key figures
- Land area, thousands of km² 2 382
- Population, thousands (2005) 32 854
- GDP per capita, $ PPP valuation (2005) 6 504
- Life expectancy (2000-2005) 71
- Illiteracy rate (2005) 27.9

Algeria
Algiers
All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/047117560050
Algeria’s economic growth has continued to be sustained mainly by the ongoing increase in the volume and prices of its oil and gas exports, which have enabled the country to improve its external position considerably. This positive international climate, along with agricultural growth above 2 per cent in 2004, has meant that Algeria’s GDP grew by 5.2 per cent in 2004 and the rate is expected to be 5.4 per cent in 2005. These positive results should continue as long as trade conditions remain favourable.

This relatively comfortable financial situation led the authorities to pursue an expansionist budgetary policy and to launch the Complementary Plan for Growth Support (Programme complémentaire de soutien à la croissance – PCSC), which anticipates public spending on equipment for the period 2005/09 at $50 billion. The main objectives of this programme are the improvement of social conditions and a reduction in the rate of unemployment.

Oil prices reached historic levels in 2005, which, despite a significant rise in imports, enabled Algeria to improve its current external balance. The present prudent management of oil income has enabled Algeria to reduce its debt while maintaining good reserves. Thanks to the restrictive monetary policy of the Bank of Algeria, inflation has been kept under control at the respective moderate rates of 3.6 per cent in 2004 and 5 per cent in 2005.

However, although Algeria has succeeded in strengthening its macroeconomic stability, it has not yet succeeded in removing existing economic constraints to sustained growth. Accelerated structural and institutional reforms — particularly modernisation of the banking sector, reduced participation of the State in economic life, and continued liberalisation of foreign trade — remain preconditions for making the transition to a market economy and diversifying economic activity in order to guarantee lasting growth.

Source: IMF data; estimates (e) and projections (p) based on authors’ calculations.
Recent Economic Developments

Irrespective of climate conditions, overall growth in the Algerian economy has become highly dependent on growth in the construction, oil and gas sectors, due to active State policy in this respect and the wealth of the country’s mineral resource reserves.

After an exceptional year in 2003, growth in the agricultural sector fell to only 2.2 per cent in 2004, compared with 17 per cent in 2003. Nevertheless, production levels remain good, especially for cereals, where production reached 40 million tonnes, one of the highest levels since the record years of 1996 and 2003. Such good performance has resulted from favourable climatic conditions and the effects of national support programmes launched within the framework of the National Plan for Agricultural Development (Plan national de développement de l’agriculture - PNDA).

In 2004, the agricultural sector accounted for about 9 per cent of GDP, and contributed 1.7 per cent to overall growth. However, this dynamism subsequently slackened off, and agriculture’s share in GDP was only 7.6 per cent in 2005.

The oil and gas sector, which is the driving force behind growth in the Algerian economy, accounted for 38 per cent of GDP in 2004 and contributed over 25 per cent to overall growth. In spite of a 12 per cent drop in refining and the production of liquefied natural gas because of the explosion at the Skikda factory in January 2004, this sector showed real growth of 3.3 per cent thanks to increases in the production of petroleum and natural gas. Algeria’s production of crude oil reached 1.3 million barrels per day at the end of 2004, and Algeria therefore presented a request for an increase in its production quota to the Organization of Petroleum Exporting Countries (OPEC). This dynamism continued throughout the first six months of 2005, when production of crude oil and gross production of natural gas registered growth rates of 2.6 per cent and 9.5 per cent respectively, compared with the first six months of 2004. Over the same period, the total production of primary energy (crude oil and condensates, natural gas and liquefied petroleum gas [LPG]) grew by 5.7 per cent overall, to reach 89.8 million tonnes of oil equivalent (TOE) during the first six months of 2005. However, the production of refined products during the first six months of 2005 failed to reach the same level as in the first six months of 2004.

The construction sector received special attention from the government because of the country’s lack of housing and basic infrastructure. This sector has maintained remarkable growth over recent years, reaching 7.5 per cent in 2004 and 5.8 per cent in 2003. Over the period 2005/09, this sector will receive almost half of the total budget allocated to the PCSC programme, during which time the completion of one million housing units is planned. As of 31 December 2004, 345 000 housing units were in the process of being built. This sector is expected to absorb a significant part of unemployed manpower, and to reinforce growth through the subsequent boost given to consumption.

