "Is Digital Financial Inclusion Unlocking Growth?", IMF WP/21/167.

Fouejie, A., Ndoye, A., and T. Sydorenko, 2020, "Unlocking Access to Finance for SMEs: A Cross-Country Analysis", IMF WP 20/55.

Mengistu, A., and H. Perez-Saiz, 2018c, "Financial Inclusion and Bank Competition in Sub-Saharan Africa", IMF WP 18/256.

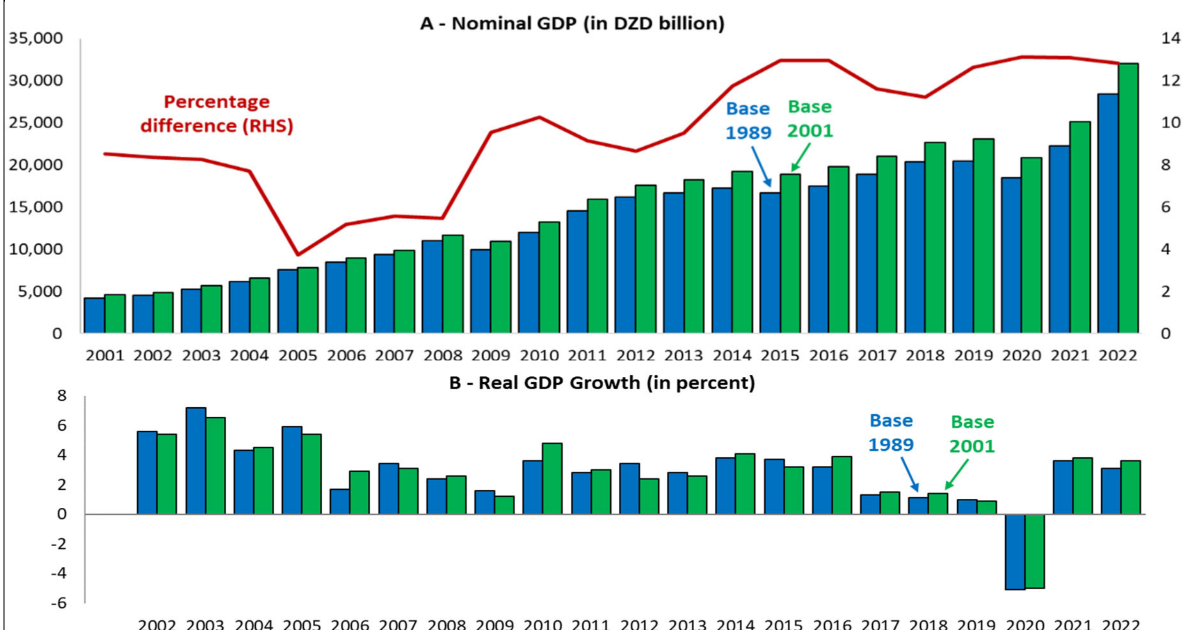
Annex VIII. Rebasing the National Accounts

1. **The Algerian National Statistics Office (ONS) published new national account data for 2001–22, which have with base year 2001 and adopt the 2008 System of National Accounts (SNA) standard.** The new nomenclature has 17 sectors.[1] The previous national accounts were based on the 1968 SNA, had base year 1989, and included seven sectors. Methodological upgrades include: (i) classifying R&D as gross fixed capital formation (from intermediate consumption); (ii) adding consumption of fixed capital to the production of the public administration; and (iii) re-evaluating the unobserved economy, notably by valuing imputed rent at market prices. The new accounts also use new data sources (2000 household survey, the 2001 structural business survey, trade data, etc.)

2. **The new national accounts increase annual nominal GDP by around ten percent on average over 2001–22.** Average annual real GDP growth is higher by about 0.1 pp. Much of the increase is attributed to gross fixed capital formation and final consumption.

Annex VIII Figure 1. Algeria: New National Accounts, 2001–22

New national accounts data for 2001–22 use base 2001 and adopt the 2008 SNA standard. As a result, annual nominal GDP is higher by ten percent and real GDP growth by 0.1 pp, on average.



Sources: Algerian authorities and IMF staff estimates.

[1] The hydrocarbon sector is no longer a standalone sector. It is now divided between "Crude oil" (under Extractive industries) and "Refined products" (under Manufacturing industries). It also excludes "Transport by pipes" (under Transport and communication) but includes hydrocarbon-related "Building and construction activities".

