key figures

- Land area, thousands of km² 2,382
- Population, thousands (2007) 33,858
- GDP per capita, USD at constant 2000 prices (2007) 2,154
- Life expectancy (2007) 72.3
- Illiteracy rate (2007) 26.1
A FAVOURABLE INTERNATIONAL SITUATION and good control over macroeconomic aggregates have enabled Algeria to maintain respectable levels of economic growth since 2002; these remain beneath the country’s potential, however, particularly in non-hydrocarbon growth. The continued increase in revenue from hydrocarbons has allowed the country to achieve high investment rates and controlled wage increases, but unemployment remains high, especially amongst young people. The country has been able to discharge most of its external, public and multilateral debt thanks to prepayments. Compared to economies with a similar revenue level, the Algerian economy is still poorly diversified, and the contribution of the private sector to total GDP remains weak.

With funding of USD 150 billion (US Dollar), over the 2005-09 period the Complementary Plan for Growth Support (Programme complémentaire de soutien à la croissance - PCSC) aims to finance major projects that will generate employment and externalities, as well as accelerate structural reforms. The plan must nevertheless take into account the inadequate absorption capacity of the economy, particularly in the areas of project sizing and implementation, as well as the efficiency of public spending. The projects included in the plan are in the process of being re-evaluated in accordance with the recommendations of the World Bank. Lastly, in order

**Figure 1 - Real GDP Growth and Per Capita GDP (USD at constant 2000 prices)**

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

Most of the external public debt was paid off early, but high dependency on hydrocarbons persists.
to address institutional shortcomings and problems of governance, the authorities are determined to complete successfully the structural reforms that have been launched, notably in the banking sector and the tax system, and to reinforce reforms relating to the business climate, to the public sector and to agriculture.

**Recent Economic Developments**

Following weak growth of 2 per cent in 2006 due to a 2.5 per cent fall in hydrocarbon production, GDP grew by 3.2 per cent in 2007. Non-hydrocarbon GDP (NHGDP) growth was 6.4 per cent. Due to strong increases in public spending and in imported inflation, the rate of inflation was 3.8 per cent, as against 2.5 per cent in 2006. Growth remains dependent on hydrocarbon revenues. The construction sector, which is strongly influenced by the government budget, registered growth of only 9.5 per cent in 2007, as against 11.5 per cent in 2006. Services and agriculture, with growth rates of 6.9 and 5.9 per cent respectively, performed better in 2007, while industry, with a growth rate of only 1.1 per cent, continued to slow down.

Algeria remains a major hydrocarbon-exporting country. Gas exports, mostly to Europe, are expected to reach 100 billion cubic metres in 2010, as against 64 billion in 2006. Hydrocarbon exports, reaching DZD 4 112 billion (Algerian Dinar) or USD 58.2 billion, represented nearly 97.8 per cent of total exports in 2007. The average export price of Algerian crude oil continued to rise, from USD 65.8 per barrel in 2006 to USD 75 in 2007. The share of GDP of hydrocarbons was 45.9 per cent, even though, due to technical and equipment maintenance problems, the growth of this sector again fell in 2007, by 0.7 per cent. In anticipation of continued price rises in the years to come, the authorities are planning to limit the expansion of hydrocarbon production and have opted to protect proven reserves and maintain revenues through to 2011 at the level of the average for recent years, that is, around USD 55 billion.

The industrial sector, which now only represents 5 per cent of total GDP, showed very slight growth of 1.1 per cent in 2007, as against growth of 2.8 per cent in 2006. This weak growth is due mainly to the mediocre performance of the private sector and the decline in public manufacturing industries. Only the mining and quarrying, energy, and wood and paper sub-sectors, and the iron and steel and metal industries showed positive growth in 2007. The highest growth was in mining and quarrying (largely due to strong growth in phosphate and iron ores), followed by the electricity and gas sub-sector. All other sub-sectors (leather, textiles, building materials, chemistry and agribusiness) showed significant falls in production in 2007. Even though industrial production in the public sector grew by 0.6 per cent in the first six months of 2007, following a drop of 0.3 per cent in 2006, the national industrial sector remained slack overall due to the fall in the share of private industry in total value added. It is estimated that public industry has lost more than 80 per cent of its potential since 1989 (1989 = index 100). Overall, for over a decade, there has been a continued fall in production (and therefore, in production capacity) of the public industrial sector, apart from the sub-sectors

**Figure 2 - GDP by Sector in 2006 (percentage)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Oil</td>
<td>45.9%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7.8%</td>
</tr>
<tr>
<td>Industry excluding oil</td>
<td>8%</td>
</tr>
<tr>
<td>Construction</td>
<td>8%</td>
</tr>
<tr>
<td>Services</td>
<td>20.1%</td>
</tr>
<tr>
<td>Other services</td>
<td>13.4%</td>
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</table>

**Source:** Authors’ estimates based on IMF data.
Algeria

of energy, mining and quarrying, and, more recently, iron and steel.

