

# The Algerian Economy between Transition and Integration

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Algeria has had two different economic systems

- From 1962 to 1992 socialist system based on centralized planning
- From 1992 to 2017 transition to a market economy with structural changes

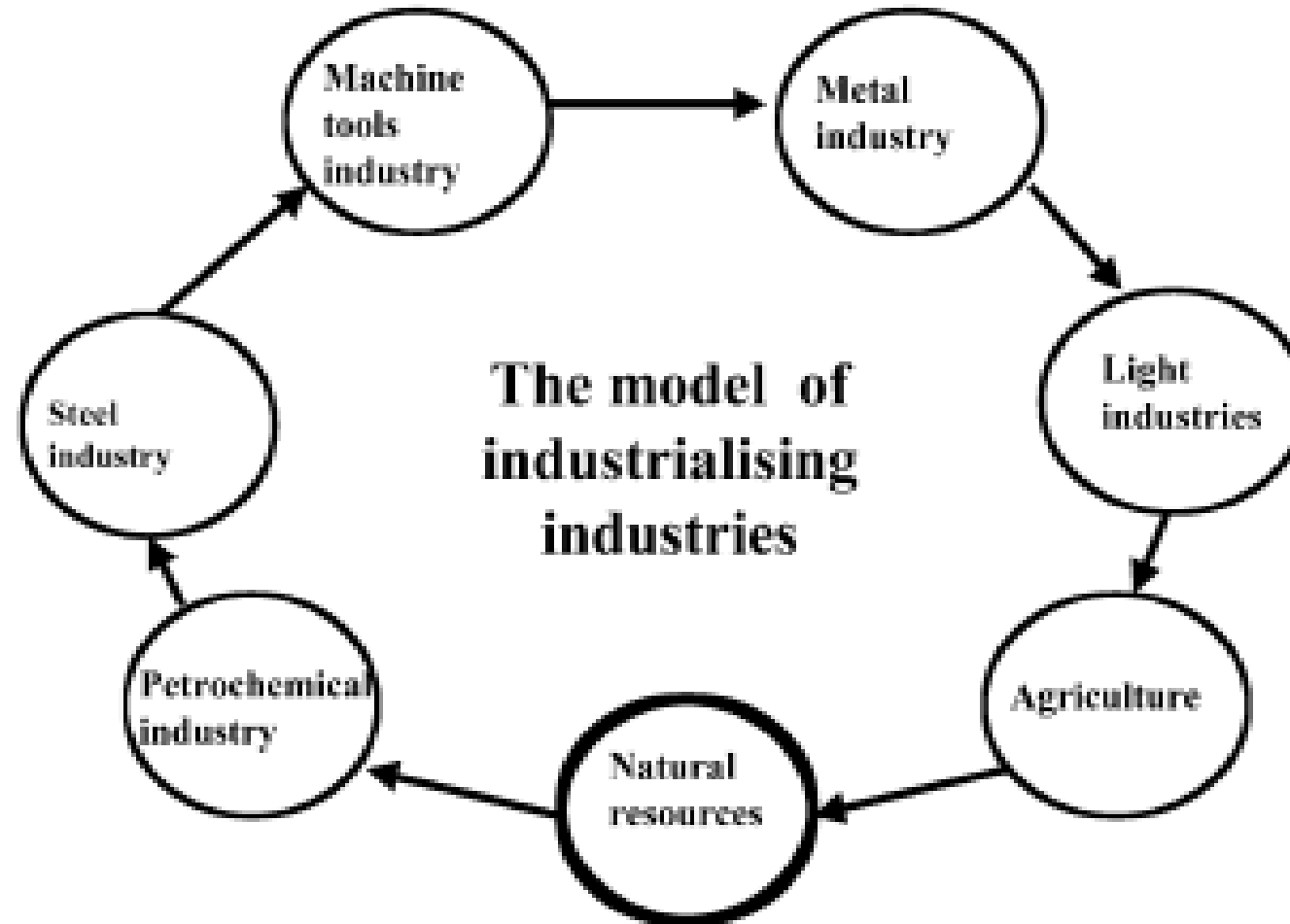
during the socialist period Algeria realized

- triennial plan 1967-1969
- first quadrennial 1970-1973
- the second quadrennial 1974-1977.

With a structuring idea called industrializing industries

*a socialist growth model emphasizing centralized planning and heavy industrialization* **world Bank description**

*Fig. 1. The Industrialising Industries Model*



- 45% of the investments were spent during this period in the industrial sector equivalent to more than 20% of gross domestic product
- in 1971 the nationalization of the oil industries sector

- Due to the compression of the social demand during the previous period and especially to the high oil price, Algerian Economy has realized infrastructures, construction of houses and import of final consumer goods with a program called anti-scarcity.
- Income from oil exportations will provide funding for a large planned investment program
- National enterprises are principally dependent on imports for their equipment and inputs
- only the oil sector is oriented to exportation .