With a growth rate of 1.9 per cent, the industrial sector excluding oil and gas and construction has shown the poorest sectoral growth performance; these poor results are expected to continue in 2005, with growth estimated at 1.6 per cent. The industrial sector excluding oil and gas and construction only made a small contribution to overall growth in 2004, accounting for only 6 per cent of GDP. Private sector share in gross industrial value added, excluding oil and gas, remained stagnant. Following a remarkable increase at the end of the 1990s, after 2002, this share settled at around 78 per cent for construction and at 33 per cent for other industries, excluding oil and gas. The performance of the private sector has nevertheless improved: its real growth rate was 3.5 per cent in 2004, whereas public sector growth was only 0.9 per cent. Since the year 2000, the private sector has concentrated on agribusiness production, which accounted for almost 78 per cent of value added in 2004, and on the textile and leather sectors, which contributed 76 and 83 per cent respectively of value added for the same year.

The services sector grew 7.6 per cent in 2004, representing an increase of 6.7 per cent compared with
the rate for 2003. This sector contributed more than half of the economy's overall growth and accounted for about 38 per cent of GDP; the sector also employs more than 53 per cent of the total working population.

To improve external competitiveness for enterprises and enable them to face up to increased competition resulting from the association agreement with the European Union concluded in September 2005, several upgrading programmes for public and private enterprises have been launched, notably: the Programme for industrial competitiveness managed by the Ministry of Industry with the assistance of the United Nations Development Programme (UNDP)
and the United Nations Industrial Development Organization (UNIDO); and the Euro-development programme for small and medium-sized enterprises (Programme euro développement PME – EDPME), with the support of the European Commission. As regards the first of these, only 69 enterprises have been involved in the actual upgrading phase, and as regards the second, both the Ministry of Small and Medium-sized Enterprises and Handicrafts (ministère des PME et de l’Artisanat) and the European Commission delegation have admitted that the first phase has encountered difficulties: although the programme comes to an end in 2006, more than half of the work done remained at the analysis and diagnostic stages.

In addition to these co-operation programmes, a new programme for upgrading small and medium-sized enterprises was announced in June 2005 and entrusted to the national Agency for the development of small and medium-sized enterprises (Agence nationale de développement des PME) set up for this purpose.

Demand composition underlines the continued effort of accumulation expressed by investment rates of over 30 per cent in recent years. In 2004, as stocks grew, 32 per cent of GDP was invested. However, total consumption went down from 53 per cent of GDP in 2004 to 47.7 per cent in 2005, and it is predicted that it will represent 48.2 per cent in 2006.

### Table 1 - Demand Composition (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross capital formation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>7.4</td>
<td>10.3</td>
<td>11.1</td>
<td>11.5</td>
<td>11.0</td>
<td>10.9</td>
<td>11.2</td>
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<tr>
<td>Private</td>
<td>16.2</td>
<td>20.6</td>
<td>18.9</td>
<td>20.4</td>
<td>19.5</td>
<td>19.7</td>
<td>21.1</td>
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<tr>
<td>Consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>16.5</td>
<td>15.4</td>
<td>14.8</td>
<td>14.5</td>
<td>12.7</td>
<td>12.3</td>
<td>12.2</td>
</tr>
<tr>
<td>Private</td>
<td>51.4</td>
<td>43.8</td>
<td>40.4</td>
<td>38.5</td>
<td>35.0</td>
<td>35.9</td>
<td>37.5</td>
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<tr>
<td>External sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>30.4</td>
<td>35.4</td>
<td>38.6</td>
<td>40.4</td>
<td>45.1</td>
<td>43.9</td>
<td>42.0</td>
</tr>
<tr>
<td>Imports</td>
<td>-22.1</td>
<td>-25.5</td>
<td>-23.8</td>
<td>-25.4</td>
<td>-23.3</td>
<td>-22.8</td>
<td>-24.1</td>
</tr>
</tbody>
</table>

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

### Macroeconomic Policies

#### Fiscal Policy

Over the recent period, almost 70 per cent of public revenue has been oil fiscal revenue. The sudden rises in the price of oil considerably increased State revenue and caused a remarkable improvement in public finances. Oil prices went up from an average of $28.9 per barrel in 2003 to $38.6 in 2004. In the first six months of 2005, the average price was $49.6. Nevertheless, except for the complementary finance law of 2002, as a precautionary measure, finance laws since 2000 (including that of 2006) have been drafted on the basis of an oil price of $19 per barrel, and any value added that results from a higher level of revenue from oil taxes is added to the revenue regulation fund (Fonds de régulation des recettes – FRR) which was set up in the year 2000.

In 2004, tax revenue amounted to 36 per cent of GDP, i.e. 2 226 billion dinars. Ordinary revenue grew by 5.3 per cent, while resources from oil revenue increased by 16.3 per cent.