Spurred on by government expenditure on capital equipment, construction was the most dynamic sector in 2007, with a growth performance of 9.5 per cent; this was however lower than the 11.6 per cent registered in 2006. This sector contributed more than 8 per cent to total GDP. The sector’s driving force was housing construction.

The agricultural sector grew by nearly 5.9 per cent in 2007, as against 4.9 per cent in 2006, and its share of GDP reached 7.6 per cent. Agricultural production was slightly higher than the average of 5.5 per cent for the last five years, due to the effect of good performances in 2006 in the branches of cereals (+13.8 per cent), viticulture (+19.2 per cent), citrus fruits (+8.4 per cent), kernel and seed fruits (+27.3 per cent), and milk (+8.2 per cent). Fruit production seems to be taking off, with larger areas being given over to orchards, which came to over 1,000,000 hectares in 2006, as against 518,000 in 1999, while the areas devoted to table grapes increased by 56,000 to 107,000 hectares over the same period; this led to a growth in exports of fresh fruits. On the other hand, there were marked drops in certain branches that have a strong impact on the population’s food consumption and on farmers’ incomes, such as white meat, olive growing, honey, dried pulses, dates and mass-produced tomatoes.

The market-services sector, which represents 20.1 per cent of GDP, increased by 6.9 per cent in 2007, as against 6.5 per cent in 2006; the largest branches are transport, communications and trade. Other services, which represented more than 13 per cent of total GDP, were pulled by growth in the public-administration services, which more than doubled (+6.5 per cent) compared to 2006 (+3.1 per cent).

Demand composition in 2007 was characterised by a continued investment effort, which increased in volume by 8.8 per cent and contributed 3.1 per cent to GDP growth. Industrial investment remained marginal, however, which is an indication of the weak diversification of the economy. Final consumption in 2007 increased by 2.8 per cent. There was identical growth in public and private consumption.

Although total exports in 2007 fell in terms of volume, they grew by more than 8.9 per cent in value, while imports grew even more strongly, by nearly 27.9 per cent. In spite of their growth, non-hydrocarbon exports barely exceeded the symbolic level of one billion dollars (USD 1.31 billion), and remained too weak to make a significant contribution to growth. Only a

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<th>Table 1 - Demand Composition</th>
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<td></td>
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<tr>
<td>Gross capital formation</td>
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<tr>
<td>Public</td>
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<tr>
<td>Private</td>
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<tr>
<td>Consumption</td>
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<td>Public</td>
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<tr>
<td>Private</td>
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<tr>
<td>External demand</td>
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<tr>
<td>Exports</td>
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<tr>
<td>Imports</td>
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<tr>
<td>Real GDP growth</td>
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Source: Domestic authorities’ and IMF data; estimates (e) and projections (p) based on authors’ calculations.

http://dx.doi.org/10.1787/320655050837
sustained effort of industrial intensification and diversification could boost exports and pull growth up slightly more. Due to the strong growth of imports, the balance of trade went down by 3.2 per cent compared to 2006.

**Macroeconomic Policies**

**Fiscal Policy**

The national budget still largely depends on revenues from oil taxation, which represented more than 78 per cent of total revenues in 2007. By comparison, ordinary taxation (DZD 846.7 billion) remains low and covers barely 53.4 per cent of current expenditures: the dependence of the budget on the rest of the world and its medium- and long-term viability have certainly been a cause for concern. Taxation on revenues from capital and labour remains low, constituting less than one-third of ordinary tax revenue and less than 6 per cent of the total revenue, which reinforces the idea that Algeria is a rent-based economy.

Owing to the strong increase in revenues from hydrocarbons, total budgetary receipts amounted to DZD 3 849.9 billion in 2007 (41.2 per cent of GDP), as against 3 578.6 billion in 2006. Total expenditure amounted to DZD 2 778.8 billion (29.8 per cent of GDP), as against 2 487.2 billion in 2006. Owing to the effect of the review of the public-service salary scheme as well as to that of the implementation of social measures brought in by the finance law of 2007, current expenditure (1 585.2 billion in 2007) represented more than 57 per cent of total expenditure. As a fraction of GDP, equipment expenditure amounted to 12.8 per cent in 2007, as against 11.7 per cent in 2006.