INTERNATIONAL MONETARY FUND

ALGERIA

March 7, 2024

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department in consultation with the Statistics Department

CONTENTS

RELATIONS WITH THE FUND

As of December 31, 2023

Membership Status: Joined September 26, 1963; Article VIII.

General Resources Account	SDR (million)	Percent of Quota
Quota	1,959.90	100.00
Fund holdings of currency	1,426.93	72.81
Reserve position in Fund	532.97	27.19

SDR Department	SDR (million)	Percent of Quota
Net cumulative allocation	3,076.66	100.00
Holdings	3,220.25	104.67

Outstanding Purchases and Loans None

Financial Arrangement

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	5/22/1995	5/21/1998	1,169.28	1,169.28
Stand-by	5/27/1994	5/22/1995	457.20	385.20
Stand-by	6/03/1991	3/31/1992	300.00	225.00

Projected Obligations to Fund

	Forthcoming				
	2024	2025	2026	2027	2028
Principal		0.00	0.00	0.00	0.00
Interest/Charges		0.04	0.04	0.04	0.04
Total		0.04	0.04	0.04	0.04

Implementation of HIPC Initiative Not applicable

Implementation of Multilateral Debt Relief Initiative Not applicable

Implementation of Catastrophe Containment and Relief Not applicable

Exchange Rate Arrangement

The *de jure* exchange rate arrangement is managed floating, and the *de facto* exchange regime is classified as a stabilized arrangement. From January 21, 1974, to October 1, 1994, the exchange rate of the dinar was determined on the basis of a fixed relationship with a basket of currencies, adjusted occasionally. On October 1, 1994, the Bank of Algeria introduced a managed float for the dinar through daily fixing sessions that included six commercial banks. This system has been replaced by an interbank foreign exchange market as of January 2, 1996. On January 23, 2024, the average of the buying and selling rates for the U.S. dollar was US$1 = DZD 134.27, equivalent to SDR 1 = DZD 178.74. No margin limits are imposed on the buying and selling exchange rates in the interbank foreign exchange market, except for a margin of DA 0.015 between the buying and selling rates of the Bank of Algeria for the dinar against the U.S. dollar. Algeria has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreements, and maintains an exchange system that is free from restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultation

Algeria is on a 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on February 1, 2023 (IMF Country Report 23/68). The discussions for the 2023 Article IV consultation were held in Algiers from December 3–14, 2023.

Technical Assistance

MCM	Financial stability and macroprudential policy framework	April 2016
MCM	Liquidity management	May 2016
FAD	Public financial management	July 2016
FAD	Tax administration	October 2016
MCM	Debt market development	October 2016
FAD	Tax administration	November 2016
MCM	Upgrading banking regulations	March 2017
MCM	Forward market development	March 2017
FAD	Tax administration	April 2017
MCM	Collateral framework	July 2017
METAC	Banking supervision	October 2017
FAD	Tax administration	November 2017
FAD	Medium-term budget framework and fiscal risk management	November 2017
MCM	Forward market development (workshop)	November 2017
FAD	Custom administration	December 2017
STA	External sector statistics	January 2018
FAD	Tax policy (local government)	March 2018

METAC	National accounts	March 2018
MCM	Monetary policy and risks to financial stability	March 2018
FAD	Tax administration	September 2018
FAD/METAC	Implementation of organic budget law	January 2019
FAD	Tax policy (local administration)	July 2019
STA	Government Finance Statistics	July 2019
LEG	Anti-money laundering regulations	September 2019
METAC	Tax arrears management	October 2019
FAD	Pension reform	November 2019
FAD	Tax administration (IT systems)	January 2020
FAD	Tax administration and Covid-19	June 2020
FAD	Fiscal risk management and program budgeting	November 2020
METAC	Public investment management	January 2021
METAC	Tax arrears management	January 2021
METAC	Program budgeting	March 2021
METAC	Post-crisis tax administration	June 2021
METAC	Program budgeting	July 2021
METAC	Management of PPPs	October 2021
METAC	Tax arrears management	October 2021
MCM	Monetary policy operations and liquidity management (long-term expert resident)	October 2016-October 2018
METAC	Follow-up mission on Supervisory Review and Evaluation Process	November 2019
METAC	Follow-up mission on SREP	April 2020
METAC	Implementation of Basel II & III standards	May 2020
METAC	Implementation of Basel II & III standards	June 2020
METAC	Implementation of Basel II & III standards	October 2020
MCM	Analysis of domestic government securities markets	August 2021
MCM	Debt Management Framework	October 2021
FAD	Workshop on energy subsidies	November 2021
MCM	Liquidity forecasting	March 2022
FAD/ METAC	Medium-Term Budget Framework and Program-Based Budgeting	February 2022
METAC	Regulation on Accounting and Valuation of Financial Market Instruments	July 2022
METAC	Program-Based Budgeting	July 2022
MCM	Parallel FX Market	July 2022
MCM	Emergency Liquidity Assistance	July 2022
METAC	Enhancing the risk rating framework	November 2022
FAD	Program-based budgeting	July 2022
FAD	Implementation of program-based budgeting	October 2022
FAD	Cash and debt management	October 2022
FAD	VAT tax expenditures and implementation in the digital sector	November 2022

