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COUNTRY PROFILE 2016

ALGERIA

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Contents

Abbreviations and acronyms

CEN-SAD	Community of Sahel-Saharan States
ECA	Economic Commission for Africa
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Programme for Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
VAT	Value added tax
WHO	World Health Organization

Acknowledgements

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The country profile on Algeria was prepared under the overall coordination and substantive guidance of Giovanie Biha, Deputy Executive Secretary for Knowledge Delivery of ECA with the supervision and coordination of Zoubir Benhamouche, Economist at ECA Subregional Office for North Africa. Substantive contribution were made to the country profile by Omar Abdourahman, Acting Chief, Data Centre and Acting Director, Subregional Office for North Africa; Isidore Kahoui, Statistician; and Mohammed Mosseddeck, Chief Research Assistant.

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Algeria at a glance

General information	
Subregion	North Africa
Official language(s)	Arabic
Currency	Dinar (DZD)
Capital	Algiers
Membership of one or more regional economic communities	CEN-SAD, AMU

Ranking	
Human development Index (UNDP)	83/188 (2014)
Gender inequality index (UNDP)	85/155 (2015)
Ibrahim index of African governance (Mo Ibrahim Foundation)	20/54 (2015)
Ease of doing business index (World Bank)	163/189 (2015)
Corruption perceptions index (Transparency International)	100/175 (2015)

Economic growth

With a growth rate of 3.9 per cent in 2015, compared with 3.8 per cent in 2014, the Algerian economy is weathering the crisis which affected the hydrocarbons sector in the second half of 2014. The Government expects a modest slowing of growth in 2016, down to 3.5 per cent.

Budget policy and debt policy

The oil price fell from an average of more than $111in 2011 to less than $55 at the end of December 2014. As over 60 per cent of the State budget is financed by oil taxation, the decline in the oil price had a significant impact on government finances. The budget deficit rose to 16 per cent of GDP in 2015.

Inflation and monetary policy

Year-on-year inflation peaked at 8.9 per cent in January 2013 but fell to a minimum level of 1.5 per cent in August 2014. Subsequently, it began to climb, reaching 5.3 per cent in September 2015. Annual inflation rose in Greater Algiers to 4.8 per cent in 2015, compared with 2.9 per cent in 2014. In 2015, inflation reached 4.4 per cent, compared with 3.8 per cent in 2014. "Structural inflation, excluding goods with volatile prices (mainly fresh food products) also began to climb, reaching 4.2 per cent as an annual average in September 2015.

Current account and trade performance

From a surplus of 1,890 billion* DZD in 2011, the trade balance shows a deficit of 18,016,7 billion DZD in 2015. Exports dropped by 34.6 per cent between 2011 and 2015, while imports increased by 54 per cent.

** The US$/DZD exchange rate stands at 110.85 (November 2016).*

Foreign direct investment

Foreign direct investments remain relatively low, not exceeding 220 billion DZD per annum (approximately $2 billion). Since 2013, the level of foreign direct investment declined from 155.85 billion DZD in 2013 to 125.44 billion DZD in 2014 and to -69 billion DZD in 2015.

Demographic dynamic

In 10 years, the total population increased by 18.96 per cent, from 33.96 million in 2005 to 14.4 million as at 1 January 2016.

Poverty

Algeria has achieved significant poverty reduction. In terms of human development, Algeria is among the 20 countries to have achieved the most substantial decrease in their HDI deficit between 1990 and 2015. Nonetheless, social and regional inequalities continue to be a key issue.

Employment

Although unemployment figures had dropped considerably from 29.5 per cent in 2002 to 10 per cent in 2010-2011, they began to climb again to 11.2 per cent in 2015. The unemployment rate of 15 to 24-year-olds rose from 22.4 per cent in 2011 to 29.8 per cent in 2015.

Health

Since the 1960s and 1970s, the country has made considerable efforts to improve the health indicators of its population. Nevertheless, two indicators still give cause for concern notwithstanding the investments made: the mortality rate of children under five and maternal mortality.

Education

Algeria has made unquestionable progress in widening access to schooling. The most serious problem facing the education system is that of children repeating or dropping out of school.

Gender

In Algeria, the figures show inequalities in favour of men in the major sectors such as tertiary education, employment in the non-agricultural sector and access to credit (loans from financial institutions).

1

Overview

With a growth rate of 3.9 per cent in 2015, compared with 3.8 per cent in 2014, the economy is weathering the crisis which affected the hydrocarbons sector in the second half of 2014. Despite the fall in oil prices, (40 per cent between the first two quarters of 2014) and its impact on state finances, the pace of growth was maintained through sustained public investment and a generous redistribution policy. In fact, public investment posted an average growth of 12 per cent in the period 2011-2015 and of 26 per cent in 2015. Social spending rose to 10.4 per cent of GDP in 2015.

Gross domestic product excluding hydrocarbons recorded growth of 5.5 per cent in 2015 compared with 5.6 per cent in 2014, with an average of 6.8 per cent during the period 2011-2013. The growth of GDP in 2015 was driven by agriculture which contributed 0.8 per cent, trade 0.7 per cent, construction 0.5 per cent and transport and communications 0.5 per cent. Annual inflation peaked at 8.9 per cent in January 2013, then began a downward trend to stand at 1.5 per cent in August 2014. Subsequently, it began to climb again to achieve a ceiling of 5.3 per cent in September 2015. Inflation rose to 4.8 per cent in 2015 compared with 2.9 per cent in 2014.

From a surplus of 1,890 billion DZD in 2011, the external trade balance posted a deficit of 18,016.7 billion DZD in 2015. Exports fell by 34.6 per cent between 2011 and 2015, while imports increased by 54 per cent during the same period.

At the social level, with respect to human development, Algeria is one of the 20 countries achieving the greatest reduction in HDI deficit between 1990 and 2015. The Human Development Report (2015) published by UNDP shows that Algeria, with a human development index of 0.736, is ranked eighty-third in the world, ahead of the other countries of the subregion such as Libya, ranked ninety-third, Egypt, ranked 108th and Morocco, ranked 126th in the world.

At the structural level, notwithstanding unprecedented economic well-being since the beginning of the 2000s as a result of soaring oil prices, the country has not been able to meet the challenge of diversification: economic diversification, diversification of exports and diversification of budget resources. Industry accounts for only 5 per cent of GDP, compared with more than 15 per cent in neighbouring countries; the services sector is dominated by trade and transport which are dependent on the hydrocarbons and import sector. Exports of hydrocarbons invariably account for between 95 and 98 per cent of exports. With respect to the budget, oil taxation supplies more than 60 per cent of the country's budget resources (in 2014)[1]. Consequently, in the medium to long term, Algeria will have to deal with the issue of economic diversification. In the short term, the country is facing a continually increasing budget deficit as a result of the fall in oil prices: the fiscal balance amounted to 9 per cent of GDP in 2014 and fell to 16 per cent in 2015. The Government needs to find a way to control the worsening situation of public finances without slowing down growth.

This country profile consists of six aspects of the fundamentals of the Algerian economy:

- national and subregional context;
- economic growth;
- public finances;
- monetary policy;
- balance of payments and foreign trade ;
- capital and financial account.

A study of the following three specific points complements the analysis of the fundamentals:

- regional integration process;
- social development;
- problems to be solved: rationalizing public finances without causing a downturn in growth.

1 This ratio fell to 47 per cent in 2015 as a result of the decline in oil taxation.

2

National and subregional context

The subregion is facing many problems, economic, social and political. Political instability continues to create problems for some countries in the subregion against a background of growing insecurity. Algeria is particularly concerned by the security situation in the Sahel, in Libya and in the Middle East and the country's military spending accounted for 5.6 per cent of GDP in the period 2011-2015[2].

The security context continues to have a serious impact on economic activity in Tunisia where tourism is an important source of revenue. In 2015, visitor numbers declined by 30.8 per cent and tourism revenue dropped by 35.1 per cent, compared with 2014, to about 2,355 billion TND (Tunisian dinar). In Egypt, after a modest upswing in tourism in 2015, the attacks of the first half of 2016 had an adverse impact on tourism earnings and on the prospects for the revival of the sector. In March 2016, the number of tourists dropped by 13.7 per cent in comparison with the same period of the previous year.

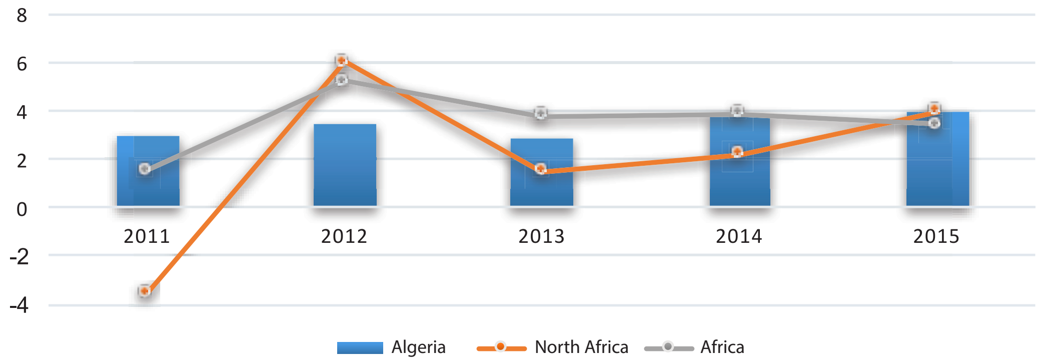
The subregion is also suffering from a reduction in oil prices that is negatively affecting Algeria, Sudan and Libya, but having a positive impact for oil-importing countries. The fall in hydrocarbons prices in the international market resulted in a slight decrease in the energy balance deficit (6.8 per cent) in Tunisia. In Morocco, as at the end of May 2016, the energy bill fell by 31.2 per cent compared with the same period in 2015 to stand at 19.9 billion MAD (Moroccan dirham). The share of energy products in total imports declined to 12.2 per cent, after 18.5 per cent the previous year.

Sudan was seriously affected by the drop in oil prices; exports of hydrocarbons fell by 53 per cent between 2015 and 2014, to achieve only $627 million in 2015.

In addition to the security problem, Algeria is also in the grip of an economic crisis which hit public finances particularly hard in 2014. Oil taxation fell by one third in 2015 and overall budget resources by 12 per cent.

2 Source: World Bank indicators, website.

Figure 1: Growth rate, Algeria, North Africa* and Africa (as a percentage)



Sources: Growth Algeria, National Statistics Office; Growth Africa, United Nations Department of Economic and Social Affairs, October 2015; Growth North Africa, ECA calculations.

* The growth rate of North Africa 2012 is the result of Libyan growth of 104.5 per cent, the outcome of the revival of oil production following the end of the crisis. If Libya is excluded, however, the rate is 2.3 per cent.

In 2000, a revenue regulation fund was established and, topped up by the budget surplus achieved as a result of high oil prices, helped to mitigate the impact of the 50 per cent fall in the oil price. Consequently, economic growth has not yet been affected, as the Government pursued its policy of redistribution and maintained a high level of public investment.

GDP growth therefore rose to 3.9 per cent compared with 3.5 per cent for North Africa, and 3.7 per cent for Africa (figure 1).

Nevertheless, the prospect of long-term low oil prices places considerable constraints on the authorities; as a result, they may be forced to make significant reductions in public spending, whereas growth needs to be driven by an expansionist budget policy. The sudden halt of public investment is likely to cause an economic slowdown and plunge Algeria into a deeper economic and social crisis. Therefore, the Government needs to rationalize public finances and at the same time try to limit the negative impact which it might have on growth. This is the major short-term issue. Everything suggests that this is the situation unfolding in 2016. Public investment fell by 20 per cent between the achievements of 2015 and the investment scheduled in the revised Finance Bill of 2016.

There is significant potential for economic diversification as Algeria is a single product exporter. From this standpoint, if the Algerian economy is to become better incorporated into the regional value chains, the country must achieve more effective regional integration as a matter of urgency

The regional integration index produced by ECA ranks Algeria third in the Arab Maghreb Union with a score of 0.47.