The primary deficit excluding hydrocarbons came to 37.2 per cent of NHGDP, as against 37.6 per cent in 2006, and could amount to 34.9 per cent in 2008. The overall budgetary surplus, which was 11.4 per cent of GDP in 2007 as against 12.9 per cent in 2006, is expected to remain high in the future and to exceed 7 per cent up to 2011. Nevertheless, it should be observed that the different deficits in public finance are somewhat artificial in that hydrocarbon revenues are budgeted at a reference price of USD 19 per barrel. Revenues in excess of this price are paid into the revenue-regulation fund, the Fonds de régulation des recettes (FRR), which in June 2007 held funds amounting to DZD 3 195 billion (USD 45.6 billion). The authorities had several excellent ideas: at the same time, to launch an ambitious programme of public investment; to prepay most of the external debt; and, in 2000, to set up this fund, which can be drawn upon in case of any downturn in conditions. Nevertheless, given the difficulty that the authorities have in finding alternative funding for the budget deficit excluding hydrocarbons,

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<th>Table 2 - Public Finances (percentage of GDP)</th>
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<tr>
<td><strong>Total revenue and grants</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
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<tr>
<td>Total revenue and grants&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Tax revenue</td>
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<tr>
<td>Oil revenue</td>
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<tr>
<td><strong>Total expenditure and net lending</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Current expenditure</td>
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<tr>
<td>Excluding interest</td>
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<tr>
<td>Wages and salaries</td>
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<tr>
<td>Interest</td>
</tr>
<tr>
<td>Capital expenditure</td>
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<tr>
<td><strong>Primary balance</strong></td>
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<tr>
<td>Overall balance</td>
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</tbody>
</table>

<sup>a</sup> Only major items are reported.

**Source:** Domestic authorities’ and IMF data; estimates (e) and projections (p) based on authors’ calculations.

**StatLink** [http://dx.doi.org/10.1787/321515358757](http://dx.doi.org/10.1787/321515358757)
the rules governing the FRR were changed to allow direct financing of this deficit – under two conditions, however: that the amount outstanding in the fund should remain at more than USD 10 billion and the world price for Algerian crude at more than USD 49 per barrel.

Amongst the actions in 2007 that were earmarked as priorities by the authorities is budget-system modernisation. The reform project will be built on a pluriannual approach to revenue and expenditure management based on separate budgeting for each programme, the accountability of managers through assessments and checks on performance and results, and improvements in the content and presentation of the budget; these measures will allow greater control over the costs of capital-equipment programmes, and better budgetary planning. The authorities also intend to expand the pilot experience carried out in 2006 with three important ministries, which led to the identification of the constraints affecting the process of adoption of the reform.

**Monetary Policy**

The year 2007 was characterised by an increase in the net Treasury debt to the banking system and by the growth of the country’s net external assets, which came to nearly USD 105 billion and exceeded the monetary and quasi-money liquidities of the economy, showing that these assets constitute the main source of money creation in Algeria. The money supply grew during the year by around 17.9 per cent, although Treasury resources – built up through extra revenues from oil taxation – lessened this monetary expansion. To avoid making withdrawals from the FRR in order to meet the prepayment requirements of the external debt for the year 2006, in 2007 the Treasury resorted to exceptional bank advances from the Bank of Algeria amounting to DZD 627.8 billion: this had the effect of expanding domestic public debt which had, moreover, grown due to the repurchase of non-performing loans held by the banks on non-viable public enterprises. In 2007, the assets of the public Treasury with the central bank amounted to more than DZD 4 000 billion (nearly USD 57 billion).

Monetary policy remained cautious in 2007, and in spite of a rise of 17.9 per cent, as against 18.6 per cent in 2006, money creation was contained, due to the sterilisation by the Bank of Algeria of bank overliquidity generated by the large increase in deposits by Sonatrach, the national enterprise for research, production, transport, transformation and marketing of oil and gas. The instruments used for sterilisation included: the absorption of liquidity by calls for tenders; the interest-bearing deposit facility; and the reserve requirement, set at a rate of 6.5 per cent. This policy has made it possible to clear more than 96 per cent of overliquidity and to contain inflation. Owing, however, to a price recovery in primary products and industrial inputs (most of which continue to be imported), and to the expansion of public expenditure and foreign-exchange reserves, the rate of inflation reached 3.8 per cent at the end of 2007. In a context of imported inflation and budgetary expansion due to public-investment programmes and salary increases, the bank of issue will have to tighten monetary policy further and increase the basic interest rate so as to keep it positive in real terms, while also applying a more flexible management the exchange rate of the dinar and so curb inflationary pressures. The interest rate of the Bank of Algeria was raised to 2 per cent in 2007, up from 1.7 per cent in 2006.

Lending to the economy, mostly granted by public banks, amounted to DZD 1 861 billion (19.9 per cent of GDP). A large share went to private enterprises and households, while lending to public enterprises fell. This growth of lending to the private sector should however take into account the risks of credit concentration on a few large private debtors and of household over-indebtedness. Lending to the private sector amounted to DZD 1 057.3 billion (11.3 per cent of GDP), and the share of medium- and long-term loans is growing. The supervision and the monitoring of public banks (mainly by means of on-site checks) have become more active. Nevertheless, the non-productive portfolio of public banks remains high, and the domestic public debt of the Treasury (DZD 1 779 billion in 2007) is essentially (1 376 billion) owed to these banks, as a result of the Treasury’s reorganisation of the debt of public enterprises.
Algeria’s exchange-rate system is one of a managed floating exchange rate of the dinar against the main currencies of the country’s major trade partners, aimed at ensuring the stability of the real effective exchange rate (REER). The latter appreciated by 0.9 per cent in 2007, rising from DZD 72.6 to DZD 69.3 for one dollar. Sonatrach, which has the state as exclusive shareholder, is obliged to transfer back all its revenues from hydrocarbon exports: this means that the Bank of Algeria remains the main seller of foreign exchange to the banks, apart from a marginal amount that can be exchanged amongst commercial banks on the interbank market. This allows the bank of issue to maintain the REER more or less at the same level as at end 2003, judged to be close to equilibrium. Furthermore, the gap between the informal market rate and the official exchange rate diminished markedly at the beginning of 2006 as a result of the drop in demand for foreign currency, particularly the dollar and the euro, following the obligation laid on importers to increase their capital to DZD 20 million, which resulted in the elimination of many of them. The gap seemed to widen again in 2007 due to the effect of the increased value of the euro, which led to its relative scarcity.