FAD	Strengthening mining tax administration	November 2022
METAC	Liquidity Forecasting	October 2022
MCM	In-house Credit Assessment System	December 2022
METAC	Development of Strategies to Improve On-time Payment	Janvier 2023
METAC	In-house Credit Assessment System	June 2023
ICD	Macroeconomic Frameworks	June 2023
METAC	Regulating Outsourcing Activities	July 2023
METAC	Risk Rating Framework and Developing Early Intervention Measures	October 2023
LEG	Enhancing AML/CFT Framework	February 2024
ICD	Macroeconomic Frameworks	February 2024

Financial Sector Assessment Program

Algeria first participated in the FSAP in 2003. The FSAP was updated in 2007 and in 2013. A Financial System Stability Assessment was conducted in 2019 and 2020 and was concluded by the Executive Board on a lapse-of-time basis in July 2020 (Press Release 20/316).

Resident Representative

None.

RELATIONS WITH THE WORLD BANK GROUP

Algeria collaborates with the World Bank Group. Further information can be obtained at:

World Bank: https://www.worldbank.org/en/country/algeria

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has several shortcomings but remains broadly adequate for surveillance. Key shortcomings pertain to data on budget execution and outturns as well as to the real sector.
National Accounts: National accounts were upgraded in December 2023, to base 2001 and to follow the 2008 SNA recommendations. The new annual national accounts data go back to 2001. Volume measures are derived at prices of the previous year, then chain-linked. Quarterly data has been published with substantial delay in recent years under the old base. Quarterly data in the new base are not available yet. **Price Statistics:** The monthly consumer price index was published with a delay of less than one month prior to the pandemic but delays have lengthened. The index reference period is 2001 with weights from 2000; as such, Algeria's CPI is severely outdated which could lead to errors in the measurement of inflation. The quarterly producer price index was published with a delay of less than one quarter prior to the pandemic but delays have lengthened. The weight reference period for the PPI is 1989, which is outdated and likely not representative of current production.
Government finance statistics: Key shortcomings include insufficient institutional coverage (coverage is limited to the central government), classification problems, long lags for production of statistics, and lack of reconciliation of financing with the monetary accounts. Key factors behind these weaknesses include the lack of financial resources allocated to the compilation of statistics, insufficient interagency coordination, and concerns about accuracy that give rise to reluctance to publish provisional data. The authorities have not reported GFS data for publication in the Government Finance Statistics Yearbook since 2011.
Monetary statistics: The central bank of Algeria (BA) submits the monetary statistics for the central bank, other depository corporations (ODCs), and other financial corporations to STA on a timely basis. Monetary statistics are published in the International Financial Statistics. The monetary data are based on the Standardized Report Form (SRF) following the methodology of the Monetary and Financial Statistics Manual and Compilation Guide (MFSMG). BA reports data on some key series and indicators to the Financial Access Survey, including two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) of the United Nations Sustainable Development Goals.
Financial Sector Surveillance: BA reports Financial Soundness Indicators (FSI), which are published on the IMF's FSI website. However, the periodicity and timeliness of the data need to be improved as the FSIs are currently reported only on a yearly basis.
Balance of payments: Balance of payments statistics are of relatively good quality. The data collection system appears comprehensive in terms of payments measurement but has incomplete coverage of transactions other than settlements (e.g., reinvested earnings) and some position data. A January 2018 TA mission worked with the compilers to address several weak areas, including (i) recording of construction projects as FDI vs. services; (ii) trade statistics; and (iii) FDI position data. Balance of payments and IIP statistics are transmitted to the IMF for dissemination in the IFS.