Box 1: Africa regional integration index - Algeria

The Africa regional integration index is designed to measure how well each country in the continent is meeting its commitments under pan-African integration frameworks, such as the African Union Agenda 2063 and the Abuja Treaty. The index is a joint project of the African Development Bank, the African Union Commission and ECA. The index tracks the following dimensions: free movement of persons; trade integration; productive integration (development of regional value chains); regional interconnections; and infrastructure and macroeconomic policy convergence. For more detailed information, the reader may consult the report on the index and the dedicated website.

Overall performance

Algeria is ranked third in the Arab Maghreb Union according to the overall regional integration index*.

Free movement of persons	Trade integration	Productive integration	Infrastructure	Financial integration and macroeconomic policy convergence
Score of 0.8 – Ranked first in the AMU region.	Score of 0.97. Ranked fourth. Tunisia ranked first.	Score of 0.67. Ranked fourth. Tunisia ranked first.	Score of 0.37. Ranked fourth. Libya ranked first.	Score of 0.15. Ranked third. Morocco ranked first.

Free movement of persons: Algeria scores well (first place). In fact, the country allows nationals of other member countries of the Arab Maghreb Union to enter visa-free and it has also ratified the Arab Maghreb Union treaties on the free movement of persons, the right of establishment and free movement of workers.

Trade integration: Algeria is ranked fourth. The country applies an average tariff of about 4 per cent to imports from the Arab Maghreb Union (data from 2014); after Mauretania, this is the highest tariff within the regional bloc. Trade (as a percentage of GDP) with the rest of the regional economic community is relatively low; between 2010 and 2013, imports from the Arab Maghreb Union accounted for only 0.4 per cent of its GDP and exports to the Arab Maghreb Union accounted for 0.9 per cent of GDP, which puts Algeria in second place in the Arab Maghreb Union according to this index.

Productive integration: Algeria is ranked fourth. Its economy is poorly integrated into the regional value chains. Its trade is moderately complementary to that of its partners. Between 2010 and 2013, Algeria was ranked third for its performance in the UNCTAD trade complementarity index in relation to the rest of the Arab Maghreb Union. The proportion of intermediate goods in its imports from the Arab Maghreb Union was 29 per cent (the highest in the Union), whereas the proportion of intermediate goods in its exports within the region stood at an average of 2 per cent (the lowest in the Arab Maghreb Union region).

Infrastructures: Algeria is ranked fourth. The cost of mobile communication to Africa is quite high and Algeria is the thirteenth most expensive country out of 38 African countries for which data was available. The country was ranked fourth among the members States of the Arab Maghreb Union in its average performance in relation to the African Development Bank infrastructures development index between 2010 and 2012. Approximately 58 per cent of international flights in and out of Algeria are within the Arab Maghreb Union, thus putting Algeria in second place behind Libya on the basis of this ratio.

Overall, Algeria is achieving a mixed performance in terms of regional integration. The country has a good ranking in the sector of free movement of persons, but it is in penultimate position in the Arab Maghreb Union for all the other dimensions of the index. To improve its performance, Algeria should reduce its customs tariffs for intra-Arab Maghreb Union trade and improve its integration into the regional value chains.

* A continent-wide ranking, in which all African countries from all regional economic communities will be compared with one another, is currently under development for the Africa regional integration index and will be added to subsequent updates of the ECA country profiles.

3

Economic performance

3.1 Economic growth is dependent on the hydrocarbons sector

Growth continues to be strongly dependent on the hydrocarbons sector3. In 2013, it climbed to 2.8 per cent as a result of a significant drop of 5.5 per cent of the added value of the hydrocarbons sector, where production has actually been falling for almost nine years. Consequently, as a result of the drop in production, the contribution of the hydrocarbons sector to growth, although it remains high, has actually fallen. In 2013, the sector made a negative contribution to growth of 1.9 per cent.

In 2014 the oil price fell sharply, losing 40 per cent in less than six months. The price per barrel fell from an average of $111 in 2011 to less than $55 at the end of December 2014. Nevertheless, growth picked up in comparison with 2013 to achieve 3.8 per cent, notably thanks to a smaller drop in volume of the hydrocarbons sector (0.6 per cent) and a strong domestic demand resulting from public spending (public investments, redistribution policy, public employment, salary increases in the civil service, etc.). Excluding hydrocarbons, GDP, also driven by public spending, grew by 5.6 per cent in 2014, a slight drop in comparison with 2013 (5.9 per cent). The construction industry (+0.7 per cent), transport and communications (+0.5 per cent) and trade (+1.2 per cent) made the greatest contribution to growth. The hydrocarbons sector, on the other hand, contributed -0.2 per cent to growth.

In 2015 GDP growth remained stable at 3.9 per cent, notwithstanding a historically low oil price; GDP excluding hydrocarbons grew by 4.5 per cent compared with 5.6 per cent in 2014, but was down sharply in comparison with 2012-2013 (7 per cent). The growth of GDP excluding hydrocarbons was essentially driven by agriculture (0.8 per cent), construction (0.5 per cent), transport and communications (0.5 per cent) and trade (0.7 per cent). The growth of the latter two sectors was driven by a rise in imports which recorded staggering growth, climbing from 1,820 billion DZD in 2005 to 4,780 billion DZD in 2015.

Public investment was the main driving force behind the rise in imports. The equipment budget climbed from 1,921 billion DZD4 in 2010 to 3,154 billion DZD in 2015. Equipment imports accounted for 32.4 per cent of total imports in 2014. In fact, it should be remembered that the

3 Unless otherwise stated, all macroeconomic data in this section have been provided by the Ministry of Finance, Directorate General for Forecasts and Policies.

4 Divide by 106 for the correct equivalent in US dollars.

Government carried out some very ambitious five-year development plans. The 2004-2009 development programme cost 17 500 billion DZD and the 2010-2014 programme amounted to 21,214 billion DZD. For the period 2015-2019, the Government plans a budget of more than 23,000 billion DZD ($264 billion). Between 60 and 70 per cent of these programmes are carried out, on average.

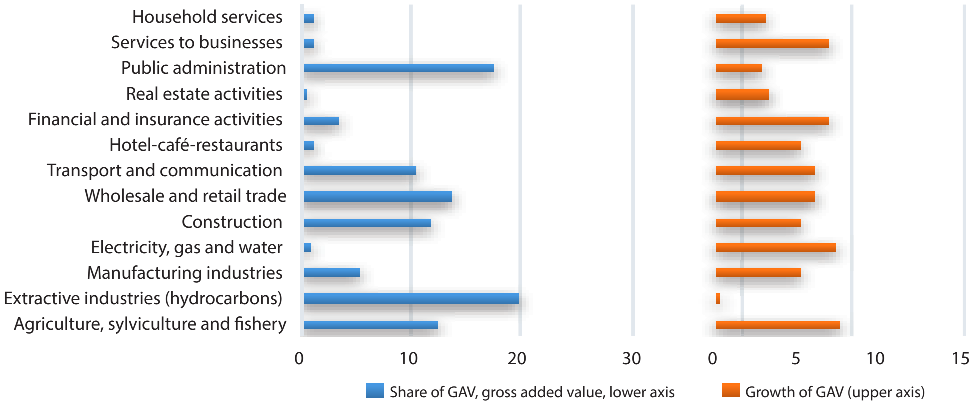
These programmes are devoted to structural public investments (infrastructure, housing). For 2014, such public spending was supported by substantial oil revenue, but after that date, in addition to the drop in oil earnings, significant spending placed a heavy burden on public finances. Strong growth in 2015 was effected at the cost of a significant widening of the budget deficit, amounting to 33 per cent of GDP.

In 2015, the sectors that recorded the highest growth were agriculture, with 7.6 per cent, transport (6 per cent), trade (6 per cent) and construction (5.3 per cent). The growth of the agricultural sector resulted from cereal production resulting from favourable climate conditions. The growth of transport and trade (services closely associated with imports) was the result of an increase in imports of 10 per cent in comparison to 2014. It should be noted, however, that there was a downturn in trade (more than 10.2 per cent in 2014) and construction (more than 6.9 per cent in 2014). Industry remained weak with a share of 5 per cent of industrial added value in GDP in 2015 (figure 2), compared with more than 7 per cent at the beginning of the 2000s, and growth of 4.6 per cent in 2015, compared with 4 per cent in 2014. The hydrocarbons sector experienced an upsurge in the fourth quarter of 2015, recording an increase of 5 per cent in volume compared with a fall of 7.9 per cent in the fourth quarter of 2014. The added value of the sector climbed by 0.4 per cent in 2015 as against a drop of 0.6 per cent in 2014.

In the short term, the lower oil price had a limited impact on growth because of the internal dynamic of the private sector, public investment which remained high, and significant social transfers which accounted for 10.4 per cent of GDP in 2015 and 9.4 per cent in 2014. Nevertheless, in the medium term, the freezing of unbudgeted investment programmes is likely to have a negative impact on growth, particularly in the absence of ambitious reforms to diversify budget reforms and the economy.

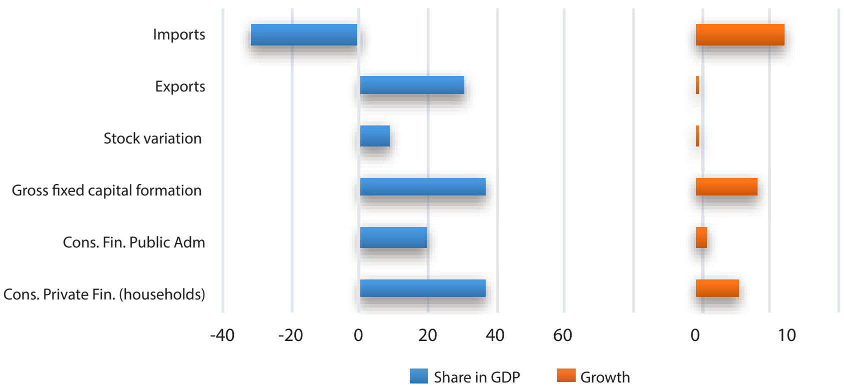
The economic downturn is already beginning to be felt and unemployment is climbing again. From 15.3 per cent in 2005, it went down to 10 per cent in 2010, then to 10.6 per cent in 2014 and to 11.2 per cent in 2015. Unemployment had a greater impact on those aged between 16 and 24, with a rate of 29.9 per cent in 2015, whereas for those aged over 25 it was only 8 per cent.

Figure 2: Distribution of GDP (as a percentage) and real growth of added value (as a percentage) by activity sector in 2015



Source: National Statistics Office

Figure 3: Distribution of GDP (as a percentage) and real growth (as a percentage) of the components of GDP, demand approach, in 2014



Source: National Statistics Office, national accounts (www.ons.dz)

With respect to end demand (figure 3), investment (gross fixed capital formation) in nominal value recorded growth of 12.9 per cent in 2015, rising from 6,342 billion DZD to 7,159 billion DZD. This rise was driven by public investment, which increased by 21.3 per cent.

In real terms, investments showed an increase of 6.4 per cent in 2014. End consumption increased by 3.2 per cent in 2014, compared with an average of 5.5 per cent between 2009 and 2013. This slowdown was due to public consumption with growth of only 1.1 per cent compared with an average of 5.5 per cent in 2009-2013. Household consumption reported growth of 4.4 per cent in 2014, compared with an average of 5.5 per cent in 2009-2013. It remained vigorous in 2014 as the fall in the oil price had not yet affected end demand. In fact, public investment and imports continued to drive economic activity.

Box 2: Comparing economic forecasts for Algeria

Economic forecasts provide key information for decision makers in the public and private sectors and reliable economic forecasts facilitate reliable decision-making. A number of organizations are currently producing economic growth forecasts for Algeria: the African Development Bank, the Economist Intelligence Unit, the International Monetary Fund (IMF) and the World Bank. The forecasts produced by these organizations are all within two percentage points of each other for the years 2010-2015 (see figures A). The Economist Intelligence Unit provided the most optimistic growth forecasts each year for the period 2008-2013, but with forecasts lower than the growth achieved for 2014 and 2015. The most optimistic growth rate forecasts for 2016 come from the World Bank (3.9 per cent) and IMF (3.8 per cent), while the Economist Intelligence Unit predicts a lower growth rate of 1.5 per cent.