**External Position**

Thanks to the continued rise in the world prices of hydrocarbons, total exports reached DZD 4 242.9 billion (45.5 per cent of GDP) in 2007, as against 3 976 billion in 2006, representing an increase of 6.3 per cent. In spite of a volume reduction of 1.13 per cent, exports of hydrocarbons amounted to DZD 4 112 billion (USD 59.2 billion), representing 97.8 per cent of total exports. Although there has been clear improvement, exports other than hydrocarbons remain marginal (USD 1.3 billion, or 2.2 per cent of total exports), much to the authorities’ dismay, since they are trying to promote these. The share of foreign oil enterprises in hydrocarbon exports fell to 9.9 per cent in 2006, as against 10.4 per cent in 2005. Moreover, in 2006 these enterprises became subject to payment of a tax on their excess profits, those made on the basis of a world price for crude oil higher than USD 30. This tax allowed the Treasury to collect nearly USD 2 billion in additional tax resources. In 2006, the United States bought USD 14 billion worth of imports from Algeria, or 26 per cent of the total value of commodities exports, followed by Italy (9 billion), Spain (5.5 billion), France (4.3 billion) and Latin America (2.9 billion), with Brazil’s share standing at 1.8 billion.

Commodities imports amounted to DZD 1 862 billion (USD 26.8 billion) in 2007, as against 1 557 billion in 2006 (USD 21.4 billion). Imports increased due to the rise in public investments and to higher prices of imported goods such as capital equipment (USD 10 billion), intermediate goods (8.5 billion) and food products (4.8 billion). Commodities imports came mainly from the European Union (56 per cent), with USD 4.3 billion from France, 1.9 billion from Italy, 1.5 billion from Germany and 1 billion from Spain. Imports from the Asian countries amounted to USD 2.5 billion, with 1.7 billion from China, which has become the country’s third-largest supplier. The association agreement with the European Union entered into its second phase of tariff dismantling in 2007, but Algeria’s World Trade Organization (WTO)
membership has still failed to make any progress, and trade amongst the countries of the Maghreb remains insignificant (3 per cent of the region’s total trade with the rest of the world).

The opening up of the country to foreign direct investment (FDI), especially in oil, destabilised the income balance in 2006 even further, but what was new was that FDI (amounting to USD 1.8 billion for the year) turned increasingly (53.02 per cent) to non-hydrocarbon sectors. Nevertheless, in 2006 revenue paid to the rest of the world (76.2 per cent of which was made up of profits exported by foreign oil enterprises) amounted to nearly USD 7 billion, while the revenue received, mainly generated by investment abroad of the reserves of the Bank of Algeria, increased in 2006 by USD 1 billion, and amounted to 2.42 billion.

The current account showed an overall surplus of USD 30.1 billion in 2007, but this surplus is expected to continue to fall through to 2011, due to increases in imports and income transfers by foreign residents in the country. At the end of June 2007, foreign-exchange reserves were equal to USD 90.96 billion, or the equivalent of nearly 39 months of imports; with an average price of Algerian crude oil at USD 75 per barrel, they reached USD 105 billion.

Taking advantage of the financial windfall that the country has enjoyed for several years, the authorities have been making advance payments, since 2004, of the external public debt and capping non-concessional loans. Algeria has thus succeeded in paying back nearly USD 14 billion of an external debt that amounted to about USD 23.5 billion at the end of 2003. At the end of 2006, acceleration of advance payments enabled the country to reimburse more than USD 8.5 billion to Paris and London Club creditors, and 2 billion to multilateral creditors. These repayments brought the external debt-to-GDP ratio down from about 34 per cent at end 2003 to less than 4.8 per cent at end 2006, and the ratio is expected to fall to 3 per cent by 2011. On the strength of these figures, the country intends

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**Figure 3 - Stock of Total External Debt (percentage of GDP) and Debt Service (percentage of exports of goods and services)**

Source: IMF.

StatLink: [http://dx.doi.org/10.1787/318268718275](http://dx.doi.org/10.1787/318268718275)
to obtain a sovereign-borrower rating. The stock of domestic public debt, which the authorities are determined to pay off gradually, remained nearly unchanged in June 2007 in comparison to December 2006, that is, at about DZD 1 780 billion (19 per cent of GDP).