Budgetary expenditure increased by 4 per cent in 2004, reaching 1 832 billion dinars and representing 30.7 per cent of GDP. Equipment takes a predominant place in the structure of State expenditure as a consequence of the Economic Recovery Programme (Programme de soutien à la relance économique – PSRE), and further similar effects are expected after 2005 with the launching of the PCSC. This programme foresees expenditure on equipment of 4 202.75 billion
dinars over the period 2005/09, as follows: 40 per cent for the socio-educational infrastructure development (housing, education, health, regional development); 40.5 per cent for basic infrastructure (transport, public works, water), and almost 8 per cent for support to agriculture. As regards operating costs, these amounted to 1.224 billion dinars in 2004, representing an increase of 7.5 per cent over 2003. Expenditure on equipment increased in 2005, the first year of implementation of the PCSC, and is expected to exceed operating costs for the first time in 2006.

**Monetary Policy**

The Bank of Algeria continues to conduct a prudent monetary policy aimed at controlling growth in the money supply and bank liquidity. Bank liquidity has remained high since 2002, but has been progressively reduced by an active policy on the part of the Bank of Algeria to “mop up” liquidity. This, combined with an increase in the statutory reserves ratio, led to a reduction in the growth of excess bank liquidity: bank deposits with the Bank of Algeria had increased from 611 billion dinars at the end of 2003 to 713.5 billion dinars at the end of 2004. Three hundred billion dinars of these deposits were due to the absorption of liquidity, for which the interest rate was reduced to 0.75 per cent in December 2004.

The money supply M2 was estimated at 3.738 billion dinars at the end of 2004. It increased during that year at the rate of 11.4 per cent. It should however be noted that the rate of monetary expansion has been reduced since 2001, with the aim of reducing inflationary tensions in an economic climate marked by a rise in public expenditure. The money supply is boosted chiefly by external assets; these represented 83.1 per cent of M2 at the end of 2004, which means that foreign exchange reserves form the main money supply counterpart. Efforts to control the money supply gave good price index results, since the inflation rate was only 3.6 per cent in 2004. It should rise to around 5 per cent in 2005.

Monetary stability is accompanied by controlled floating of the dinar aimed at stabilising the real effective exchange rate (REER) at its long-term equilibrium level. The level of the REER at the end of 2003 is taken as a reference for this. The exchange rate of the dinar against the dollar remained stable in 2004 and 2005 with an end-of-year (December) exchange quotation of 72.67 and 73.51 dinars for $1, however the exchange rate of the dinar against the euro rose from 86.32 dinars for €1 in December 2003 to 97.42 at the end of December 2004. It fell during 2005, and was at 87.16 dinars for €1 in December 2005.

**External Position**

Algeria’s exports have continued to be almost entirely composed of oil and gas products. Owing to the price rise in the barrel of Sahel blend oil, which reached $47.2

### Table 2 - Public Finances (percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue and grants*</td>
<td>33.3</td>
<td>35.3</td>
<td>38.3</td>
<td>35.8</td>
<td>41.0</td>
<td>40.8</td>
<td>39.3</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>10.9</td>
<td>10.2</td>
<td>9.5</td>
<td>8.8</td>
<td>8.5</td>
<td>8.6</td>
<td>8.9</td>
</tr>
<tr>
<td>Oil revenue</td>
<td>22.4</td>
<td>25.1</td>
<td>28.7</td>
<td>27.0</td>
<td>32.5</td>
<td>32.2</td>
<td>30.4</td>
</tr>
<tr>
<td>Total expenditure and net lending*</td>
<td>31.0</td>
<td>35.1</td>
<td>33.3</td>
<td>30.7</td>
<td>27.3</td>
<td>26.6</td>
<td>27.1</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>23.8</td>
<td>24.4</td>
<td>22.2</td>
<td>19.1</td>
<td>16.4</td>
<td>15.9</td>
<td>15.9</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>19.8</td>
<td>21.4</td>
<td>19.9</td>
<td>17.4</td>
<td>15.3</td>
<td>15.0</td>
<td>15.1</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>8.8</td>
<td>7.6</td>
<td>7.2</td>
<td>7.3</td>
<td>6.3</td>
<td>6.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Interest</td>
<td>3.9</td>
<td>3.0</td>
<td>2.2</td>
<td>1.8</td>
<td>1.1</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>7.3</td>
<td>10.0</td>
<td>10.5</td>
<td>11.4</td>
<td>10.9</td>
<td>10.7</td>
<td>11.1</td>
</tr>
<tr>
<td>Primary balance</td>
<td>6.3</td>
<td>3.3</td>
<td>7.2</td>
<td>6.9</td>
<td>14.8</td>
<td>15.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Overall balance</td>
<td>2.4</td>
<td>0.2</td>
<td>5.0</td>
<td>5.1</td>
<td>13.7</td>
<td>14.2</td>
<td>12.2</td>
</tr>
</tbody>
</table>

a. Only major items are reported.