The degree of accuracy of these forecasts is an important issue. ECA conducted an analysis to determine which forecasts tend to be the most reliable. The root mean squared error and the mean absolute error are indicators commonly used to evaluate the forecasts. Generally speaking, the higher the value of these errors, the less reliable are the forecasts (see figure B). Our analysis suggests that the most accurate forecasts produced for Algeria for the period 2008-2014 were those of IMF and the World Bank, followed by the forecasts produced by the African Development Bank.

Figure A: Forecasts of real GDP growth rate by institution

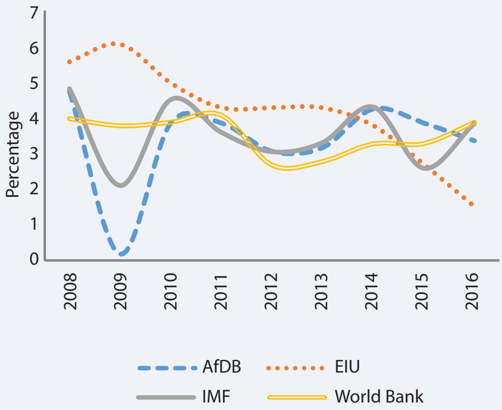
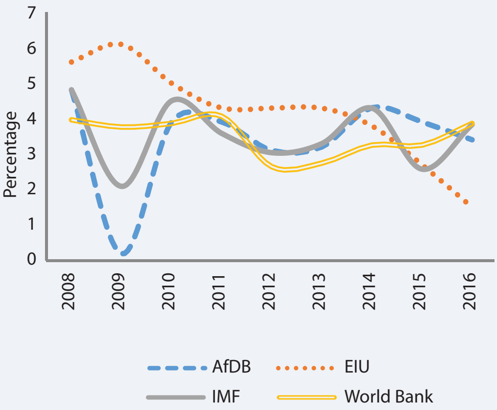


Figure B: Accuracy of forecasts



Source: Calculated by ECA

Finally, in 2014, imports increased by 9.1 per cent in real terms and exports by only 0.2 per cent as a result of a decline of 1 per cent in hydrocarbon exports. It should be noted, however, that the decline in hydrocarbon exports was not as great as in 2013, when it had experienced a drop of 6 per cent. In 2015, the volume of imports dropped by 6.4 per cent after several consecutive years of upswing, as a result of multiple restrictions on foreign trade (licences, specifications for car dealers, etc.).

The estimates for 2016 are based on an assumption of resilient growth of 3.6 per cent; the impact of the deterioration in public finances on growth has not yet become apparent. GDP growth over the first two quarters of 2016 stood at 4 per cent and 3.4 per cent respectively, as a result of the weaker growth of hydrocarbons in the second quarter.

3.2 Public finances

In Algeria, the Finance Bill uses an estimated budget based on the oil price of $37 (the Finance Bill of 2017 revises this price upwards to $50). When the barrel price exceeds $37, and the budget balance is positive, the surplus is used to feed a fund known as the revenue regulation fund. As its name suggests, this fund is a public savings account used to mitigate the instability of budget resources. Under the triple impact of increased public spending, reduced production of hydrocarbons and, in 2014, the fall in the oil price, the Government was forced to dig into the fund to finance the budget deficit.

In 2013, the added value on oil taxation (the difference in taxation between the market oil price and the benchmark price of $37 used in preparing the budget) amounted to 2,062 billion DZD. To finance the Treasury deficit, the sum of 2,132 billion DZD was taken from the revenue regulation fund whose outstanding amounts consequently decreased by 70.2 billion DZD. In 2014, the difference between the added value and the deductions to finance the public deficit resulted in a deficit of 1,155 billion DZD. As a result, the Fund lost almost 22 per cent of its outstanding amounts between 2012 and 2014. In 2015, the Government had to deduct 2,886 billion DZD to finance the budget deficit.

The budget reading must differentiate between budget data relating to budgeted oil taxation and data relating to effectively recovered oil taxation. The Ministry of Finance publishes the budget data based on an oil price of $37.

As a result of recovered oil taxes (market oil price) the budget deficit stood at 17 per cent in 2015 (Table 1).

Although the various five-year plans certainly placed a heavy burden on public finances in terms of spending, they made it possible to upgrade some public infrastructures essential to economic development. Spending on economic and administrative facilities rose from 495 billion DZD in 2010 to 1,151 billion DZD in 2015. Cumulatively over the period 2010-2015, it amounted to 4,133 billion DZD. Operating expenses climbed by 34 per cent in 2011, with a total of 1,681 billion DZD, compared with 1,139 billion DZD in 2010, because of both the impact of volume (hiring in the civil service) and an increase in civil service salaries. Expenditure on salaries and wages increased by 48 per cent in 2011. Furthermore, the minimum wage increased by 20 per cent in 2012, rising from 15,000 DZD to 18,000 DZD.

During the period 2012-2015 the average annual growth in operating expenditure amounted to 4 per cent and that of the wage bill was 6 per cent. The increase in operating expenditure slowed down in 2015, dropping to 2 per cent compared with 9 per cent in 2014, notwithstanding an increase in salary costs of 14 per cent.

Capital expenditure recorded an annual average increase of 12 per cent over the period 2010-2015. In 2015, it increased by 26 per cent, compared with 32 per cent in 2014.

Table 1: Budget operations (in billions of DZD)

	2011	2012	2013	2014	2015*
Total revenue (including grants)	3 490	3 804	3 895	3 928	4 517
Tax revenue	3 056	3 428	3 647	3 669	4 034
Tax revenue excluding hydrocarbons	1 527	1 909	2 031	2 091	2 311
Tax revenue (hydrocarbons)	1 529	1 519	1 616	1 578	1 723
Non-tax revenue	433	376	248	258	483
Total expenditure and net loans	5 854	7 058	6 024	6 996	7 664
Current expenditure	3 879	4 783	4 132	4 494	4 724
Remuneration (salaries)	1 397	1 570	1 416	1 553	-
Interest payment	38	42	44	38	44
Social transfers	100	179	119	222	-
Capital expenditure	1 974	2 276	1 893	2 501	2 940
Primary balance	-2 431	-3 204	-2 075	-3 148	-3 233
Budget balance	-2 469	-3 246	-2 206	-3 186	-3 277
Budget balance/GDP (per cent)	-5	-7	-2	-9	-17

Source: Ministry of Finance
* refers to provisional data

The Government apparently opted to maintain the pace of public investment, the principal driver of economic growth, in order not to slow it down. However, in a scenario where the oil price remained below $60 for the foreseeable future, the Government would face significant constraints in financing public investment. Resorting to debt seems inevitable (see section 5). For the moment, however, the Government has chosen to reduce the equipment budget, decreased by 20 per cent in 2016 (revised Finance Bill 2016).

Algeria has significant room for manoeuvre in the matter of debt. Thanks to the surge in oil prices in the 2000s, the country paid off the majority of its foreign debt. In 2015 its total debt accounted for 8.4 per cent of GDP and foreign debt stood at 0.4 per cent.

Following the increase in the oil price at the beginning of the 2000s, the country's enhanced public finances and a surplus current account ushered in a period of macroeconomic stability. This renewed stability has now been undermined by the fall in the oil price which, in the long term, poses a threat to the general equilibrium of the country. For the moment, only its internal balance is threatened by the swift and serious deterioration of its public finances. The reaction of the authorities has been too slow and too weak, doing nothing more than devaluing its currency to mitigate the impact on state revenue of the fall in the oil price. The Finance Bill of 2017 makes provision for a number of tax increases to increase public earnings but at the risk of eroding the purchasing power of the public, which could precipitate a slowdown in growth; furthermore, growth is likely to be affected by the decline in public investment.

3.3 Monetary policy

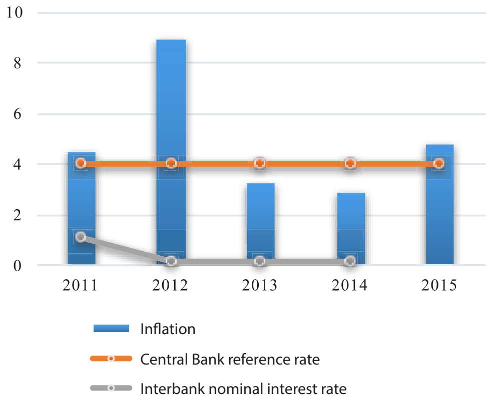
Between 2001 and 2015, notwithstanding an expansionist budget policy, inflation remained moderate, around 4 per cent, for two main reasons: a modest rise in salaries and relatively low imported inflation. The salary increases awarded in the civil service in 2012 had a significant but temporary inflationary impact (figure 4).

Annual inflation had hit a high of 8.9 per cent in January 2013, following which it began to fall to its lowest level of 1.5 per cent in August 2014. It then began to climb again reaching a maximum of 5.3 per cent in September 2015. Annual inflation rose to 4.8 per cent in 2015, compared with 2.9 per cent in 2014.

"Structural" inflation, excluding goods with volatile prices (basically fresh food products) also climbed, achieving an annual average of 4.2 per cent in September 2015. The Bank of Algeria points out that the rise in inflation cannot be attributed either to the growth of money supply or to a deficit in the supply of goods. The most plausible explanation would be market malfunctions, particularly in relation to fresh agricultural products, which are not adequately regulated.

The Bank of Algeria does not sterilize inflows of foreign currency from the exports of the national oil company Sonatrach. Consequently, the rise in oil prices in the 2000s led to a significant influx of liquidity into the banking system. This influx of liquidity meant that the the Bank of Algeria was unable to use its key rate which influences the refinancing costs of the banks. To contain inflation, the Bank of Algeria adopted a policy of absorption of liquidity.

Figure 4: Annual inflation rate and interest rates (as a percentage)



Source: Bank of Algeria, 2016

Although average annual growth of 10 per cent was reported in 2011-2014, the growth rate of the money supply (M2) plunged to 0.12 per cent in 2015. This reduction was principally attributable to a fall of 11.96 per cent in bank deposits and a fall of 40 per cent in the deposits of the hydrocarbons sector. In fact, with the decline in the oil price, the deterioration of the balance of payments situation caused a reduction in bank liquidity. This reduction was exacerbated by the launch of a bond issue which led to the collection of 568 billion DZD but which was principally subscribed by the state-owned banks.

3.4 Balance of payments and foreign trade

From a surplus of 1,890 billion DZD in 2011, the trade balance in 2015 posted a deficit of 18,016.7 billion DZD. Exports fell by 34.6 per cent between 2011 and 2015 while imports increased by 54 per cent. By comparison with 2014, exports fell by 27.9 per cent and imports increased by 10.7 per cent. Hydrocarbons comprised 95 per cent of Algerian exports (figure 5).

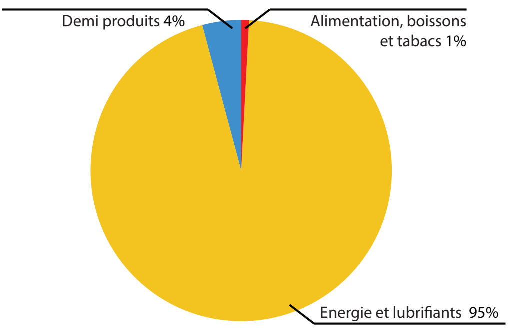
The decline in exports in 2015 was the result of both a drop of 3.9 per cent in the volumes exported during the first nine months of the year and the decline in the oil price which fell by 47.7 per cent during the first nine months of 2015 in comparison with the same period in 2014. In the first quarter of 2016, hydrocarbons exports declined by 40 per cent in relation to the same quarter of 2015.