**Structural Issues**

**Recent Developments**

The investments made have enabled considerable infrastructure to be built up over time, but this infrastructure suffers from serious maintenance problems. Algeria has 107 000 kilometres of roads (72 per cent of which are surfaced), 4 940 kilometres of railway lines, 10 commercial ports and 33 airports. The maintenance budget for roads amounts to only 0.2 per cent of GDP, but should be raised to 1 per cent. From the point of view of network density, Algeria is well provided, but institutional and regulatory bottlenecks put a strain on ports, roads and urban transport, and hinder growth. The economic profitability of railway and airport infrastructure remains questionable because of low levels of traffic, and the competitiveness of the ports sector is weak due to the lack of container terminals. The new port of Djendjen, in the east of the country, ought to remedy this situation to some extent. Otherwise, the assets are becoming outdated, and investments tend to be directed towards new infrastructures rather than to the maintenance of old ones.

The implementation of large-scale projects, especially the 1 200-kilometre-long east-west motorway, needs a regular maintenance plan and an institutional and regulatory framework that is independent of political decision-making centres. The private sector provides a major share of road transport (93 per cent of inter-urban passenger transport and 97 per cent of goods transport); this sector should be associated with other forms of transport, and public-private partnerships should be encouraged in order to improve service quality and preserve the infrastructure. A National Fund of Equipment for Development (CNED) was set up in 2004 with the aim of finding solutions for shortcomings in the preparation and implementation of large-scale projects, and of providing decision makers with prior advice on the economic viability of such projects.

Apart from the programme for transferring public entities and/or closing financially non-viable enterprises, the reform of the public sector has concentrated mainly on the upgrading of public enterprises. In order to address the problem of dispersal of the present upgrading programmes, a new policy to consolidate these programmes will be introduced through a new industrial strategy: the corresponding plan of action was adopted by the government in 2007. The reform also concerns public-private partnerships. Progress has been made in setting up an economic real-estate market, and four executive decrees were issued in 2007 defining an operational framework for it to work properly.

Despite these improvements, the business climate in Algeria remains less favourable than in most of the countries of the region. According to the Ease of Doing Business ranking of the World Bank, Algeria gained seven points in 2006 owing to better-quality banking and statistical information, but the country still lags behind in other areas, such as in starting a business or registering property. Reform of the tax system included reducing taxes on business profits from 30 to 25 per cent, and in 2007, a single fixed tax was introduced to tax activities for a turnover not exceeding DZD 3 million. A large-enterprise department has been set up in order to improve tax collection, and a tax on excess profits of the oil enterprises, including Sonatrach, was introduced on the basis of a world crude-oil price higher than USD 30.

The banking system made considerable progress in 2006 owing to the launch of the Algeria Real Time Settlements (ARTS) system to handle gross payments of large amounts and urgent payments in real time; also launched was an inter-bank electronic clearing system, Algérie Télé-compensation interbancaire (ACTI): this is run by the Inter-bank Pre-clearing Centre (CPI), a subsidiary of the Bank of Algeria, and includes all the banks present in the financial market as well as the
The privatisation process of the majority of the country's largest public bank, the Crédit populaire d'Algérie (CPA), which was to have been completed by the end of 2007, was held up because of the American subprime mortgage crisis, as this seems to have affected the financial standing of some of the banks that were candidates for the takeover. Privatisation of the CPA and, the removal, in October 2007, of the obligation for public enterprises to deposit their capital in exclusively public banks, as well as improvements in prudential regulations and bank supervision with the assistance of the IMF, should all lead to greater transparency in the sector. These positive trends should be consolidated, and expanded to include the funding by the financial market of some of the needs of economic operators. Although the bond market seems to be arousing interest, albeit still modest (with 9 securities in circulation, 3 of which are listed on the stock exchange, and financing of the economy amounting to DZD 170 billion), the capital market, on the other hand, is characterised by slackness in the Algiers Stock Exchange, which – in spite of a legal and regulatory framework and, in 2005, the passing of a law on risk capital in keeping with international standards – has been unable to find its bearings. In order to inject some dynamism into the market, the authorities plan to encourage partial-privatisation operations of public economic enterprises (EPE) via the stock exchange; they also decided to admit, in 2007, fungible Treasury bonds of 7, 10 and 15 years into the stock market. A new enactment related to the reform of the national accounting system in force since 1975 will mean that, as from 2009, the system will operate according to new International Accounting Standards (IAS). It will set up the exact rules for registering financial statements, which will facilitate auditing by potential investors, and thus promote the stock exchange. The authorities are also determined to prevent the emergence of new non-productive debt that is very costly to the Treasury (4 per cent of GDP in 2006), by drastically limiting bank lending to non-viable public enterprises.