II. Data Standards and Quality	
On April 21, 2009, Algeria began participation in the General Data Dissemination System (GDDS; that replaced with the enhanced framework, e-GDDS, in 2015) and disseminates only metadata.	No data ROSC is available.

Algeria: Table of Common Indicators Required for Surveillance
As of January 24, 2024

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	12/2023	01/2024	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/2023	01/2024	M	M	M
Reserve/Base Money	11/2023	01/2024	M	M	M
Broad Money	11/2023	01/2024	M	M	M
Central Bank Balance Sheet	11/2023	01/2024	M	M	M
Consolidated Balance Sheet of the Banking System	11/2023	01/2024	M	M	M
Interest Rates[2]	11/2023	01/2024	M	M	M
Consumer Price Index	11/2023	01/2024	I	I	I
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government	NA	NA	-	-	-
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[4]	09/2023	12/2023	I	I	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	11/2023	12/2023	I	I	NA
External Current Account Balance	Q3 2023	12/2023	Q	Q	Q
Exports and Imports of Goods and Services	Q3 2023	11/2023	Q	Q	Q
GDP/GNP	Q1 2023	08/2023	Q	I	I
Gross External Debt	Q3 2023	11/2023	Q	I	Q
International Investment Position[6]	Q2 2023	01/2024	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. Data are partial, because of shortcomings in the compilation of FDI.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); and Not Available (NA), Partially available (PA)

**Statement by Bahador Bijani, Executive Director for Algeria
and Kamel Badsi, Senior Advisor to Executive Director
March 27, 2024**

Introduction

On behalf of our Algerian authorities, we thank Mr. Chris Geiregat and his team for the constructive and candid policy discussions during the Article IV consultation mission, as well as for the high-quality Selected Issues Papers (SIP) on the role of fiscal reforms in addressing climate change challenges. The Algerian authorities broadly share the Staff Appraisal and assessment of policy priorities.

Recent Developments and Outlook

Despite strong and persisting global economic headwinds, the Algerian economy continues to expand at a solid pace, buoyed by industrial activity, construction, services, and the hydrocarbon sector. While headline inflation remains elevated, core inflation has continued to decelerate steadily since 2022. In 2023, Algeria ran a current account surplus for the second consecutive year; it has negligible external debt. International reserves, which reached a level equivalent to 14 months of imports in 2023, are projected by staff to remain above six months of import coverage through 2029. Moving forward, the economic activity is set to be further reinforced by the combined impact of stability and growth-oriented macro-economic policies and comprehensive structural reforms that the authorities are pursuing. The authorities are determined to conduct a balanced and appropriate policy mix to put the economy on a strong footing. In December 2023, the national statistics bureau (ONS) rebased the national accounts data according to the 2008 System of National Accounts (SNA) standard. As a result, Algeria's annual nominal GDP is revised upward by ten percent, and real GDP by 0.1 percentage points, on average, over 2001-2022. The authorities agree with staff on the near- and medium-term outlook for the economy and are more optimistic about the impact of the structural reforms currently underway.

Macroeconomic Policies

Fiscal Policy

In the post-COVID era, complicated by the adverse effects of current global geopolitical crises and conflicts, the authorities consider maintaining household purchasing power as a core fiscal policy priority. They also remain committed to preserving public finance and debt sustainability over the medium term. Gross government debt stood at 55 percent of GDP in 2023 but remains below the benchmark for emerging markets. Significant progress has been made to strengthen public finance management including through program budgeting implementation, enacting new procurement and public accounting laws, and launching a new data center on customs and taxation for the general public. The authorities have expressed interest in conducting a Public Investment Management Assessment (C-PIMA) and are working towards gradually replacing universal subsidies with targeted transfers. In line with the staff's recommendations, a comprehensive package of reforms is being prepared to strengthen cash and public debt management.