The services account, excluding factor income, showed a modest decrease to less than 755 billion DZD (compared with less than 957.9 billion DZD in 2014), at the same time as the rise in imports.

The factor income account also deteriorated slightly in 2015 to 445.6 billion DZD, compared with 397.7 billion DZD in 2014, largely because of the repatriation of dividends in the first quarter.

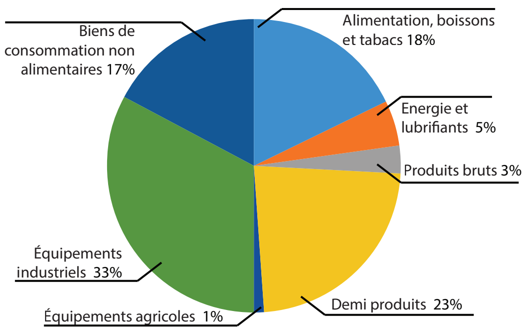
Goods imports rose from 3,418 billion DZD in 2011 (23.43 per cent of GDP) to 5,289 billion DZD in 2015 (29.6 per cent of GDP). The leading imports were food and non-food consumer goods which accounted for 35 per cent of GDP (figure 6), followed by industral equipment (33 per cent).

Figure 5: Structure of Algerian exports in 2015



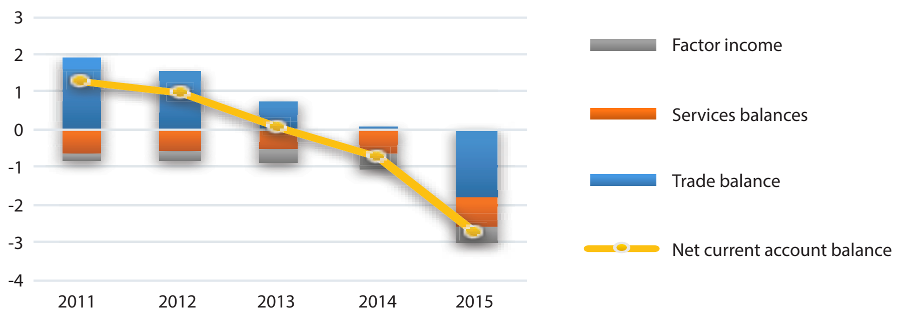
Source: National Council for Statistical Information (France)/Department of Customs (Algeria), 2016

Figure 6: Structure of Algerian imports in 2015



Source: National Council for Statistical Information (France)/Department of Customs (Algeria), 2016

Figure 7: Evolution of the current account in billions of DZD



Source: Bank of Algeria, 2016

The current transfers account remained stable at 257.6 billion DZD, compared with 262 billion DZD in 2014.

In total, the current account balance deteriorated from 760.2 billlion DZD in 2014 to 2 760.4 billion DZD in 2015 (figure 7).

3.5 Capital account

Foreign direct investments continued to be relatively low, not exceeding $2 billionper annum. After 2013, there was a reduction of foreign direct investment, falling from 155.85 billion DZD in 2013 to 125 billion in 2014 and to less than 69 billion in 2015 (see Table 2).

The capital account balance posted a deficit of 27 billion DZD in 2015, following the sale by non-residents of their shareholdings in a mobile telephone company. In 2014, it achieved a surplus of 138.12 billion DZD.

Owing to the spectacular surge in the oil price in the 2000s, Algeria was able to build sound macroeconomic fundamentals which are proving to be an important asset in the current crisis. The country enjoyed some financial security which also enabled it to achieve good performances in social development.

Table 2: Evolution of the financial operations account 2011-2015 (in billions of DZD)

	2011	2012	2013	2014	2015
Foreign direct investments	147.88	118.29	155.85	125.44	-69.40
Portfolio investments	0.60	0.00	0.00	0.00	0.00
Capital account	-18.00	-18.60	-69.18	131.18	-27.00
Gross reserves in months of imports BSNF	36.77	36.67	35.40	30.08	

Source: Bank of Algeria, 2016.

4

Social development

4.1 Outlook for human and demographic development

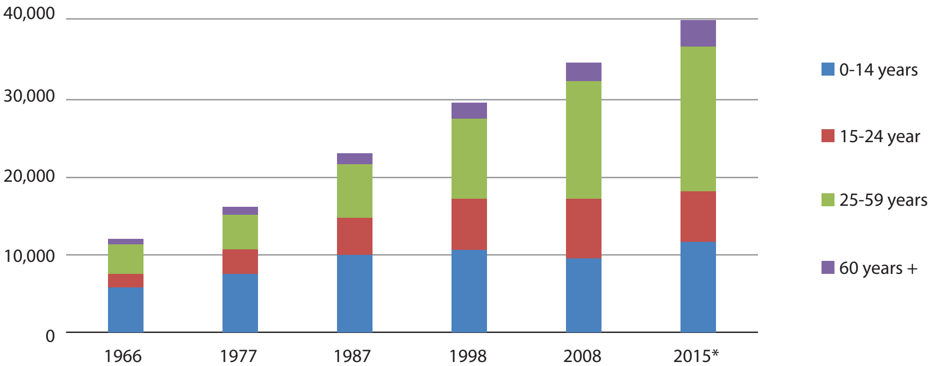
Evolution of the population by age between 2004 and 2014

The population of Algeria is estimated at some 40 million inhabitants (figure 8). It more than tripled between 1966 and 2015, from 12.10 million to 39.96 million people.

Characteristics of the demographic situation in Algeria are as follows: a low fertility index (3.1 per cent), a crude death rate of 5.7 deaths per 1,000 persons and life expectancy at birth which has climbed from 46.14 years in 1966 to 77.1 years (estimates for 2015)[5]. These are the characteristics of a country which is currently completing its demographic transition, a situation mainly due to the efforts made over the last 40 years to give the population improved access to health services and other basic services including water, electricity and sanitation, housing, and also better nutrition. It should be noted that currently there is a modest upswing in the birth rate and fertility largely because of greater ease of access to housing and probably because of an improved security situation.

The population aged under 15 years accounts for 28.8 per cent of the total population, the group aged between 15 and 64 represents 65.3 per cent, and those aged over 65 account for 6 per cent. The dependency rate, equal to the number of dependents (the population aged

Figure 8: Evolution of the population by age group (in thousands)



Source: National Statistics Office, social statistics (http://www.ons.dz), ECA calculations

5 ONS (2015).

under 15 and over 60) per 100 persons of working age (population aged 15 to 59 inclusive) was estimated at 60.1 per cent in 2015[6].

The country has undergone rapid urbanization resulting from the development of economic activities around the big urban and coastal conurbations. Out of a total population of 34 million in 2008, the 15 *wilayas* occupying the strip of coastline alone accommodated more than 14.6 million people. The urban population is now estimated to account for more than 70 per cent of the entire population[7]. The trend towards the urbanization of the population is attributable to the impact of a number of factors which include higher incomes, improved living conditions, completion of major infrastructures in the peri-urban areas and lastly, the grouping of the population in towns, regarded as safer during the period of violence and struggle against some armed groups in Algeria.

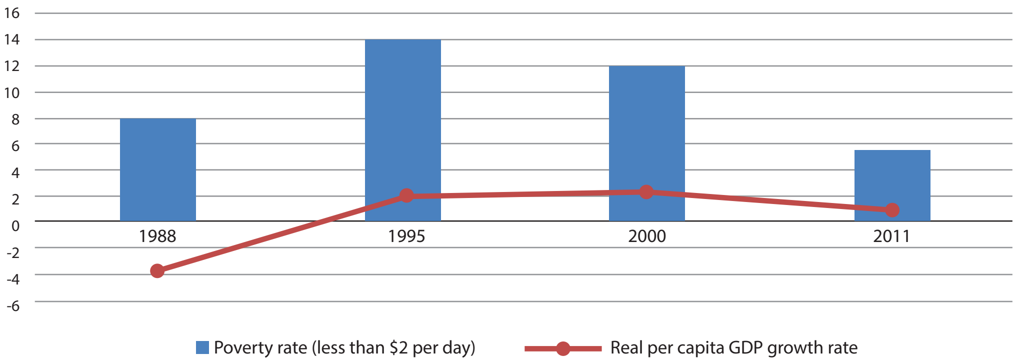
4.2 Poverty and employment outlook

Prevalence of poverty

Algeria reported a significant reduction of poverty according to data from the National Statistics Office; the poverty rate fell from 14.1 per cent in 1995 to 5.5 per cent in 2011 (figure 9). The proportion of the population living on less than $2 per day in purchasing parity power, 81 per cent in 1988, fell to 5 per cent in 2011, after stabilizing in 1995 and remaining steady (14.1 per cent)[8]. Another example is the prevalence of underweight in under-fives which fell from 6.7 per cent in 1999 to 2.6 per cent in 2009.

In terms of human development, Algeria is one of the African countries that achieved the greatest human development index deficit reduction between 1990 and 2015. The most recent *Human Development Report* (UNDP, 2015) stated that Algeria, with a human development index of 0.736, is ranked eighty-third out of 185 countries in the world, ahead of the other

Figure 9: Prevalence of poverty



Source: Data supplied by the National Statistics Office

6 ONS (2015).
7 United Nations (2014).
8 UNDP (2012).

countries of the subregion such as Libya, ranked ninety-third, Tunisia (ninety-sixth), Egypt (108th) and Morocco (126th).

Nevertheless, the development model, although certainly enabling a very significant level of poverty reduction, is experiencing problems in reducing social and regional inequalities. The disparity between poverty levels shows that the benefits of growth are not divided fairly between the regions. In Algeria, there is a distinction between the coastal regions and the metropolitan areas of the north, which are dynamic, contain the country's economic activities and are less affected by poverty; those of the south are arid and include the majority of the population living below the poverty line. There are marked differences between the coastal area and the Sahara, for example[9] in the distribution of average monthly spending of households of one or two people.

Policies targeting social development

After the end of the 1990s, Algeria intensified its social development policy and its fight to reduce poverty, thereby facilitating an improvement in the standard of living of the population in general and in particular, an unprecedented decline in poverty.

The social sectors such as education, health and employment, usually receive the five largest budget allocations. The provisions of the Finance Bill of 2016 allocated 15.9 per cent of the state budget to education, 7.9 per cent to health and 4.7 per cent to employment assistance. The 10 ministries with the highest allocations also included the Ministry of Family and Solidarity, which is responsible for the policies of social transfers and assistance, and which absorbs 2.5 per cent of the budget.

Policy of social subsidies and transfers

A multidimensional programme of social support for the people is made possible by the resources drawn from the export of hydrocarbons; it includes subsidy of retail prices and other types of social transfers, thereby helping to contain social pressure and to allow the country to continue to invest in the development of its human capital. The four largest categories which exert pressure on the state budget are oil and gas products, social housing, basic consumer goods, health and school meal programmes (see table 10).

Price of fuel, gas and water

The retail prices of oil and gas products in Algeria are among the lowest in the world thanks to the subsidies awarded to fuel, gas and electricity in particular. These subsidies cost the State 1,800 billion DZD in 2013; the State also subsidizes the supply of water to households in the main coastal towns paying for the costs related to the desalination of seawater.

9 Report on Algerian household consumption expenditure in 2011, ONS.

Social housing

The State also facilitates access for its population to housing through various social housing programmes, particularly through the National Agency for Housing Improvement and Development (AADL). This policy in support of housing has a substantial budget of 400 billion DZD (2012), 14.21 per cent of the total equipment budget.

Prices of basic consumer goods

Subsidizing cereal and milk prices makes it possible to keep these essential products at an affordable cost for the population as a whole. In 2012, for this purpose, the overall budget made available to the principal agencies in charge of this subsidy, i.e. the *Office algérien interprofessionnel des céréales* (Algerian Cereals Board, OAIC) and the *Office algérien interprofessionnel du lait* (Algerian Milk Board, ONIL), amounted to more than 210 billion DZD. Furthermore, the total amount of tax relief granted in the context of the importation of wheat, sugar and drugs was 150.3 billion DZD.