Source: IMF data; estimates (e) and projections (p) based on authors’ calculations.
during the first six months of 2005, the value of exports was $32.22 billion in 2004 (of which $31.5 billion from oil and gas), representing a remarkable annual increase of 31 per cent. However, exports excluding oil and gas represented less than 2 per cent of the total, presenting the same urgent and as yet unresolved question regarding export diversification and the external competitiveness of the economy in the present context of opening up to international competition. Simultaneously with the sharp rise in the price of oil, imports of goods and services increased substantially to a value of $21.81 billion in 2004. This increase of over 34 per cent contrasted with the relatively modest growth of preceding years (12 per cent in 2003). During the first six months of 2005, imports of goods alone reached $10.28 billion. The import structure shows the predominance of capital goods (39 per cent) and intermediate goods (25 per cent). Food products represented almost 20 per cent of the total. Imports of goods and services have nevertheless shown relative stability at around 25 per cent of GDP between 2002 and 2004.

These flow changes led to a trade surplus of $14.27 billion in 2004. In the course of the same year, imports of services rose by $3.86 billion ($2.92 billion in 2003), while transfers by Sonatrach’s associates reached $3.12 billion in 2004, compared with $2.2 billion in 2003. The current account nevertheless showed a positive balance and represented 15 per cent of GDP in 2004.

Table 3 - **Current Account** (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade balance</strong></td>
<td>11.7</td>
<td>11.8</td>
<td>16.4</td>
<td>18.5</td>
<td>25.0</td>
<td>24.4</td>
<td>21.4</td>
</tr>
<tr>
<td><strong>Exports of goods (f.o.b.)</strong></td>
<td>28.5</td>
<td>32.9</td>
<td>36.0</td>
<td>39.3</td>
<td>44.1</td>
<td>43.0</td>
<td>41.1</td>
</tr>
<tr>
<td><strong>Factor income</strong></td>
<td>-4.6</td>
<td>-3.9</td>
<td>-4.0</td>
<td>-3.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current transfers</strong></td>
<td>2.2</td>
<td>1.9</td>
<td>2.6</td>
<td>2.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current account balance</strong></td>
<td>7.2</td>
<td>7.7</td>
<td>13.0</td>
<td>15.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Figure 4 - **Stock of Total External Debt** (percentage of GNI) and **Debt Service** (percentage of exports of goods and services)

Source: IMF and World Bank.
Algeria’s principal trade partner is the European Union, which supplied 56 per cent of its imports and received 58 per cent of its exports in 2004. The United States was the main importing country for Algerian exports, while France was Algeria’s principal supplier.

**Structural Issues**

Despite the progress that has undeniably been made over recent years in the transition to a market economy, some structural reforms essential to the development of the private sector and the diversification of the economy have fallen behind schedule and remain a priority.

**Recent Developments**

Algeria has made significant progress as regards macroeconomic stabilisation, and intends now to pursue structural reforms, particularly in the areas of privatisation of State-owned enterprises and finance and banking.

Major delays in privatisation have however occurred, compromising the rehabilitation of public economic enterprises (Entreprises publiques économiques – EPE) and the re-organisation of the financial sector.

Legislative1 and organisational measures have been taken to allow the EPE to sell their assets and to open up their capital to private ownership. Other measures relate to various local authority activities. The final stage in the process was initiated by ruling 01-04 of 20 August 2001, which brought totally or partially State-owned enterprises legally into line with private commercial companies. There is no restriction on foreign investment except in the oil and gas sector, where foreign investment is limited to partnership agreements. Marked progress has been made in providing information on privatisation (use of Internet for access to very detailed information on enterprises which can be privatised — turnover, market share, etc.). The time taken for the privatisation process has been reduced to less than six months as a result of changes made to the process. The National Privatisation Council (Conseil national de la privatisation – CNP) meets twice a month. Buyers are only obliged to make an initial payment of 30 per cent, and payment facilities are available for the remainder of buy-out costs. In order to safeguard employment, the government requires prospective buyers to present a five-year plan.