In 2002, the Ministry of Agriculture’s mandate was expanded to include rural development; a National Agricultural and Rural Development Plan (PNDAR) was developed to strengthen the country's food security, restore ecological balances and improve the living conditions of the rural population, which includes more than half of the country's poor. PNDAR is directed at integrated, balanced and sustainable rural development in the various territories (Tellian, steppic and desert) in terms of their distinctive characteristics. The main instrument for implementing the plan takes the form of rural development partnership projects (PPDR) based on a participatory approach and intended to create the conditions for the emergence of modern agriculture and income-generating activities, as well as to address the social aspects of the fight against rural unemployment, poverty, the paucity of human capital and the problem of precarious housing. Since 2003, the plan has in fact made it possible to open 23 471 kilometres of tracks and access routes, and to install 5 260 kilometres of electric power lines. By the end of 2005, no fewer than 1 146 PPDRs had been funded and 660 launched, to the benefit of 67 568 rural households. Nearly 240 projects have been delivered, and 9 200 others are schedules for the next few years, involving nearly 6 million persons, directly or indirectly.

With regard to environmental protection and resource conservation, a national land-use planning scheme (SNAT) was developed in 2004. It comprises several sector-based action plans covering the entire national territory. The SNAT is responsible for making sure the development projects are coherent with the territories that are to benefit from them, and for supervising their implementation in accordance with environmental impact studies.

**Technical and Vocational Skills Development**

The Technical and Vocational Education and Training (TVET) sector possesses a vast network of
facilities and training institutions offering courses that lead to qualifications and diplomas covering a wide range of specialised fields, with different types and levels of qualification. At the beginning of 2006, there were 884 institutions and facilities totalling a capacity of 210 000 for residential training, plus nearly 200 000 for apprenticeship training, 21 000 for distance education and 24 000 for night school. The total number of trainees increased by 3.6 per cent in 2006, with 40 per cent newly registered students. To that may be added 66 000 training positions offered by 70 public institutions that fall into other branches of training, as well as 528 private institutions offering vocational training. The total number of trainees in these institutions comes to nearly 20 000. In 2006, 54 or so new facilities were delivered that offer an additional capacity of nearly 11 000 in residential training. This sector also offers a capacity of nearly 35 000 in boarding schools throughout the national territory, and provides training to 720 foreign trainees from Africa and the Arab world, 260 of whom were newly registered students in 2006/07.

An evaluation of the TVET system showed that there was a relative loss of prestige for vocational training tracks, the stagnation in the classification of the fields of study and a high concentration of trainees in a small number of branches. The sector suffers from the low level of the training provided and from inadequate internal and external outputs. Although the number of graduates in the sector has increased annually on average by nearly 5.6 per cent since 2000, the attrition rate remains high (14.4 per cent in 2005). Moreover, the integration rate for graduates from other sectors is only about 15 per cent. The root causes of these factors are teachers' low qualification level - only 27 per cent of them are specialised vocational education teachers (PSEP) – and the deterioration in the student-teacher ratio due to a lack of teachers (40 per cent of positions are filled by temporary staff). The reform which was begun in 2006 is attempting to alleviate this situation in order, on the one hand, to improve the system's internal and external outputs and train young people who have dropped out of the general education system, and on the other, to ensure a better correspondence between training and employment.

The sector's priorities are to provide the training of qualified manpower through residential and apprenticeship training, as well as its “maintenance” by means of continuing education (retraining, advanced training and refresher courses). The main objectives hinge upon: i) the re-establishment of the original purpose of vocational training through the revival of traditional craft trades and the development of manual trades, particularly in agriculture and construction; ii) the introduction and promotion of occupations created by the new knowledge-based economy; iii) the funding of training and advanced training for the sector's human resources, especially the teachers; and iv) the diversification of funding sources.

The sector has also developed new training courses on new information and communication technology (NICIT), through setting up in 2006 the Intranet project to link up TVET institutions and the central administration. The aim here is the devolution of the sector by means of a specific information and communication network providing messaging, documentary research and e-learning services. The CISCO Networking Academies project developed in association with the CISCO Systems enterprise involves the creation of new NICIT fields of expertise, particularly network computing (network installation, administration and maintenance). This project has led to setting up 33 academies, 3 of which are regional academies, each managing 10 local academies.

TVET is one of three segments of the educational system and comes under the authority of the ministry of vocational training and education. The sector's strategy depends on a central administration that develops national TVET policy and oversees its implementation by the public and private sectors. Management is decentralised to regional government bodies located in the 38 wilayas (provinces) whose task is to develop and implement vocational training promotional measures, and to run, co-ordinate and periodically evaluate how the facilities and vocational training means for which they are responsible in their territory are working. The public TVET structure includes 555 vocational training and apprenticeship centres (CFPA) and 223 CFPA annexes located
throughout the country, as well as 74 national institutes for specialised vocational training (INSFP) and 20 INSFP annexes providing training for technicians and advanced technicians; added to this structure is a network for educational engineering made up of the national institute for vocational training (INFP), whose headquarters are in Algiers, and 6 institutes for vocational training (IFP) whose tasks are to provide training and advanced training of the administrative, technical and educational executives in charge of the sector, as well as to develop curricula, methods and teaching materials for TVET. In addition, there are 5 national support bodies: the national fund for the development of apprenticeships and continuing education (FNAC), the national centre for vocational distance education (CNEPD), the national institute for the development and promotion of continuing education (INDEFOC), the centre for study and research on occupations and qualifications (CERPEQ), and the national institution for technical and educational equipment in vocational training (ENEFP). The private sector features 528 vocational training institutions.

