

Outside the system but, safe from the crisis?



The weakest aspect of Algeria's economy is its heavy dependence on the production and export of hydrocarbons. Although this sector is highly developed, the financial sector has lagged far behind and become disconnected from global finance. Paradoxically, this backwardness prevented the banking system from becoming enmeshed in the international financial crisis. Even so, the crisis will infect the country through imports of goods and services.

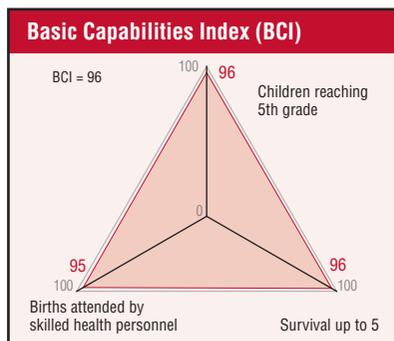
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The breakdown of the US financial markets began during the summer of 2007. By autumn of 2008, the world was in the throes of a full-fledged financial crisis, with credit access drying up, stock markets plunging, and the entire international financial system threatened with collapse. Directly or indirectly, every country in the world has felt the impact, including Algeria.

The President blames the global economic crisis partly on the absence of financial regulation and inadequate efforts to clean up the economic environment, which had been abandoned to the law of the markets. In highlighting financial and economic traps to be avoided, the worldwide financial crisis should constitute a lesson for Algeria. Whether based on economic foresight or other considerations, Government directives have protected the national interest and limited the exposure of Algeria's economy and finances to the dangerous imbalances that the imposition of neo-liberalism has created in the global financial system.

This strong position is partly the result of the country's oil wealth, the mainstay of its economy. Chakib Khelil, Minister of Energy and Mining and current President of the Organisation of the Petroleum Exporting Countries (OPEC) has observed that the oil market has experienced a spectacular evolution, influenced by structural volatility that is heightened by speculators.¹ The price of a barrel of oil in the OPEC basket rose beyond USD 140 in July 2008, and has since then tumbled to USD 59. The annual average price for 2008 up to 4 November was USD 103.56, compared to USD 65 in 2007. An Algerian barrel fetched USD 108.28, up from USD 71.13 in 2007.

As the table indicates, Algeria's economy is well positioned to withstand the global financial and economic crisis, at least for the next two years. This cushion can be credited to the country's limited exposure to international financial markets, prudent management of foreign exchange reserves (realized profit reached 4.6%

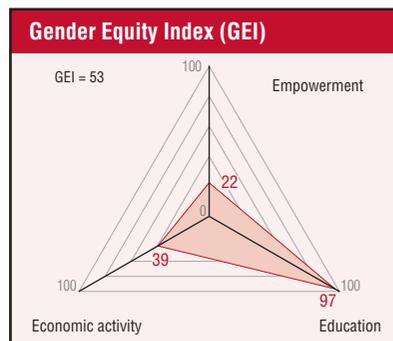


in 2007), husbanding of a substantial proportion of revenue growth (an average of 20% of GDP in 2005-2007), and use of a structural surplus in domestic liquidity to finance the economy in local currency.

The need for reform

After a brief inter-governmental debate, efforts to transfer control of Crédit Populaire and the Bank for Local Development (BDL) to financial institutions in the US or France were dropped because officials decided the country was not prepared for a foreign takeover. To the extent that the economy has been liberalized and privatized, the anticipated benefits have not materialized.²

In September 2008 Sid Saïd, a leader of the General Union of Algerian Workers, announced that the Government had abandoned its "everything can be privatized" policy. The 220 public enterprises awaiting privatization as soon as new regulatory measures were implemented were cut from the list of companies to be sold. In addition, the Government's inter-ministerial council applied in January 2008 on bank credit and financial clean-up of public economic institutions by erasing the debts owed them by viable companies. The Government has given responsibility for supervising these clean-up measures to an inter-ministerial working group for the finance industry and investment promotion among small and medium enterprises.



Rural revitalization

Thanks to natural population growth averaging 1.62%, annually — up considerably from an already high 1.48% in 2000 — the number of the country's inhabitants swelled by 4.6 million between July 1998 and 1 July 2007. By the end of 2010, the population will reach 35.7 million. To feed this young and rapidly growing population, Algeria needs more food.