At the beginning of February 2005, 111 privatisation operations had been dealt with and finalised. Fifty-one per cent of these had been totally privatised, 21 per cent partially, and 18 per cent privatised as partnerships. The clause on safeguarding employment is an important aspect of these operations. The Ministerial department has announced the net creation of 2 000 jobs. From 2003 to December 2005, 270 public enterprises were privatised, with 102 of these privatisations taking place in 2005 alone. It is expected that 300 public enterprises will be involved in the programme of privatisation during the first six months of 2006. Between 2003 and 2005, privatisation earned $800 million for the Treasury, made possible $1 billion of investment, and created 7 000 new jobs.

The financial sector comprises 30 institutions made up of banks and public, private, and government-controlled companies. The network spreads over 1 050 branches, 1 004 of which belong to public banks. The agencies belonging to the private banks are mostly located in large towns. The bank ratio is around 30 000 inhabitants per agency. This is much higher than in Europe, where the bank ratio is 5 000, or even in Tunisia (10 000), demonstrating the insufficient distribution of banking facilities.

Public banks dominate the market, holding 94.4 per cent of resources, representing 42 per cent of GDP.

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1. The law on commercial State capital established the principle of the State’s disengagement from the economic sphere and defines the conditions of privatisation. The first stage in the process of privatisation was launched by the complementary finance act of 1994. However, the most important law on privatisation in Algeria is ruling 95-22 of 26 August 1995, along with the amendment of ruling 97-12 of 19 March 1997.
and 62 per cent of the money supply. Seventy-two per cent of deposits are fixed-term and 28 per cent are current account deposits. The structure of credit distribution according to legal category is similar to that of accumulation of resources according to the public/private banking criterion: public banks provide 93 per cent of loans. Most of the loans are medium-term, which demonstrates the weakness of the investment banks. During the privatisation process, a system of direct subsidies as a substitute for bank financing is envisaged, for companies that are “unbankable”. Although the finance law of 2005 set out the terms of this system of subsidies, so far, only the stage of selecting eligible companies has been reached.

The banking sector is probably the sector that has lagged most in Algeria. There have been numerous scandals in both public and private banks. The Khalifa Bank, the Commercial and Industrial Bank of Algeria (Banque commerciale et industrielle d’Algérie – BCIA) and two other private banks have lost their licences. The authorities also plan to dispose of public banks, and selling these to strategic foreign buyers will probably create a spin-off effect on the other banks, inciting them to improve their management. The Crédit populaire d’Algérie (CPA) and the Banque de développement local (BDL) have been re-organised with a view to being privatised.

The financial market is still in its infancy. The Treasury issues short- and long-term bonds (up to ten years), which amounted to 800 billion in volume in 2004. Only three securities are listed on the stock exchange. Total share value is 0.25 per cent of GDP. The bond market has been fairly dynamic due to issues by the mortgage refinance company Société de refinancement hypothécaire (SRH), Sonelgaz, Air Algérie and Sonatrach, and has now reached 100 billion dinars. These bonds are not quoted on the stock exchange. New financial instruments have now been introduced. Venture capital has not yet appeared on the Algerian financial scene, but a bill concerning this was adopted in October 2005 by the Council of State and the Cabinet. An agency and a fund providing guarantees to small and medium-sized enterprises (the Agence de garantie des PME and the Fonds de garantie pour les PME) have been set up, and the latter is already operational. Finally, draft laws on factoring are in preparation.

The insurance sector is composed of four public companies, six private companies², and two mutual insurance companies. The public companies are the market leaders, with 443 agencies and 244 other agents, as compared with 201 and 200 respectively for the others. The performance of insurance as a product is poor, providing only 0.63 per cent of GDP in 2003, compared with 3 per cent for Morocco and 1.8 per cent for Tunisia. Automobile insurance and industrial risk insurance lead the market, with a share of 35 and 36 per cent respectively.

Other important measures have been taken. The banking and financial system now has legal instruments to combat money-laundering, and likewise to this effect banking secrecy has been lifted. From 2006, the system will be thoroughly modernised (secure payment cards, withdrawals and distance transfers, guaranteed cheques).

In the agricultural sector, implementation of the National Plan for Agricultural Development (PNDA) led to an increase in the supply of meat, fruit and vegetables. At post-production level, the food industry has shown much dynamism. Cereal production nevertheless remains very dependent on climatic conditions. The PCSC for 2005/09 includes a total grant of 357 billion dinars for the agricultural sector. It is hoped that this will improve food security, create the equivalent of more than 900 000 jobs (of which at least 360 000 will be permanent) and promote human development, since the plan aims to reach 400 000 rural households, i.e. 25 per cent of the rural population.