- Durant the period 1984-1986 50% of the budgetary revenue were derived from oil exports.
- The oil shock of 1986 resulted in a collapse in the oil price to 10\$.
- Oil revenues fell from 46.7 billion dinars in 1985 to 20.5 billion dinars in 1987, a drop of 56%.
- In the absence of financial markets, budget deficit is financed by external debt, which represents 30% of GDP in 1985 and 41% in 1988.

- The decrease of reserves changes and the drop of oil revenues results in radical reduction of imports necessary for the functioning of the economy.
- Investment fell by 20% between 1986 and 1988 and inflation increased to 9% in 1989.
- Exports fall by 55.5% in value between 1984 and 1987
- imports decline about 54% in the same period

Treasury revenues (as a share of GDP) fell sharply once oil prices collapsed in 1986

While Treasury expenditures were also cut, revenues fell faster

The overall Treasury balance registered a record deficit of 12.8 percent of GDP in 1988.

Given the undeveloped financial system, the higher Treasury deficits were largely monetized.

In the presence of extensive price controls, increased monetization resulted in greater rationing in the goods markets and a further buildup of excess liquidity.

By 1988, the ratio of broad money (M2) to GDP had increased to 84 percent.

**World bank document 1994 , The Transition to a Market Economy, Middle East and North Africa Region Country Department I**

## The transition to the market economy and integration to the regional and global economy

The transition is the process of transformation of the economy from planned system to economy of market

***some researchers make difference between transformation and transition (Kornai 1990, Andreff 1998)***

## The situation

- state ownership of companies and banks
- strategy of development based on accelerated industrialization
- collectivization of agriculture
- seeking for commercial autarky
- interdiction of FDI
- administered prices
- Small Private sector

In 1990 Algeria is engaged in a process of economic reforms called transition to a market economy

In 1994, in a situation of economic and political instability, the government requested the rescheduling of its external debt and negotiate a SAP (structural Adjustment Program) with the IMF and the world Bank

## The SAP including macro financial stabilization measures

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- reduction of inflation
- devaluation of local currency
- convertibility of the local currency in commercial transactions
- price liberalization,
- liberalization of foreign trade,
- program of privatization

- End of state monopoly and liberalization of international trade with greater
- convertibility of local currency;
- Increase of interest rate;
- Drastic devaluation of the local currency (Dinar);
- Phasing out of central control of prices and wages;
- Reform of the fiscal and customs system (introduction of VAT and reduction of customs tariff);

## Structural Reforms

- Decentralizing the decision making and gradually increasing the role of market forces in the economy
- transformed the legal and institutional framework of the productive sector (agriculture, industry, and services)

## Private Sector Development

To stimulate the supply response and provide a source of competition

- Remove all formal controls on private sector access to foreign exchange and domestic credit
- Opening the economy to foreign investment
- Authorized the production-sharing arrangements in the hydrocarbon sector.

## **PE and Bank Restructuring**

- clean up the large number of non-performing foreign and domestic debts of PEs, which had accumulated
- Restructuring the banking sectors

## **Financial Sector Reform**

- Money and Credit Law (LMC) in 1990
- Reinforcement of the role of Bank of Algeria

## **Labor Markets**

- flexibility in labor contracts and wage setting
- authorization of labor shedding for economic reasons
- acceptance of the right to strike

- Since 1999, the GDP growth has been growing at a steady level
- The economic growth has accelerated significantly since 2002, because of the increase in the price of oil, but this growth of GDP is very strongly correlated with the growth of oil and gas prices

## The reality

- Algerian economy is directly related to gas and oil, which represent:
  - 96% of its exports,
  - 50 % of its GDP
  - 60% of the State's budget revenue.
- the collapse of prices oil impact directly the economy, oil revenues have fallen by 70% since the summer of 2014

## Macroeconomics agregates

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<b>Economic growth</b>	<b>05</b>	<b>06</b>	<b>09</b>	<b>10</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>
<b>GDP growth</b>	5.1	2.0	1.6	3.3	3.1	2.8	3.8	3.9	3.4
<b>EXPORT HH/(% Total EXPORTATIONS)</b>	2.6	2.1	1.45	1.9	1.9	2.4	2.6	5	6
	97.4	97.9	98.55	98.1	98.1	97.6	97.4	95	94
<b>EMPLOYMENT</b>									
<b>UNEMPLOYMENT RATE (% active population)</b>	15.3	13.5	10.2	10.0	10.0	9.83	10.6	11.6	10.5