Monetary Rate Policy and Exchange

Against a backdrop of excess liquidity and low credit to the economy, the Bank of Algeria (BoA) seeks to strike a balance between controlling inflation while providing sufficient liquidity to the private sector in support of economic activity. The authorities are concerned about the sticky inflation and agree with the staff on the need for continuous improvement of the monetary policy transmission mechanism that is less effective in the context of excess liquidity. The Bank of Algeria is sterilizing liquidity through open market operations and increases in the reserve requirement ratio. The new Monetary and Banking Law consolidates the independence of the Bank of Algeria, establishes price stability in the mandate of its Governor. It also paves the way for financial innovation, strengthens financial surveillance and crisis management, and promotes new instruments of monetary policy, governance bodies, and control functions. The Monetary and Banking Council has been tasked with aligning the current banking regulations with the new law. The authorities agree with staff that the exchange rate has a central role to play in absorbing external shocks.

Financial Sector

Algeria's financial sector remains resilient with robust capital and liquidity buffers. The authorities are eager to accelerate banking sector reforms to improve financial inclusion, as evidenced by the recent opening of the SOB capital to private investors, with the first operation taking place in January of this year. The authorities note the limitations of the staff's NPL assessment, which does not reflect the actual level of NPLs due to a lack of legal provisions. This allows for the writing-off of old debt and the establishment of an asset management company for NPL recovery. The authorities share the staff's views on reforms to improve transparency and financial service delivery through digital solutions and to strengthen financial integrity, and to address governance and corruption risks by enhancing the AML/CFT framework.

Climate Change

As indicated in the Staff's SIP, the authorities are fully aware of the serious threats of climate change, including recurrent drought, extreme temperatures, and flooding, and have developed a comprehensive strategy to respond to the challenges. Algeria is utterly committed to reducing carbon emissions by 7 percent by 2030. Water scarcity—the most observable by-product of global climate change in arid North Africa—is a serious concern. Concrete actions have been taken to mitigate the impact, including through water desalination, wastewater recycling, optimizing agricultural practices, and expanding arable lands, including in the southern region of Algeria.

Structural Reforms

The authorities aim to have in place an effective social safety net and to address the challenging issues of youth and women unemployment, and income and gender disparities. Algeria continues to implement a strategy to reduce its dependence on the hydrocarbon sector by diversifying the economy, promoting private investment, and boosting non-hydrocarbon exports. As part of their policy to diversify the economy, the authorities are developing a national strategy to revitalize the mining sector. Meanwhile, as a major supplier of gas to Europe, Algeria reiterates its commitment to the stability of international oil and gas markets. Thanks to structural reforms implemented at the beginning of this decade, non-hydrocarbon exports have grown by about 170 percent. In line with the staff's recommendations and as part of the national digitalization strategy, the authorities are determined to boost governance and transparency, and scale up digitalization.

Policy Recommendations

Fiscal Policy

The authorities take note of the staff's recommendations on gradual fiscal rebalancing. They believe, however, that the immediate budget priority is to continue ensuring social equity and preserving the purchasing power of citizens. They agree that the economy must address multiple fiscal risks for which bold policy measures are being taken. Alongside other fiscal measures, substantial strides are being made in implementing program budgeting to enhance the effectiveness and efficiency of public finances.

Monetary and Exchange Rate Policies

The authorities note the staff's recommendations for monetary policy tightening. However, they believe that the existing excess market liquidity renders the transmission channels of monetary policy, especially through an increase in the policy rate, ineffective. To achieve the operational objective, the Bank of Algeria has been conducting a series of liquidity-absorption operations.

Financial Sector

The authorities are of the view that the implementation of a national financial inclusion strategy is crucial and believe that the new Monetary and Banking Law lays the foundation for this purpose.

Regarding the economic and financial links between the central government, state-owned banks (SOBs), and SOEs, it is important to note that the High Committee of Fiscal Risks Assessment and Warning continues to monitor closely debt sustainability issues, fiscal risks linked to SOEs, social security funds, and finances of the local authorities.

Structural Reforms

Supported by the new Law on Money and Banking and Program Budgeting, the new Investment Law will be instrumental in promoting a sound business environment and economic diversification. Further actions are being taken through the Algerian Investment Promotion Agency (AAPI), a one-stop shop, to promote foreign investment and foster private sector activity that is critical for unleashing potential growth and job creation, especially among youth and women.

Concluding Remarks

Against a backdrop of challenging global economic conditions, Algeria continues to strengthen its economic fundamentals while preserving debt sustainability and financial stability. The authorities are determined to step up the pace of structural reforms and to promote economic diversification. They look forward to continued engagements and strong collaborations with the Fund, including on capacity development and policy dialogue.