². The public companies are: SAA, CAAR, CAAT and CCR. The private companies are TRUST Algeria, CIAR, BARAKA, 2A, GAM and the company MÉDITERRANÉENNE.
Ninety per cent of the private sector is made up of micro-enterprises, which employ 35 per cent of the sector's workers. Thirty-two per cent of these enterprises are manufacturing companies (essentially textiles and leather). The remainder are in construction and services. This structure clearly demonstrates that private investment is directed towards activities which are by nature not much open to foreign competition (non-tradable goods sector) and where cost-recovery is rapid. According to social security data, the number of small and medium-sized enterprises, excluding crafts, stood at 225,449 in 2004, employing 592,758 workers.

In 1980 already, the private sector produced 49 per cent of GDP excluding oil and gas. This ratio was nearly 90 per cent in 1985. However, the sector's dynamism has since markedly diminished: growth was only 3.7 per cent in 2003 and 3.4 per cent in 2004, which was lower than the growth rate of GDP. Added to the unfavourable investment climate is the very nature of the Algerian private sector, which tends to prefer private income-generation, speculation, and family ownership, all of which are major handicaps to the emergence of modern enterprises. Naturally, the private sector, like the public sector, also suffers from the general constraints of the business climate.

A number of measures is presently under way in an attempt to improve matters. In banking, for example, it is now illegal to carry out any cash transaction over 50,000 dinars. The legal vacuum that existed where the laundering of capital was concerned, has been filled by the foundation law recently established for the prevention and combating of money-laundering and the financing of terrorism (Act No. 05-01 of 6 February 2005). The finance law of 2003 also lifted bank secrecy. An anti-corruption act was presented at the autumn session of the National People's Assembly, but its implementation has been held up by the provisions relating to the declaration of the personal assets of senior civil servants and representatives. This law is currently at Senate level.

It is as yet difficult to make any assessment regarding Algeria's integration into the Euromed zone, since the association agreement with the European Union only came into effect in September 2005. No report on the impact of this agreement has been made public. Delays in negotiations on the Arab Maghreb Union have prevented the countries of the region from deriving full benefits from the economic effects of the association agreement. A US Congress commission has offered its services to facilitate dealings between the three countries of Central Maghreb (Algeria, Tunisia and Morocco). Algeria's membership of the World Trade Organization (WTO) has been postponed from year to year: work on this only began in 1998, although the working groups were set up in 1987. Algeria's membership of the Organization has come up against problems in the areas of intellectual property, the opening up of the services sector, technical obstacles to trade, and oil and gas prices.

**Transport Infrastructure**

Algeria possesses a transport infrastructure as follows: an asphalt road network 103,000 km long which is one of the densest in Africa and is fairly well interlinked; a rail network 4,000 km long (rail links are mostly situated along the coast and serve the main port towns); 10 commercial ports, two of which specialise in oil and gas; 35 fishing ports; and 35 airports, including 13 international airports. However, this infrastructure is badly maintained and insufficient to meet demand. The road and rail networks are lagging behind. The road network is dilapidated and inadequate; east-west traffic uses the northerly route, on which there is frequent congestion. The abandonment of the east-west motorway project at the beginning of the 1980s has handicapped the economic construction of the Maghreb countries, and by extension, the development of relations between the Maghreb and Europe. As regards the rail network, only about 300 km have been built since the country became independent in 1962.

Delays have built up in the execution of transport infrastructure projects since the end of the 1970s. Large-scale projects were halted because of lack of funding following the collapse of oil prices in the mid-1980s. Particular mention can be made of projects still outstanding from preceding programmes started in the framework of the Economic Recovery
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Programme (PSRE) for 2000/04, as well as of other projects that were started well before then. For example, barely 60 per cent of the Bordj — Bou-Arreridj — M’Sila railway line (55 km), which was on the 1989 programme, has been built to date. The Ain M’Lila — Oum El Bouaghi (68 km) line has met with the same fate, with an implementation rate of 56 per cent since 1989. The most striking example is the rehabilitation project for Algiers airport, only 78 per cent of which had been implemented by September 2005, although the project was launched in the mid-1980s.

The PCSC for 2005/09 allocates 31 per cent of a total budget of almost $60 billion to infrastructure. Transport infrastructure receives 16 per cent (about $10 billion) of the total programme budget and 41.1 per cent of the budget reserved for infrastructure is thus allocated, making it a real priority. Taken together, various types of work (replacement, modernisation, electrification, etc.) will be started on a total of 5 500 km of railway line. With the inclusion of the east-west line, this programme demonstrates a serious attempt to make the upland regions accessible by means of a series of connections linking dozens of small and medium-sized towns to the rail network. Moreover, goods lines will promote the development of the Bir El Atr phosphate complex, the Elma Abiod cement works, the Bellara phosphoric acid complex, and many other economic activities.