Health and school meal programmes

In 2012, the State contributed 360.34 billion DZD to the operating costs of public hospitals and 14.2 1 billion DZD for subsidies to school meal programmes.

An analysis of spending on subsidies between these four categories shows that oil and gas products received the largest amounts with 61 per cent of spending, with social housing (14 per cent), health and school meal programmes (13 per cent) and basic essential goods (12 per cent) lagging considerably behind.

National solidarity policies

The analysis of spending on subsidies is an important element of the institutional mechanism set up by the State to reduce poverty and prevent the deterioration of the living standards of the most vulnerable sectors of the population. This financially independent bodyfalls under the Ministry of National Solidarity and has a number of tools which include the graduate integration programme, the social integration activity mechanism and the labour-intensive public works programme; one of its main instruments is the fixed solidarity allowance, which gives direct financial assistance to the poorest families, supported by health and maternity insurance.

Unemployment trend

An analysis of the unemployment situation reveals significant disparities based on age and gender. In fact, whereas the average unemployment rate was estimated at 11.2 per cent in 2015, that of the 16-24 age group stood at almost 30 per cent for the same period, almost one young adult in three. Unemployment also affects almost twice the number of women (16.6 per cent) as men.

Box 3: Measure of human exclusion in Algeria

The African social development index was set up by ECA in response to the request by the member States to prepare a contextualized indicator of social exclusion for Africa. The Index is based on the idea that economic growth should be expressed by an improvement in the standard of living of every citizen.

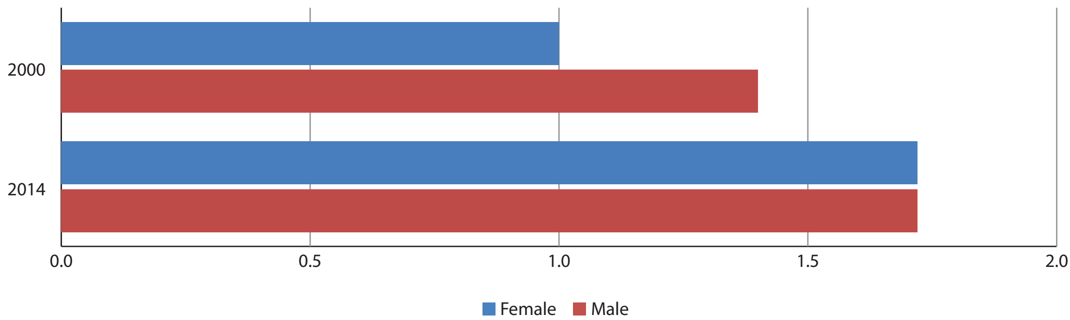
This tool, which is calculated on the basis of available national data, should contribute to the mapping and evaluation of the effectiveness of the social policies in the reduction of human exclusion at national and subnational levels. The Index should also assist countries to improve data collection and to build their capacities in monitoring progress in poverty reduction and exclusion. It also facilitates monitoring of the implementation of Agenda 2063 and the sustainable development goals which lay particular emphasis on inclusion as a driver of sustainable and equitable development.

The Government put in place a number of initiatives to help reduce unemployment by facilitating the integration of a substantial number of unemployed young people into the workforce, using the programmes implemented by the national youth employment support agency and the national micro-credit management agency. The Government also set up a system of unemployment benefits intended not only to provide financial support to the unemployed, but also to help them become integrated into the workforce. The evaluation conducted in the context of the mechanism for assistance in professional integration showed that these programmes led to the placement of over 1.5 million young people over the period 2010-2015 — an encouraging outcome, but inadequate given the number of young people seeking employment in the formal sector.

The outcomes of the African social development index nationally reveal a particularly low level of human exclusion, which fell during the period 2000-2014 (see figure 10).

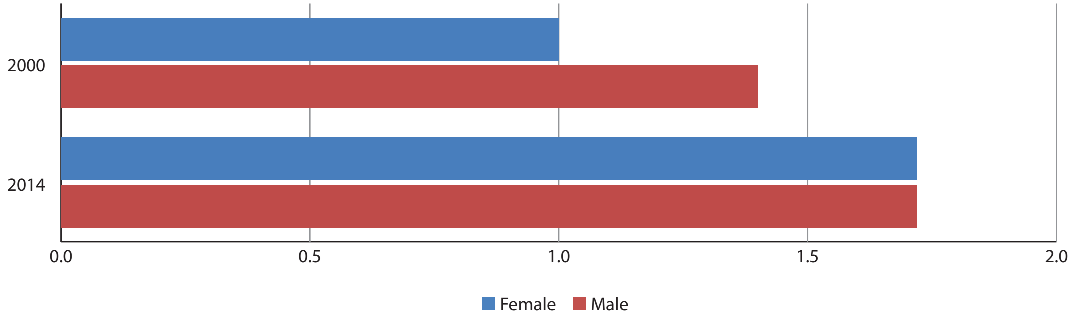
A particularly striking outcome was the continuing significant reduction of exclusion for men (from 1.74 to 1.32), while for women the level of exclusion increased by almost 30 per cent, from 1.40 to 1.72 between 2000 and 2014 (figure 11). This result, disaggregated by dimension, shows for 2014 and for the age group 16-24 an unemployment rate of 41.6 per cent for young women and 22.1 per cent for young men.

Figure 10: Social development index, Algeria



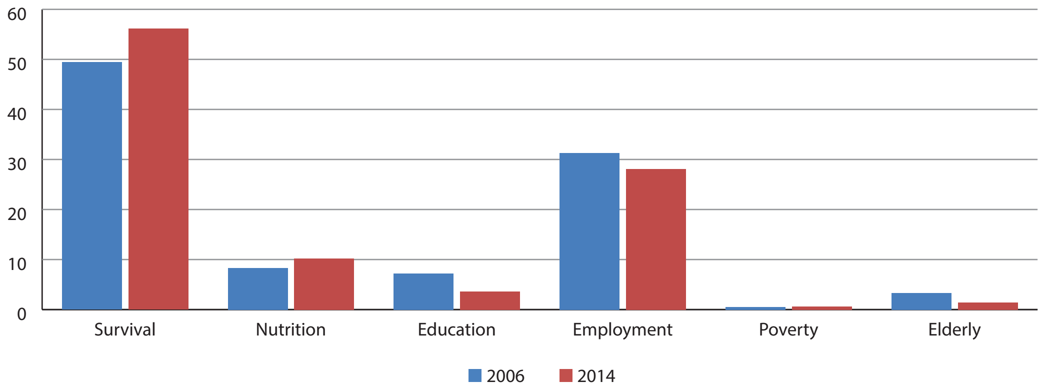
Source: Calculated on the basis of national statistics (National Statistics Office).

Figure 11: Human exclusion, by gender



Source: Calculated on the basis of national statistics (National Statistics Office).

Figure 12: Evolution of human exclusion factors in Algeria



Source: Calculated using national statistics (National Statistics Office).

The fact that 56 per cent of child mortality and 28 per cent of youth unemployment can be attributed to human exclusion (figure 12) is a significant element of the analysis of the factors determining exclusion. It certainly reflects the major problems which Algeria faces today and which call for effective and better targeted interventions to reduce the risk of exclusion in these two key phases of the life of an individual. More data is needed, however, particularly concerning the national poverty indicators, in order to refine the analysis and gain a better understanding of the determinants of exclusion, over time and for different population groups. In particular, the lack of data disaggregated by place of residence and at the regional level for the six indicators of the African social development index limits the analysis, especially at the national level. Such data are, however, essential to gain a better understanding and be able to respond to the spatial inequalities present in the country.

Algeria has made remarkable strides in social and human development in recent years. All the social indicators (education, health, access to basic services) recorded significant improvements which means that Algeria is now one of the countries with a high level of income and human development. Spatial and gender disparities, however, continue to pose a major problem for the country. Female members of parliament hold 31.6 per cent of the seats. Secondary education also remains a major preoccupation for the country. Practically every child enjoys a primary education, whereas only 27.4 per cent of boys and 41.9 per cent of girls enter tertiary education. The level of wealth of households and the level of maternal education seem to be discriminating factors in middle and secondary schooling in Algeria, which suggests that additional efforts need to be made to ensure the social mobility of certain sectors of the population.

The social welfare programmes implemented will need to take into account these problems if more inclusive and sustainable development is to be guaranteed in Algeria. For this purpose, the Government has developed the national maternal mortality reduction plan (PANRAMM, 2015-2019), a token of its desire to speed up its efforts in this area by engaging in concrete action and using appropriate means.

To deal with spatial inequalities, the Government has prepared a national plan for regional development (the National Territorial Master Plan), which includes regional balance and the construction of new towns among its principal policy guidelines. Furthermore, the diversification of the economy in a context of declining exports and oil revenue resulting from the world economic situation offers Algeria the timely opportunity to create new jobs, particularly for young people and women. In particular, this could be achieved by improving the business environment, making it conducive to foreign investments and local business.

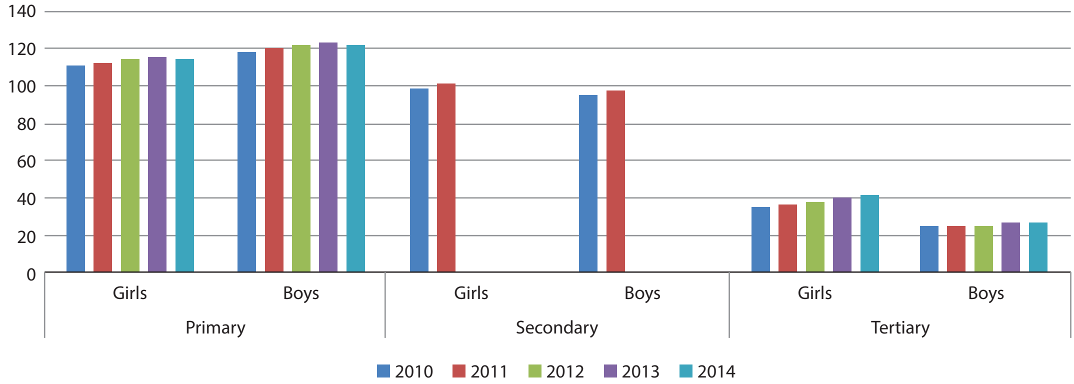
4.3 Education indicators trend

Enrolment rate

Algeria has made unquestionable advances in broadening access to schooling. In 2013-2014, 98.5 per cent of children aged six were enrolled in school in comparison with only 43 per cent in 1966. These efforts can be seen in relation to both sexes since in 2013, the enrolment rate of six-year-old girls was 98.9 per cent. The gross enrolment ratio for primary and secondary education exceeds 100 per cent (figure 13). For primary education it was estimated in 2014 at 122.2 per cent for boys and 115.1 per cent for girls. At the secondary level, the gross enrolment ratio stood at 101.6 per cent for boys and 98.1 per cent for girls. Efforts must focus on tertiary education for which the gross enrolment ratio stands at 27.4 per cent for boys and 41.9 per cent for girls.

One of the most serious issues facing the educational system concerns school wastage, both in the form of repetition and dropping out of school. Including all educational levels, 1 million students have to repeat, (13 per cent of students in 2014), and almost 6 per cent of children enrolled drop out of school. It is also reported that in tertiary education, there are more girls than boys (figure 13); by contrast, there is a lower proportion of women than men (35 per cent, according to data from the National Statistics Office compared with 60 per cent for men

Figure 13: Gross enrolment ratio



Source: UNESCO statistics; country profile for education

in 2014) who have benefited from tertiary education among those in employment, which shows that an enormous investment in human capital is not being directly developed.