Besides granting approval to private institutions subject to certain terms and conditions, the supervisory ministry also provides them with support. In particular, it supervises the quality of training courses and how well they lead to occupations offering employment opportunities, and it tries to improve the control and evaluation of their activities. It is also responsible for building a dialogue with these institutions with the aim of improving their teaching capacities, diversifying training options and protecting student rights.

Partnership between the public and private sectors and associations takes the form of 81 framework agreements and 2 833 specific local agreements. The aims of this partnership are: the introduction of new tracks into the fields of expertise taught, such as, for example, occupations in water, environment and fishing, for which demand is estimated at approximately 30 000 jobs; the development of occupations in construction; and the continuing education of workers, the handicapped and the prison population. At the conclusion of training, authorised public and private institutions issue diplomas and/or certificates that are recognised nationally and locally.

In the framework of the reform recommended by the national commission to reform the education system, a new certificate course consisting of three levels (general and technological education, vocational education and vocational training) was set up during the 2005/06 school year; it includes two training stages, two years each, leading to first- and second-level vocational education certificates. These certificates will enable the recipients either to start working or to go on to more advanced studies to obtain a vocational baccalaureate, which will be awarded by the future institute for vocational education (IEP). This baccalaureate will also enable its holders to enrol in the vocational bachelor degree courses created by the ministry of higher education and scientific research in the framework of the LMD (bachelor, master, doctorate) reform introduced in 2005. In anticipation of the opening of the IEP, technician and advanced-technician training courses were started in 2006 on an experimental basis in 20 pilot INSFP, in new branches of the sector where there is strong demand, such as computer maintenance, and refrigeration and energy technology.

TVET reform is governed by inter-sectoral issues related to distinguishing technological secondary education from vocational education and to determining the importance of the main tracks of post-compulsory education, namely: i) general and technical secondary education; ii) vocational education, which needs to be set up and given recognition by means of a vocational baccalaureate, so that it becomes the backbone of vocational training; and iii) vocational training of every kind, which will take in those who have dropped out of middle secondary school and will also meet the needs of workers and job seekers for advanced training or retraining. The reform also responds to an internal sectoral requirement to set up vocational education gradually and to refocus vocational training on its original purpose: training for manual occupations. The reform will involve a revision of the classification of vocational branches and fields of expertise in such a way as to respond to market demand and promote access to employment for the trainees. Teaching will also be
reformed through a review of the existing measures and the modernisation of educational methods, as well as of the design of teaching aids and training course content. Finally, a monitoring centre for vocational training and education will be set up, with the task of improving the information system, and of enhancing TVET transparency and planning in line with the needs of the national economy. The framework bill for vocational training and education that was passed by the government in June 2006 completes the legal and institutional framework for improving co-ordination within this sector.

TVET is mainly financed out of budgetary resources, but there are other forms of funding, such as contributions out of the wage bill (presently at 0.5 per cent, to be increased to 1 per cent) agreed to by employers for the continuing education and apprenticeship of their workers, and reduced-rate continuing education and apprenticeship taxes. Funding by European Union programmes such as the MEDA programme provides the sector with additional resources. As regards training abroad, since 2004 the sector has benefited from ten scholarships per year financed by the programme of co-operation with France. With resources from the ministry, it also benefits from short-term training courses held abroad, mostly for trainers. Apprentices receive an allowance equal to 15 per cent of the national minimum guaranteed wage (SNMG), paid by the state for a period lasting for between 6 and 12 months. After that, the employer takes over the allowance, according to a rate that moves from 30 to 80 per cent of the SNMG. In addition, the finance law of 2007 introduced allowances for trainees in manual fields of expertise and payments for master craftsmen and professional craftsmen who undertake education and training activities.

**Political Context**

Two major electoral events took place in Algeria in 2007. In May, some 20 political parties took part in general elections which, with a participation rate of hardly 38 per cent, were largely ignored by the voters; this was one of the lowest rates ever observed in this type of election. In November, participation in local elections to renew the municipal and wilaya councils reached the somewhat higher rate of 44.09 per cent. These rates, considered to be low for decisive elections, seem to have become a structural feature of Algerian political life and an indication of the relative loss of interest of the population, which tends to think of opposition parties and parties in power as being part of the same political system.