For urban transport, the programme aims to develop interconnections between different modes of transport and improve services in high population density zones in order to promote greater mobility. The capital Algiers will be a beneficiary of these interconnections, in the form of suburban trains, a tramway, an underground system, buses and a cable car route.

The present comfortable situation with regard to public finance has enabled the authorities to undertake costly large-scale works using public funding without fear of upsetting the public finance balance. Nevertheless, while financing problems in the medium-term are more or less resolved, the programme faces other problems of a more structural nature. Delays in implementation have created enormous problems in investment absorption, and to this end large foreign enterprises have been selected in an attempt to overcome this type of difficulty.

Political and Social Context

The political context has been marked by the re-election of President Abdel Aziz Bouteflika in April 2004 with over 85 per cent of votes. The President’s policy has notably been one of economic and political continuity. The PSRE will be followed in 2005/09 by a $60 billion complementary plan which aims to provide the country with a considerable economic and social infrastructure.

In the political arena, the President has been pursuing the policy of “national reconciliation” which was begun during the previous mandate. The bill on the Charter for Peace and National Reconciliation was approved by popular referendum in 2005. In the regions, district and departmental (wilaya) elections were held in Kabylie in Autumn 2005; the preceding elections in this region had been boycotted by the population due to the crisis. New councillors should then have replaced the administrators or “un-representatives” (representatives elected with very low participation rates).

The objective of reducing the proportion of the population living below the food poverty threshold (2 100 calories per person per day) from the present day to 2015 was achieved in 2003. The proportion of the population living in poverty increased from 3.6 per cent in 1988 to 5.7 per cent in 1995, but then went down to 3.1 per cent in 2000 and 1.6 per cent in 2004. In absolute terms, the number of those living below the food poverty threshold was reduced by over 62 per cent between 1995 and 2003. For the general poverty threshold, the rate was 12.1 per cent in 2000, that is 3 718 600 persons, compared with 14.1 per cent in 1995. In 2004, the rate was only 6.8 per cent.

Exceptional revenue from oil and gas exports enabled launching of the PSRE which, according to data from the National Economic and Social Centre (Centre national économique et social – CNES), resulted in the
creation of 728,000 jobs. In addition, the cost of job creation programmes almost doubled between 1997 and 2003. However, employment subsidies only represented 0.4 per cent of GDP, compared with 3 to 5 per cent for OECD countries (3 per cent in France and 5.5 per cent in Denmark). An increase of 25 per cent in the guaranteed minimum wage from January 2004 has created a perceptible increase in purchasing power, if the relatively low rate of inflation is taken into account.

The relatively comfortable public finance situation has enabled increased social support payments. The fraction of social transfers in gross household revenue went up from 16.2 per cent in 1996 to 20.3 per cent in 2000, and to 23 per cent in 2004. The occupancy rate (taux d’occupation par logement – TOL) went down from 7 to 5.5 persons between 1999 and 2004 as a consequence of the construction of 1 million homes. It is expected to go down further by 2009, to 5 persons, with the construction of a further 1 million homes.

The government’s efforts to set up a system of compulsory free education has resulted in the school attendance of almost all children between 6 and 12 years old. The number of pupils aged between 6 and 15 years went up from 4,189,000 in 1990 to 4,508,000 in 2003/04, according to a report by the CNES. The low growth rate reflects the demographic transition, which reached its peak in 1987.

The gross admission rate, i.e. the rate of children enrolled irrespective of age compared with that of children who are of legal age for enrolment, is 104 per cent. This figure shows that the system is able to absorb all children of school age, without discrimination. If only the net rate is taken into account, i.e. only children of school age, 78 per cent of girls are attending school, and 81.5 per cent of boys. The difference between the gross and net rates clearly shows that there is disregard for the rules regarding school admission, since 24.2 per cent of children enrolled are under 6 years of age, while 20 per cent of children of enrolment age have not been enrolled. Geographic criteria are important for coverage — where the enrolment rate is only 56.5 per cent for the wilaya of Illizi, it is at 94.7 per cent for the wilaya of Skikda.

The pupil/teacher ratio in primary education (27) and the average ratio (21.3) remained fairly low in 2004. This ratio has not yet registered the full benefits of the demographic transition, but it should improve in the medium-term due to these effects and those of expected investments in education: the education sector will receive 10.5 per cent ($6 billion) of the total PCSC budget in 2005/09.