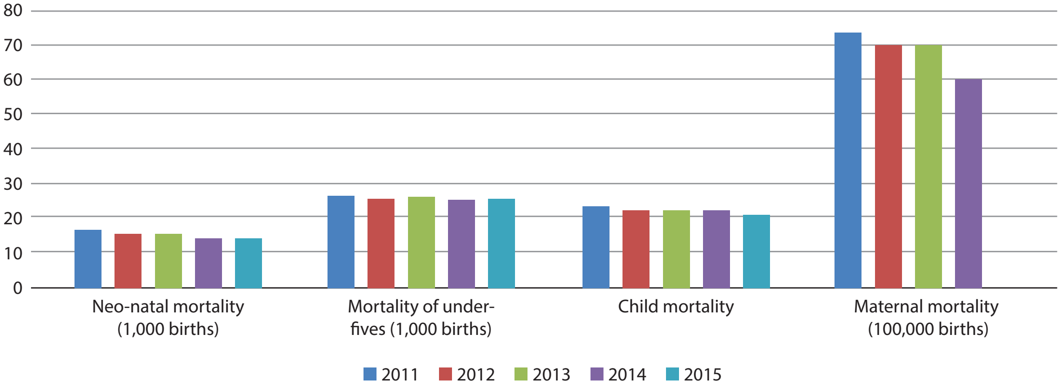
To combat this problem, the Government devised a number of measures, in particular:

- setting up school canteens for almost 89 per cent of the country's pupils. In the *wilayas* of the South, the rate is 100 per cent;
- providing half-board in middle and secondary school for almost 1 million pupils, a rate of coverage of 27 per cent, four times greater than in 2000. The *wilaya* of Adrar has the highest rate of coverage with 54 per cent, while the lowest rate of 2 per cent is in the *wilaya* of Algiers;
- awarding bursaries to provide additional support to the disadvantaged pupils in middle and secondary education. The number of pupils benefiting from this measure has more than quadrupled in 14 years, rising from 166,000 pupils in 2000 to 733,000 in 2013;
- providing free textbooks and school supplies.

4.4 Health indicators trend

Since the 1960s, the country has made particular efforts to improve medical care for the population, notably by making vaccination generally available, improving the cover and quality of medical services (particularly in the rural areas) and by taking account in strategic programming of the specific needs for protection of mother and child. These efforts resulted in a marked improvement in the living conditions of the population and of health indicators. In the last 20 years, life expectancy at birth increased by almost 10 years, from 67.3 years in 1995 to 77.2 years in 2014, with a gain of 10.5 years for men and 9.62 years for women. The country also achieved a very marked decline in certain contagious diseases such as polio.

Figure 14: Evolution of mortality rates



Source: ONS social statistics; national report on human development 2013-2015; Report on the Millennium Development Goals 2014.

Figure 14 shows the evolution of child mortality which, from 46.8 per thousand live births in 1990, was reduced to 22.6 deaths per thousand births in 2012 and 220.7 deaths per thousand in 2015. Vaccination coverage stands at 90 per cent (83.1 per cent in urban areas and 81.8 per cent in rural areas). Neonatal mortality also dropped from 16.7 deaths per thousand births in 2011 to 13.9 in 2015.

Nevertheless, the two indicators which continue to cause concern are the mortality of under-fives which continues to be at a relatively high level of 25.7 deaths per thousand live births and maternal mortality which stands at more than 60 deaths per 100,000 live births.

According to WHO figures, the country has 12.1 doctors and 19.5 nurses per 10,000 inhabitants. The budget for the health sector is in the region of 6 per cent of GDP and 10 per cent of budget spending. These national rates and indicators, however, conceal disparities between the regions. According to the WHO *World Health Report* (2015a), 61 per cent of the country's hospitals are in the north, 28.4 per cent in the centre-north and 16.7 per cent in the north-west. By contrast, the Hauts Plateaux have 27.3 per cent of the total number of hospitals and the south has only 11.7 per cent, of which 1.4 per cent are in the Grand Sud region. The national average in terms of hospital beds in the public sector for the year 2014 was 1.8 beds per 1,000 inhabitants. The regions of the north have a ratio of two beds per 1,000 inhabitants, better than the national average, while the Hauts Plateaux regions have a ratio lower than the national average (one bed per 1,000 inhabitants).

The demographic transition and changing ways of life are forcing Algeria to face new challenges in relation to health, with an increase in the number of people who are overweight and a population that is beginning to age. In fact, the changes of lifestyle and nutrition are leading to an increase in the population affected by overweight. According to global health statistics of WHO, 13 per cent of children under five, 10 per cent of adult men and 24.3 per cent of adult women are overweight. In young people, a diet rich in sugar and fat and a lack of exercise promote obesity and predispose them to chronic and very expensive diseases whose symptoms are likely to be revealed in the short and medium term.

At the same time, the country is facing an increase in a number of age-related diseases such as cancer, hypertension, diabetes, etc. By 2030, 13.3 per cent[10] will be over 60 and the health spending on chronic diseases associated with dietary habits, obesity and ageing among the population will impose an increasingly heavy burden on the national budget.

4.5 Gender equality and women's empowerment

The status of gender equality and female empowerment is measured in several sectors, shown in the figure below. These are key sectors in determining the improvement of women's living conditions as well as their contribution to the shared sustainable growth of Africa.

In order to evaluate the scale of gender inequality and to measure the level of parity and empowerment of women in Africa, the Economic Commission for Africa developed a monitoring tool, the African gender and development index. The Index helps political decision makers to evaluate their own performance in implementing policies and programmes designed to put an end to the marginalization of women.

Calculation of scores is based on the gender status index, one of the components of the African gender and development index. For each key indicator, the score calculated is an unweighted arithmetical average: the male/female ratio of the indicator values is multiplied by 10 and the result is rounded to the nearest number. A score of zero represents the highest level of inequality, a score of five represents an average level of parity and a score of 10 represents full parity. Parity levels higher than 10 represent situations where women have outstripped men, regardless of the level of development of the sector concerned.

The majority of the figures used to calculate the scores came from the most recent available national data. For certain indicators, however, countries did not have disaggregated data. Consequently, international data were used.

10 WHO 2015b.

Box 4: Gender equality and women's empowerment – Algeria

In Algeria, the figures reveal higher rates in favour of men in major sectors such as tertiary education, employment in the non-agricultural sector and access to credit (loans from financial institutions). Nevertheless, the proportion of women enrolled in secondary education (W: 81.3 per cent, M: 77 per cent)* and tertiary education (W: 59 per cent, M: 41 per cent) exceeds that of men. There is full parity between boys and girls in terms of child health. The figure also shows a maternal mortality rate of 63.6 maternal deaths per 100,000 live births.

The proportion of women holding ministerial posts is lower (20 per cent) than that of men (80 per cent). The country has achieved the average parity score (5) for female representation in parliament with 31.6 per cent of female elected members. In the working population, 66.5 per cent are men, while women account for only 16.4 per cent of the labour force.

The high level of the oil price facilitated social development performance as 60 per cent of the State budget is derived from oil taxation. Since 2014, the country has been facing a significant drop in its earnings from hydrocarbons. The deterioration of public finances, even if it has not yet taken the form of reduced social spending, poses the issue of the sustainability of the development model of the country.

Employment

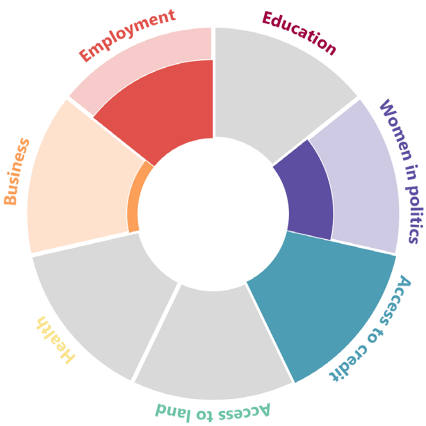
Employment in nonagricultural sector	11
Labour force participation rate	2

Business

Top management in firms	0
Ownership in firms	1

Health

Under-five survival rate	10
Children under age five who are not stunted	10
Life expectancy at birth	10
Share of population without HIV	No data



Education

Youth literacy rate	No data
Enrolment ratio in secondary education	11
Enrolment ratio in tertiary education	14

Women in politics

Representation in parliament	5
Ministerial positions-cabinet	3

Access to credit

Account at a financial institution	7
Borrowed from a financial institution	23

Access to land

Access to land	No data

Stand-alone indicators

Access to drinking water source within 15 minutes (urban)	83.4	Improved sanitation (urban)	90.1	Maternal mortality ratio	63.6
Access to drinking water source within 15 minutes (rural)	74.5	Improved sanitation (rural)	80.6		

Source: ECA

* W: Net enrollment rate for women; M:Net enrollment rate for men

5

Thematic analysis: Rationalizing public finances without slowing down economic growth

Algeria has number of possibilities available to reduce the deficit in public finances, in both resources and spending. The reduction of the budget deficit is a short- and medium-term issue. In the short term, it is undoubtedly easier to modify spending than to increase revenue, which calls for a significant increase in fiscal capacities but also for a reform of taxation. However, if spending is reduced suddenly, it might have a counter-productive effect by slowing down growth and, in time, plunging the country into recession. This is because the growth of GDP excluding hydrocarbons is strongly dependent on public spending. The "endogenous" component (independent of public spending) of growth is still too weak. Consequently, the reduction of the budget deficit must be accompanied by ambitious reforms which can create conditions for economic growth less dependent on public spending.

5.1 Budget deficit: excessive dependence on hydrocarbons

The country's budget deficit climbed from 4 per cent of GDP in 2010 to 17 per cent in 2015. From 2006 to 2015, the national budget deficit was bailed out largely by the revenue regulation fund, which is a public savings account which the State has been able to use, since 2006, to deal with budget problems up to a ceiling of $10 billion. The value of the revenue regulation fund therefore declined from 7,917 billion DZD in 2012 to 4,960 million DZD in 2015 (table 3). The deterioration of public finances is due to the excessive dependence

Table 3: Revenue regulation fund (in billions of DZD)

	2012	2013	2014	2015
Remainder n -1	5 381.70	5 633.75	5 563.50	4 408.46
Oil taxation Finance Bill	1 519.04	1 615.90	1 577.73	1 723.00
Recovered oil taxation	4 054.35	3 678.13	3 388.36	2 275.00
Capital gain oil taxation	2 535.31	2 062.23	1 810.62	552.00
Assets before deductions	7 917.01	7 695.98	7 374.14	4 960.46
Financing Treasury deficit	2 283.26	2 132.47	2 965.70	2 886.50
Total deductions	2 283.26	2 132.47	2 965.70	2 886.00
Remainder after deductions	5 633.75	5 563.51	4 408.46	2 073.96

Source: Ministry of Finance, 2016

of budget resources on oil taxation and a significant increase in public spending; it has a limited impact on growth and particularly on economic diversification: industry accounts for less than 5 per cent of GDP and hydrocarbon exports for more than 95 per cent of total exports. Furthermore, the growth of the services sector (trade, transport), which can make a substantial contribution to growth of GDP, is dependent on the hydrocarbons sector.

Until 2014, the date of the beginning of the sustained decline of the oil price, oil taxation accounted for more than 60 per cent of budget revenue and in 2011, this figure reached 71 per cent. In 2015, with a reduction of 33 per cent of oil taxation, the latter's share in the state budget had tumbled to 47 per cent (Table 4).

The increase in operating expenditure (basically the result of the rise in the wage bill) resulted in a significant slowdown in public finances. The proportion of the operating expenditure in the budget peaked at 69 per cent in 2013, falling to 59 per cent in 2015 (Table 5).