Algeria's waters have a biomass of 600,000 tonnes, which would allow an annual catch of 220,000 tonnes; however, a lack of material resources has limited the annual harvest to 170,000 tonnes.³

The country has a negative agricultural trade balance, and is one of the world's top ten food importers. Farm produce accounts for more than a quarter of the country's total imports. By value, the three main components are cereals and their by-products (40%), milk and other dairy products (14.3%) and oils and fats (10.5%).⁴

Spending on imported cereals and their by-products, drugs, milk and dairy products jumped to USD 2,600 million during the first half of 2008, up from a bit over USD 2,000 a year earlier. Spurred primarily by a 9.2% increase in the price of food, inflation reached 4.9% in the first half of 2008, though it was up only 2.5% for the entire year (June 2007-June 2008). In an attempt to temper price volatility, the Government launched

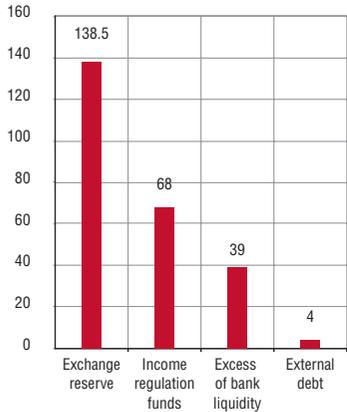
1 Chakib Khelil, Minister of Energy and Mining, President of OPEC, during a forum organised by *El-Moudjahid*, 3 March 2009.

2 See: Mohamed Gacem. "Crise financière mondiale: Vers un recadrage des réformes". Available from: <www.lesdebats.com/editionsdebats/221008/economie.htm>.

3 See: <www.ijjelli.com/htdocs/modules/news/article.php?storyid=905>.

4 High Level Conference on Water for agriculture and energy in Africa: the challenges of climate change. The Algerian case. Sirte, Libya, 15-17 December 2008.

CHART 1.



Source: Bank of Algeria.

a regulatory system in July 2008. Since then, it has stored about 51,700 tonnes of potatoes.

To revitalize rural areas, which house a substantial proportion of the population, the Government has launched a multi-pronged development plan based on the following three elements:

- Improvements in the living conditions of the rural population, including the rehabilitation and modernization of villages and ksours (Berber villages throughout the oases).
- Diversification of rural economic activity to increase incomes, while protecting and increasing the value of natural resources, as well as both material and nonmaterial aspects of rural heritage.
- Building human resources through technical assistance. Almost all farming is private, with various forms of ownership. Traditionally, most farmers have been engaged in cultivating dry cereals and breeding small ruminants, however in recent years, some have begun sowing crops with higher value added, such as fruits and vegetables. With the exception of industrial tomatoes and olive oil, production of industrial crops remains limited.

In another effort to stimulate rural revitalization, the Government has initiated more than 5,000 local development projects benefiting more

than 2 million households – which amount to nearly 8 million people.

The national highway plan for 2005-2025 produced by the Ministry of Public Works includes a 1,216 km-long network of east-west motorways connecting Annaba and Tlemcen. This will benefit 24 *wilayas* (provinces) and generate 100,000 construction jobs. The project is scheduled to begin in 2009.⁵

Conclusion

For at least a decade, two factors have had a powerful impact on Algeria's economy and finance. One is a hydrocarbon policy that has promoted development of the country's resources, leading to an increase in production capacity — oil production jumped from 0.9 million barrels a day in 2000 to 1.4 million in 2008, of which 1.2 million barrels were exported.⁶ The other is unprecedented State support for public banks — 2.6% of the average annual GDP for the 1991-2002 period and 1.7% for 2005-2006 — within a context of monetary and financial reform.⁷ These two policies brought a massive increase in foreign exchange reserves, robust income regulation funds, a surfeit of bank liquidity and a low level of foreign debt. ■

5 See: <www.mtp.gov.dz/autoroute%20est-ouest.htm>.

6 See: <www.lemaghreb.dz.com/lire.php?id=13393>.

7 Intervention by Prof. Farid Yaici: "The effects of the crisis on the Algerian economy". Seminar organized in collaboration with the Ministry of Industry and Investment Promotion.