The literacy rate is 26.5 per cent. The rate for women is much lower: 35 per cent of women are illiterate, compared with only 18 per cent of men. There is also a significant difference between urban and rural areas: 13.5 and 24.6 per cent respectively. Women are at a greater disadvantage in rural areas since 47 per cent of rural women are illiterate, compared with 26.6 in urban areas. In order to halve the illiteracy rate by the year 2013, the authorities have adopted a strategy to take in hand between 150,000-200,000 persons per annum. A pilot project has been initiated by the National Literacy Office (Office national d’alphabétisation) in co-operation with the United Nations Children’s Fund (UNICEF). Women are a priority in this project: the main objectives are: health and nutrition education, the education of infants, and awareness-raising with respect to pollution problems, home economics, and physical education. School attendance of girls has become a significant trend in Algeria, and the attendance rate of girls in the 6-15 age group has grown faster than that of boys. In 2004, 95 girls per 100 boys attended school, compared with only 81 in 1990/91. Girls represented 58 per cent of A-level (baccalauréat) candidates in 2004. In Algiers, this rate was 65 per cent. The proportion of girls in higher education went up from 52.6 per cent in 2000/01 to 55.4 per cent in 2003/04.

3. These figures refer to the following programmes: the programme for local employment (emplois salariés d’initiative locale – ESIL), the programme for public works requiring intensive labour (travaux d’utilité publique à haute intensité de main-d’œuvre – TUP-HIMO), the pre-employment contract (Contrat Pré-Emploi – CPE), and the plan regarding general interest activities (Activité d’intérêt général – AIG).
Algerian women are playing an increasing role in the workplace at all levels. More and more women are entering socially oriented branches of work, for example, medicine. There are five women in government, and a ministerial department for the family and women’s status has been set up. The number of women in Parliament has increased from 14 to 24, and in 2004 a fairly significant number of women were appointed to key administrative posts, especially in the diplomatic corps and in the justice system. Although these are positive changes, they are nevertheless not yet sufficient to make up the differences that still exist.

Since the 1980s, Algeria has entered a phase of demographic transition, with a fall in mortality and a marked fall in the birth rate. This phenomenon has been accompanied by an epidemiological transition characterised by a reduction in endemic communicable diseases and in diseases that can be controlled by vaccination; it has also been accompanied by the appearance of new pathologies, particularly those linked to increased life expectancy. Some emergent diseases, such as AIDS, are giving cause for concern.

The 2002 Pan Arab Project for Family Health (PAPFAM) survey estimated the infant and child mortality rate of children between 0 and 5 years at 38.8 per 1 000 for the whole of the national territory, with an important difference between urban areas (35 per 1 000) and rural areas. The most common causes of morbidity are respiratory and diarrhoeal diseases, but in these, no significant disparity between urban and rural areas was found. In view of the slow progress made to date, it will be difficult to achieve the objectives set for 2015: the rate of infant (0-1 year) mortality was 30.4 per 1 000 in 2004, whereas the objective for 2015 is only 15.6 per thousand. Certain characteristics of infant mortality that were brought out by the 2002 National Survey of Family Health (EASF) allow the issue of infant health to be set in a much wider framework than simply that of medical monitoring. According to the CNES, the probability of a child dying before age 5 when the mother is illiterate is four times higher than that of a child whose mother received secondary or higher education.

As regards prevention, the vaccination programme reaches more than 9 out of 10 children, for all types of vaccine. Eighty-nine per cent of children between 12 and 23 months receive all necessary vaccines, with a significant disparity between urban areas (91 per cent) and rural areas (86 per cent). The survey also showed that 97 per cent of babies born alive had a vaccination record, with only a slight disparity between urban areas (98 per cent) and rural areas (96 per cent).

According to current sources, non-communicable diseases (such as high blood pressure, diabetes, asthma, cancer, etc.) are more prevalent and constitute a more serious health problem than communicable diseases. The treatment costs of these diseases are higher than those of contagious diseases. The STEP survey of 2003 showed that in the population aged between 25 and 64, 15 per cent were smokers, while 16.4 per cent suffered from obesity, 29 per cent from high blood pressure, and 8.9 per cent from diabetes.

The total number of AIDS cases recorded from 1985 to December 2004 was 642, with 28 new cases in 2004. Over the same period, a total of 1 721 HIV-positive cases was recorded, with 266 new cases in 2004. There is concern that there might be an epidemic outburst in the southern regions, since these regions share extensive borders with the Sahel regions, and furthermore, they are transit zones that have intensive migration flows.