In 2015, ordinary taxation covered only 56 per cent of operating expenditure; in 2011 the percentage was lower at 39 per cent. The budget deficit excluding spending on equipment fell from 12 per cent of GDP in 2010 to 1 per cent in 2015 (Table 6). The growth of ordinary taxation was somewhat erratic, sometimes higher than that of GDP excluding hydrocarbons

Table 4: Distribution of budget revenue

	2010	2011	2012	2013	2014	2015
Ordinary revenue	32 per cent	29 per cent	32 per cent	36 per cent	39 per cent	53 per cent
Budgeted oil taxation	36 per cent	28 per cent	25 per cent	28 per cent	29 per cent	36 per cent
Recovered oil taxation	68 per cent	71 per cent	68 per cent	64 per cent	61 per cent	47 per cent

Source: Ministry of Finance, May 2016

Table 5: Public spending (billions of DZD)

	2010	2011	2012	2013	2014	2015
Operating expenditure	2 736	3 945	4 691	4 132	4 494	4 592
Salaries	1 139	1 681	1 907	1 715	1 860	2 114
Equipment, supplies and maintenance	122	130	135	149	162	147
Public debt	51	105	94	104	91	
Mujahideen pensions	148	154	178	227	218	211
Operating subsidies	316	422	426	401	427	414
Economic and social action	961	1 453	1 951	1 595	1 697	1 620
Operating expenditure / Public spending	59 per cent	65 per cent	67 per cent	69 per cent	64 per cent	59 per cent

Source: Ministry of Finance, 2016

Table 6: Ratios, Operating expenditure

	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)
Growth rate of operating expenditure	31	44	19	-12	9	2
Growth rate of ordinary taxation	-1 nt	18	26	7	3	20
Nominal growth rate of GDP excluding hydrocarbons	19	-15	14	9	7	8
Ordinary taxation/Operating expenditure	48	39	41	50	47	56
Budget balance excluding equipment/GDP	12	12	9	10	6	1

Source: Ministry of Finance, 2016

and sometimes lower. In 2015, the growth rate of ordinary taxation reached 20 per cent, while GDP excluding hydrocarbons grew by 8 per cent in nominal value. This represented an improvement in the tax recovery rate. Overall, for the period 2011-2015, the tax recovery rate improved by 65 per cent (Ministry of Finance).

5.2 Reducing the budget deficit: significant flexibility

The reduction of the budget deficit must observe certain constraints. It must :

- limit the negative impact on growth;
- take account of inertia of fiscal resources in the short and medium term;
- enhance the impact of public spending on both growth potential and growth.

To achieve this, the state authorities must combine a number of measures.

5.2.1 Increasing and diversifying resources

5.2.1.1 Margins for expansion of fiscal resources

The financing of the budget deficit is achieved either through increasing resources (increasing taxation), or by resorting to debt. Because oil taxation is dependent on the oil price, it is not a tool that can be directly controlled by the state authorities. Ordinary taxation, on the other hand, is a major source of public finances.

The taxation/GDP ratio measures fiscal pressure, i.e. the weight of taxation in the economy. In 2015, ordinary revenue accounted for 19 per cent of GDP excluding hydrocarbons. Total revenue amounted to 29 per cent of GDP.

The proportion of ordinary taxation should be compared to the the average tax burden in the OECD countries, which amounted to 34.1 per cent in 2013. In all North African countries, the tax burden does not exceed 20 per cent which means that there is some flexibility to increase tax revenue.

Table 7: Proportion of taxation in GDP

	2010	2011	2012	2013	2014	2015
Ordinary revenue/GDP excl. hydrocarbons	12 per cent	17 per cent	18 per cent	18 per cent	17 per cent	19 per cent
Total revenue /GDP	34 per cent	37 per cent	37 per cent	35 per cent	32 per cent	29 per cent

Source: Ministry of Finance, 2016

Table 8 below presents a breakdown of the ordinary revenue of the Treasury by type of deduction. In 2015, direct taxation (personal income tax and corporate tax) represented 5 per cent of ordinary revenue, with indirect taxation accounting for 32.4 per cent of revenue. Domestic value added tax (VAT) accounted for less than 11 per cent of tax revenue. This rate should be compared with the OECD average, which amounted to 30.4 per cent in 2013. It is also lower than in other North African countries, such as Tunisia (29.5 per cent in 2015) or Morocco (29.6 per cent in 2014).

The share of corporate tax in ordinary revenue fell from 19.5 per cent in 2010 to 13.1 per cent in 2015. The share of income tax (salaries), on the other hand, increased from 18.3 per cent in 2010 to 23.1 per cent in 2015. This increase, however, can certainly be attributed to the increase in salaries in the civil service. In fact, it is reported that the share of global income

Table 8: Structure of ordinary revenue (billions of DZD)

	2010	2011	2012	2013	2014	2015
Direct contributions	559.4	686.4	862.4	823.1	881.2	1034.9
IRG/Salaries	239.3	380.3	548.5	494.4	531.9	592.1
IRG other	58.3	54.8	59.8	62.4	70.5	94.9
Corporate tax	255.1	245.9	248.13	258.1	269.6	335.1
Registration and stamp	39.8	48	56.2	62.5	70.7	88
Registration		20.6	25.3		30.9	31.5
Stamp		27.3	30.9		40.6	56.5
Turnover tax	493.9	557.7	651.66	734.4	765.4	828.1
VAT/pp	9.1	6.8	1.9	0.063	0	0
Internal VAT	190.9	205.2	213.2	234.1	263.3	270.7
Import VAT	252.1	293.8	375.42	442.4	441.7	484.8
Domestic consumption tax (TIC)	36.7	43.1	37.6	41.7	36.8	47
Tax on petroleum products	0.4	0.4	0.5	0.88	0.33	0.25
Customs duties	183.6	222.2	337.57	403.7	370.9	410.2
Other budget revenue	32.3	34.7	36.77	7.3	38.1	196.1
Total ordinary revenue	1309	1549	1944.6	2031	2126.3	2557.3

Source: Ministry of Finance, 2016

tax (IRG) in ordinary taxation increased substantially in 2011 to 24.5 per cent with a ceiling of 28.2 per cent in 2012.

These data show the margin for manœuvre available to the State to increase tax revenue. Furthermore, the informal employment sector was estimated to contribute 38.5 per cent of GDP in 2015 according to the National Statistics Office, showing a glimpse of the opportunities avaiable for increasing budget resources.

5.2.1.2 Levers for mobilizing fiscal resources

Increasing revenue is to be achieved by broadening the tax base, since currently taxation is based on a still limited number of taxpayers and *wilayas*; increasing tax collection capacities; and tax reform. Tax reform should include notably: i) development of local taxation, and ii) expansion of the tax base.

With respect to the informal sector, the Government set up a voluntary declaration system (with a tax amnesty) schedule to end in December 2016.

The Finance Bill of 2016 also included a number of modest provisions to enhance fiscal resources:

- Land tax: a surcharge on unused land for development;
- Increase in the rate of VAT from 7 per cent to 17 per cent for certain products, particularly diesel oil, natural gas consumption exceeding 2 500 therms per quarter and electricity consumption exceeding 250 kilowatt/hrs per quarter. It is useful to recall that implicit energy subsidies cost the State almost 1,800 billion DZD every year.
- Increase of the duty on petroleum products.
  - Super petrol: 600 DZD/hL
  - Standard petrol: 500 DZD/hl
  - Unleaded petrol: 600 DZD/hl
  - Diesel: 100 DZD/hl.

The draft Finance Bill 2017 proposed an increase of 2 per cent in VAT which will rise from 17 per cent to 19 per cent under the general system.

Increasing taxation, however, is a long-term undertaking; in the short term, the State must use other methods to increase its resources. For example, the authorities recently resorted to internal borrowing. The national loan for economic growth (ENCE) was launched on 17 April 2016 with the subscription period from April to October 2016. There were two types of bond: three-year bonds at 5 per cent interest and five-year bonds at 5.75 per cent interest. To date, the Government has not announced the total amount of subscriptions.

Given the scale of the deficit, however, ($27 billion in 2015), domestic borrowing will not be enough to finance the budget deficit. Unless there is a startling resurgence in the oil price, recourse to foreign loans seems inevitable. Given that the country has sufficient foreign exchange reserves to protect it from a balance of payments problem in the medium term, foreign debt would obviously not be contracted under the same conditions as in the 1990s. Nonetheless, the conditions of such a loan depend on the country's capacity to swiftly set in motion wide-ranging reforms (see section 5.3).

A third possibility to increase resources consists of ceasing to finance investment projects from the state budget and looking at innovative ways (particularly of a financial nature) to finance certain projects. Amendments were made to the public procurement code in 2015 to introduce the public service outsourcing contract for the first time, which enables the private sector to operate service providing infrastructures. It will, however, be necessary to move beyond the outsourcing contract towards a public-private partnership which allows the private sector to finance and operate infrastructures which provide a public service.

The use of joint financing mechanisms or financial packages involving private funds is obviously not restricted to major infrastructure projects. For example, the construction of housing cost state finances 415 billion[11] DZD every year for the period 2011-2015. There are, however, mechanisms which could offer relief to State finances, such as the sale of land at preferential prices to promoters who must agree to a strict set of specifications. In this sphere, private savings can also be mobilized by the use of savings instruments.

5.2.2 Controlling the evolution of public spending

Controlling spending is part of controlling the budget deficit. Before the crash of 2014, maintaining the oil price at a high level was regarded as a permanent phenomenon. Consequently, the State believed it had a long-term financial resource, which led to a very substantial increase in public spending regardless of its impact on the economy. An analysis of the budget lines showed annual growth of 15.7 per cent for capital expenditure between 2010 and 2014 and of 12.7 per cent for operating expenditure. The wage bill increased at an annual pace of 14.7 per cent. Social transfers rose by an average of 15.6 per cent every year. In 2011, social transfers increased by 66.6 per cent (Table 9). The analysis of the structure of the transfer shows that this rise was principally due to support for housing (multiplied by 2.3) and price subsidies (multiplied by 2.9). Social transfers accounted for 10.4 per cent of GDP in 2015.

All of these subsidies (direct and indirect) accounted for almost 29 per cent of GDP in 2013. The subsidies for energy products amounted to 2 080.45 billion DZD in 2013. In total, subsidies and operating expenditure accounted for more than 50 per cent of GDP between 2010 and 2015.

11 Ministry of Finance.

Table 9: Social transfers (in billions of DZD)

	2010	2011	2012	2013	2014	2015
Support for housing	324.5	754.1	461.7	250.6	255.2	357.1
Support for families	318.6	492.4	423.2	405.6	422.1	451.1
Family allowances	44.4	41.6	41.4	41.9	42.5	42.6
Support for education	87.6	89.2	90.2	100.3	103.0	109.5
Price subsidies for cereals, milk etc.	96.2	279.1	215.6	197.4	213.7	225.5
Access to electricity, gas and water	90.4	82.4	76.0	66.0	63.0	73.6
Pension assistance	144.0	139.5	250.0	257.9	252.1	251.3
Health support	199.3	367.8	364.9	263.7	320.5	323.2
Support for the Mujahideen	124.1	125.7	156.9	171.9	180.6	198.2
Support for the impoverished, disabled and low income earners	128.8	185.5	211.8	224.6	178.7	169.7
Total transfers	1 239.3	2 065.1	1 868.5	1 574.4	1 609.1	1 750.6
Transfers/GDP	10.3 per cent	14.2 per cent	11.5 per cent	9.5 per cent	9.4 per cent	10.4 per cent

Source: Ministry of Finance, 2016

If efforts are to be made to reduce the budget deficit, it is essential to control spending. Reform of the subsidy system, both implicit and explicit, is a key element in this endeavour. Of course it is necessary to maintain a safety net in a context of increasing unemployment, but non-specific transfers do not provide the optimal allocation of resources to the most vulnerable members of society. As mentioned above, support for housing must be supplied by various mechanisms: mobilization of private savings, sale of land to entrepreneurs at attractive prices on condition of building affordable housing, development of the supply of rental accommodation, etc. Price subsidies can be made more effective (and therefore less costly for state finances) if markets for goods are better regulated (particularly fresh products) and imported products are no longer subsidized.

Targeting of subsidies, with a gradual reduction in the rate of generalized subsidies, will reduce the state's financial burden without affecting its impoverished citizens. It should also be noted that subsidies on products such as milk and sugar also benefit the manufacturers, which is not their purpose.

Energy subsidies impose a heavy burden on the state budget. The Finance Bill of 2016 certainly makes provision for the increase of certain prices, but there is still significant room for manoeuvre.

The gradual reduction of subsidies should be scheduled alongside measures designed to stimulate the creation of permanent employment in an effort to reduce the size of the population requiring assistance; it should also help to ensure sustainable macroeconomic stability and contain inflation.