In order to improve transparency in public expenditure management, a project to modernise the budgetary system is under way. It is based on the application of a medium-term expenditure framework that will enable traceability for the public funds allocated to different projects. The framework aims to achieve a results-based system for managing public resources, as well as increased efficiency in their use. The medium-term project study will provide the elements to standardise the government budget set the level of expenditure per project, which will depend upon expected results. An Anti-corruption Act was also passed in January 2006. Otherwise, a new territorial division is nearing completion, which will increase the number of administrative districts (wilayas) and improve the possibilities of decentralising public policies and funding.

**Social Context and Human Resources Development**

In the field of education, the country shows high levels of access to basic education. For example, the net enrolment rate in compulsory education for 6-15 year-olds went up from 87.92 per cent in 1995 to 96.01 per cent in 2005, with a breakdown of 93.6 per cent for girls and 98.4 per cent for boys. The rate varies little in the different regions of the country. For other school levels, particularly middle secondary education, where the net enrolment rate was only 38.7 per cent in 2006 (46 per cent for girls and 32 per cent for boys), and higher education, where the rate was 21.8 per cent (25.3 per cent for girls and 18.4 per cent for boys), participation rates remain low when compared with countries with a similar income level.
Overall, irrespective of levels, the education system displays weak internal and external efficiency. Dropout and repetition rates remain relatively high, and graduates of the system are not well prepared for working life. It has been estimated that the supplementary costs stemming from this inefficiency adds nearly 30 per cent to the overall cost of training a graduate. In 2003, the authorities decided to launch an exhaustive reform of the education sector; this was aimed above all at raising educational quality, increasing access to the different levels and improving the completion ratio for primary and middle secondary schools, but emphasis was laid more on teacher qualifications than on the quality of the teaching dispensed. Higher education continues to be more concerned with improved access for baccalaureate holders (in large numbers) than with a reform of the curricula, many of which are not adapted to market demand; there has also been little concern regarding the efficiency of the social expenditure allocated to students (scholarships and accommodation). Additionally, the education sector suffers at every level from the inadequacy of the institutional framework and from insufficient maintenance of its physical assets.

The Algerian health system enjoys a considerable level of development, from the point of view of both infrastructure and medical and paramedical staffing. The country's epidemiological profile is being gradually dominated by so-called “rich country” diseases such as cardiovascular diseases and diabetes, but the resurgence of “poor country” diseases, such as cholera and tuberculosis, has reminded the authorities that the health system is largely still that of a developing country. The rate of population affected by HIV/AIDS remains low, but this does not bar continuing awareness-raising campaigns amongst populations at risk, nor supplying health facilities with condoms and low-priced antiretroviral (ARV) treatments. Nearly 98 per cent of the population has access to basic health care, and health indicators have improved in the last few decades. Life expectancy at birth increased from 67.3 years in 1995 to 74.6 years in 2005, which is higher than other countries with a similar income level, and the infant mortality rate improved distinctly, declining from 94 to 33 per 1 000 live births between 1980 and 2004, although there are disparities amongst regions. In 2006, for example, this rate stood between 15.6 and 35.4 per 1 000 in the north, 15.2 and 37.2 per 1 000 in the high plateaux, and between 21.3 and 35.9 per 1 000 in the south. All the Millennium Development Goals (MDGs) in the area of health will probably be reached in 2015, but the health system suffers from qualitative and institutional failings. Primary health-care establishments are often underutilised, and the various levels of health care are used in much less than optimally. Facilities and equipment are afflicted by lack of maintenance and upkeep, and still show high levels of nosocomial infections and breakdowns. As for the private sector, its institutional and regulatory framework leaves much to be desired, and it has been unable to offset the shortcomings of the public sector in the areas of quality and access to care. The GDP share of health expenditure (4.1 per cent in 2003) remains low in relation to countries with a comparable income level. The allocations scheduled in the growth-support plan, the PCSC, should improve the situation.

Thanks to the growth recovery observed since 2000, the national poverty rate fell to 5.6 per cent in 2006, as against 5.9 in 2005, but more distinctly in urban than in rural areas. There were 1 876 000 poor people in 2006, about as many as in 1988, but with a higher total population. This figure is still high, however, considering the oil windfall that the country has received. It could be brought down through government social expenditure, if the (still acute) problems of housing, transport and security were firmly taken in hand.

The unemployment rate remains one of the highest in the region. In spite of the reduction in the number of jobs in the public sector, the state is still the largest employer. In the future, private-sector-led growth and investment should take over the state’s role in this area, but labour productivity, which is low, will also have to be raised. According to official data, the total unemployment rate fell by half in five years, from 30 per cent in 2001 to 15.3 per cent in 2005 and 12.3 per cent in 2006. The estimated unemployment rate in 2007 was 13.8 per cent, with the number of unemployed standing at 1.24 million, for an active
labour force of 10.51 million. The unemployment rate for young people also fell considerably, from 48 per cent in 2001 to 31 per cent in 2005. Unemployment was higher in urban areas (12.8 per cent) than in rural ones (11.5 per cent), and affected women (14.4 per cent) more than men (11.8 per cent).