HH : off hydrocarbons

<b>External Position</b>									
<b>CURRENT BALANCE(BILLIONS US\$)</b>	<b>21.2</b>	<b>29.0</b>	<b>0.3</b>	<b>12.2</b>	<b>12.3</b>	<b>0.8</b>	<b>-9.4</b>	<b>-27.5</b>	<b>-29</b>
<b>En % GDP</b>			<b>0.3</b>	<b>7.5</b>	<b>9.9</b>	<b>0.4</b>	<b>-4.4</b>	<b>-16.2</b>	<b>-17.9</b>
<b>Foreign exchange reserve (month of impo)</b>		<b>36.7</b>	<b>35.2</b>	<b>34</b>	<b>35</b>	<b>32</b>	<b>33</b>	<b>30</b>	<b>22</b>
<b>External debt(milliards US\$)</b>						<b>192</b>	<b>177</b>	<b>142</b>	<b>113</b>
<b>External debt /GDP</b>	<b>16.7</b>	<b>4.8</b>	<b>5.7</b>	<b>5.7</b>	<b>3.8</b>	<b>3.2</b>	<b>2.8</b>	<b>2.4</b>	<b>2.8</b>
<b>Public finance</b>									
<b>Domestic debt (% GDP)</b>	<b>13.8</b>	<b>21.8</b>	<b>9.7</b>	<b>10.6</b>	<b>9.2</b>	<b>9.4</b>	<b>10.2</b>	<b>8.5</b>	<b>8.2</b>
<b>Budgetary balance (% GDP)</b>			<b>-5.5</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.9</b>	<b>-8.0</b>	<b>--16.4</b>	<b>-15.6</b>

## Exports of goods and services (% of GDP)

2007	2008	2009	2010	2011
<b>47,06</b>	<b>47,97</b>	<b>35,37</b>	<b>38,44</b>	<b>38,78</b>
2012	2013	2014	2015	2016
<b>36,89</b>	<b>33,20</b>	<b>30,46</b>	<b>23,56</b>	<b>23,71</b>

## Exports of goods and services (annual % growth)

2007	2008	2009	2010	2011
-1,00864	-2,40536	-10,1155	0,025331	-2,7368

2012	2013	2014	2015	2016
-3,77177	-5,69097	0,203983	0,587084	3,5

## Exports of goods and services ( billions US\$)

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2007	2008	2009	2010	2011
63.53	82.03	48.53	61.97	77.58

2012	2013	2014	2015	2016
77.12	69.65	65.18	38.82	37.01

**Share in world total exports 0.18 % (2016)**

**Share in world total imports 0.29% (2016)**

## Exported products (Million US\$ 2016)

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<b>Non Agricultural Products</b>	
Petroleum gases	11 786
Petroleum oils, crude	11 332
Petroleum oils, other than crude	5 062
Nitrogenous fertilisers	448
<b>Agricultural Products</b>	
Cane or beet sugar	231
Dates, figs, pineapples, avocado	38
Cocoa butter, fat and oil	9
Soya-bean oil and its fractions	8
Waters containing added sugar	7

## Imported products (Million US\$ 2016 )

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<b>Non Agricultural Products</b>	
Medicaments in measured doses	1 406
Motor cars for transport of persons	1 352
Petroleum oils, other than crude	1 337
Tubes, pipes, of iron or steel	1 242
Other iron bar not further worked	1 134
<b>Agricultural Products</b>	
Wheat and meslin	1 790
Cane or beet sugar	849
Milk and cream, concentrated	803
Maize (corn)	769
Solid residues from soya-bean oil	534

## Integration to international economy

as we have seen, the share of non-hydrocarbon exports is very low, which directly impacts Algeria's share of international trade

The EU-Algeria Association Agreement was signed in April 2002 and entered into force in September 2005.

This agreement sets out a framework for the EU-Algeria relationship in all areas including trade.

<http://ec.europa.eu/trade/policy/countries-and-regions/countries/algeria/>

The Partnership Priorities in the context of EU-Algeria relations up to 2020 focus on the following areas: political dialogue and good governance,

- cooperation, socio-economic development,
- trade and access to the European single market,
- energy,
- the environment and sustainable development,

Algeria membership in the Arab Free Trade Zone in 2009.

Negotiations to accession into the WTO

Algeria's Working Party was established on 17 June 1987. The Working Party met for the twelfth time in March 2014.

Algeria signed a Trade and Investment Framework Agreement with Washington, a preliminary step towards a US FTA, in 2001.

US-Middle East free trade area extend into the Maghreb, by 2013.

## AMU - Arab Maghreb Union

which aims to work gradually towards the free movement of people and the transfer of services, goods and capital.

## Algeria and Korea : many opportunities

- Establishment of diplomatic relations in 1990
- Position of strategic partnership between two countries
- establishment of bilateral economic cooperation Task Force since 2006

## The main suppliers of Algeria in the first five months of 2017

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<b>countries</b>	<b>Value millions dollar</b>	<b>Evolution</b>
China	3.925	+10,44%
France	1.673	-27%
Italy	1.382	-32,95%
Germany	1.338	+17,8%
Spain	1.228	-21%
<b>South Korea</b>	<b>961</b>	<b>+100,6%</b>
Turky	909	+62,3%
USA	742	-0,3%
Argentina	714	+51,6%
Bresil	634	+31,8%

## what we know about Korea

when we talk about Korea it's the image of :

- new technologies
- innovative companies
- very high quality products

and

- Samsung
- LG
- Hyundai

## what Koreans know about Algeria ? ???

We want Korean Investments in the field of:

- New technologies
- Automobile industry
- Agriculture
- Buildings
- Scientific exchanges

**고맙습니다**

**Thank You**