5.2.3 Increasing the effectiveness of public spending

The third key component of any policy to control the budget deficit and to ensure the optimal allocation of resources is to make sure that public spending achieves the maximum impact. Targeting of assistance is also part of this component because it enhances responses to the need to reduce inequalities while also reducing the opportunity cost of social transfers.

Enhanced effectiveness of public spending is based on the assumption that it can be assigned quantifiable goals. Budget planning based on performance criteria is essential; current budget reform is indeed moving in this direction. The objective of the budget reform undertaken by the Ministry of Finance is to strengthen budget sustainability in the medium term by:

- moving to a macroeconomic forecast and rolling multi-annual budget planning. This reform is being conducted in a medium-term spending framework and instituted through the Finance Bill. A medium-term budget framework will be officially established with effect from 2017;

The medium-term spending framework aims to:

  - strengthen the sustainability of public policies so that their future budgetary impact is compatible with the financial capabilities of the State and the macroeconomic framework;
  - increase the effectiveness of budget resources by strengthening the link between the sectoral strategies and the annual budget;
  - allow managers to better examine the possibilities of multiannual budget planning and be assured of the consistency of the different elements of the state budget;
  - improve the conditions for the preparation of the Finance Bill and strengthen the effectiveness of intersectoral arbitration.

- Reconsidered and enriched budget preparation: the plan for modernization is well advanced, in particular with a budget nomenclature which complies with international standards and the presentation of the budget on a programme-by-programme basis resulting from public policies (113 ministerial programmes divided into 322 sub-programmes);
- Budget implementation of more effectively anticipated and controlled expenditure to ensure that the spending ceilings agreed by Parliament will be respected. The Directorate General for the Budget is currently upgrading its monitoring and steering system for the implementation of State spending to ensure that it is

properly managed and compliant. The control of implementation is designed to ensure that the budget policy has value and credibility in the eyes of financial operators;

- the establishment, currently in progress, of an integrated training system in the Ministry of Finance.

5.3 Reform to reduce the economic vulnerability to the impacts of public spending

Algeria must waste no time in implementing a set of far-reaching reforms in order, first, to support the consolidation of public finances (and make it less painful) and second, to speed up its structural transformation.

Rapid economic capacity building to create permanent employment is crucial, particularly to: i) increase budget reources, ii) reduce the burden of social transfers in public finances, and iii) reduce the burden of assisted employment in the state budget. Between 2011 and 2015, the number of assisted jobs rose to 1.45 million.

The diversification of the economy, going hand-in-hand with taxation reform, will reduce the instability of public finances. Naturally, diversification is a long-term undertaking and the consolidation of public finances cannot stop at expanding the tax base. In the short term, rationalizing public finances and imposing a real "reform shock" are key steps to stimulating the capacities for wealth creation of the economy. Fiscal reform was initiated in 2015 and provides notably for an increase in local taxation and a gradual decline in the tax on professional activity[12], simplification of the tax declaration procedures and modernization of the tax administration in order to increase the tax collection capacities. An exercise is in fact being conducted by the Ministry of Finance to identify and reduce tax expenditure (tax loopholes). This is very much in line with the ongoing reform of the tax system which was launched in 1992.

The rationalization of public finances requires enhanced efficiency of spending in every area and sector (see 5.2.3). Public spending must be better proportioned to take account of the absorption capacities of the economy and to maximize its ripple effect on the local economic fabric. The authorities have not undertaken any reform in this regard. With the reduction of budget resources, however, it is crucial to rethink the role of public spending in the development of the productive sector.

12 The tax on professional activity is a turnover tax; the amounts collected are used to finance local communities. The Finance Bill of 2016 makes provision to decrease the tax on professional activity from 2 per cent to 1 per cent for manufacturing activities.

The "reform shock" consists of adopting ambitious measures that will swiftly: i) improve the business climate, ii) update the banking system and ensure the swifter development of the financial market, iii) attract foreign direct investment (Algeria received only $1.488 billion in 2014, compared with $3,582 billion for Morocco and $4,783 billion for Egypt) to promote the development of the industrial and export sector.

The Government recently unveiled a new growth model, designed both to deal with the decline in oil prices and to speed up economic diversification.

The new model of economic growth is based on a remodelled budget policy, predicated mainly on:

- improved revenue from ordinary taxation that by 2019 will cover operating expenditure and fixed expenses of public equipment;
- significant reduction of the Treasury deficit within the same time frame;
- mobilization of additional resources in the local financial market

It also makes provision to prioritize public investments in infrastructures generating a ripple effect on the country's production capacity and to intensify investment in high added value sectors, including renewable energies, agribusiness, the digital and knowledge-based economy, downstream hydrocarbons industry and mining.

Last, the new economic model is also based on:

- resuming production of hydrocarbons;
- stimulating business creation through an enhanced business climate;
- opening up non-strategic sectors to private and public investment;
- promoting exports excluding hydrocarbons.

Structural transformation is an important area which forms an integral part of the new development model. The authorities estimate that the implementation of this new model will enable growth of 3.5 per cent in 2016 and 4 per cent in 2017. Industry will play an important part in the stated goal of the authorities to achieve 7 per cent.

A new industrial strategy, with the emphasis on a limited number of sectors, is being prepared. The development plan for the industrial sector is part of the global action plan of the Government, which regards the mining and industrial sector as a key element of the economic diversification policy. Industrial development, from this standpoint, is a national ambition, and a top priority issue. Article 75 of the Finance Bill of 2015 identified 14 industrial sectors[13]

13 The steel and metallurgical sectors, hydraulic binders, electrical and household appliances, industrial chemistry, mechanical and automotive, pharmaceutical, aeronautical, shipbuilding and repair, advanced technology, food-processing industry, textiles and clothing, leather and its derived products, timber and furniture manufacturing.

Box 5: Main features of fiscal reform

The purpose of the fiscal reform of 1992 was to modernize a complex taxation system, inefficient and inadequate in relation to economic development in that it did not play an active part in the dynamic of growth.

The fiscal reform of 1992 was undertaken in the context of establishing a fiscal policy predicated on effectiveness and fairness; it introduced three major changes in particular: the entry into force of VAT), the introduction of corporate tax and the implementation of global income tax.

The tax administration worked on this process throughout the 2000s in an effort to build a modern and dynamic tax system that could respond to changing society and the demands of an open economy. The objectives of this reform are :

- a policy of modernization of the tax administration, equipped with an organization drawn from the best international experiences, through the reorganization of the Directorate General of Taxes, according to operational guidelines for the central services and on the principle of segmentation for the core operational services, notably through the creation of the Division of Major Enterprises, tax centres (for SME) and local tax centres (for individuals). This effort to modernize was reinforced by the installation of an information system to create a global database shared by all the Directorate General of Taxes agencies, which allows the tax information to be managed for enhanced decision-making.
- Harmonization and simplification of the tax and customs procedures by:
    - syndication of procedures for tax management and recovery;
    - abolition of certain taxes and duties;
    - establishment of a voluntary tax compliance programme;
    - reduction of VAT rates at two levels;
    - setting a tax rate on company profits that is dependent on the nature of the activity;
    - reduction of rates and re-setting the tax schedule on overall income;
    - creation of the single flat rate tax and the simplified tax regime (2008);
    - expansion of the tax base and improvement of recovery;
    - updating of the property tax schedules for local allocation;
    - establishment of taxation conducive to investment and employment by granting numerous tax benefits and significant reductions in rates of duties and taxes;
    - improvement of performance and strengthening of procedures to control and combat tax fraud;
    - enhanced distribution of the tax burden;
    - maintenance of a tolerated tax burden.

- Improvement of the relationship between the tax administration and users by:
    - the creation of the Department of Public Relations and Communication to establish a communication policy geared towards taxpayers and the media;
    - the creation of the Department of Tax Information and Documentation for the collection of fiscal information, the creation of database and the allocation of a tax identification number to working taxpayers;
    - the establishment of new online services via Internet (online tax return, payment by telebanking, etc.);
    - the installation of a regularization mechanism for voluntary tax compliance by which sums deposited in a bank by an individual are liable to a flat-rate withholding tax of 7 per cent.

to be encouraged. These sectors have genuine potential for growth in view of the installed national capacities whose production can gradually take the place of imports.

The industrial development plan is constructed around the following three principal axes:

- development of the national industrial and mining system through enhanced organization of the production sectors, development of integration, strengthening of national production and consolidation of the business sector;
- promotion and improvement of industrial competitiveness through three mechanisms:
  - improving productivity to meet the challenge of international competition;
  - implementing consistency in business guidance measures;
  - stimulating local support structures.
- promotion of an environment conducive to investment, notably through:
  - overhauling the regulatory framework governing investment;
  - improving the real estate supply through the rehabilitation of industrial areas and the creation of some 50 new industrial parks;
  - enhancing the business climate by facilitating procedures and lifting constraints related to investment and business creation.

In conclusion, the continued fall in the oil price calls for a programme of far-reaching reforms in order to rationalize public spending without slowing down the momentum of growth and public investment. In the short term, Algeria is protected from a balance of payments crisis, but unless it can quickly bring public finances under control and diversify its economy, the country could face a crisis on a larger scale. The question of reform raises the issue of governance, notably to improve capacities to steer economic reform and its implementation. We recommend following the example of countries such as Malaysia, Indonesia or India and putting in place a steering unit for the principal reforms to be implemented; this unit would operate under the authority of the Prime Minister. The slowness of implementing reform and the problems encountered in this context call for the creation of formal structure equipped with the necessary authority to drive reform and remove the obstacles standing in the way of their achievement. We also recommend that Algeria should demonstrate greater clarity in its economic policy and communicate more effectively both with civil society and with the outside world about the reform implemented.

6. National data quality evaluation

Methodological note: The quality of national data sources for key indicators in the country profiles was evaluated. The results are presented in colour codes, with green indicating that the data source is “good”; yellow, “satisfactory”; and red, “needs improvement”.

The evaluation focused on the transparency and accessibility of the national data sources, while taking into account the periodicity of the published data based on the timeliness and frequency of the data updates in accordance with international standards. It measured the comparability of the data series based on length, definition and standard units of measurement. Also reviewed were the accessibility of the data to the general public, the format of the data and the ease with which the data can be downloaded and shared. In addition, data citations, together with references to primary or secondary sources, were assessed. Lastly, the completeness of metadata for data release and the clarity of documentation and notes were evaluated.

Demography	Value	Evaluation
Population (millions)	39.96 (2015p)	1
Child (0-14 years, %)	29% (2015p)	1
Adult (15-65 years, %)	65% (2015p)	1
Aged 65 years plus (%)	6 % (2015p)	1

Macroeconomic and sectoral indicators	Value	Evaluation
GDP at current prices (millions DZD)	16 799 214 (2015)	1
Real GDP growth rate (% per cent)	3.9 (2015)	1
Inflation rate (%)	4.8 (2015)	2
Current account balance (US$ billions)	27.48 (2015)	2

Economic trends and performance indicators	Value	Evaluation
Total exports (mllions DZD)	4 917 598 (2014)	1
Total imports (millions DZD)	4 719 708 (2014)	1
Inward flows of foreign direct investment (millions DZD)	-69 400 (2015p)	2

Education and employment	Value	Evaluation
Net enrolment rate in primary school (%)	97.9 (2014)	1
Literacy rate (15-24 years) (%)	98.2 (2015)	1
Unemployment rate (%)	11.2 (2015)	1
Youth unemployment rate (%)	29.8 (2015)	1
Percentage of the polulatinf living on less that $2 per day	5.5 (2011)	1

Health	Value	Evaluation
Under 5 mortality rate (per 1000 live births)	25.7 (2015)	1
Child mortality rate (per 1000 live births)	20.7 (2015)	1
Neonatal mortality rate (per 1000 live births)	13.9 (2015)	1
Maternal mortality ratio per 100,000 live births	60.3 (2014)	1

Data Sources Code Index

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