

RÉPUBLIQUE ALGÉRIENNE DÉMOCRATIQUE ET POPULAIRE

ECONOMIC AND FINANCIAL GOVERNMENT PROGRAM

During the week from August 9 to 15, 1997 the program of the government of Mr. Ouyahia was examined by the National Popular Assembly. The economic and financial section of this text which has liberal overtones advocates the implementation and strengthening of the process of structural reforms of the Algerian economy. There are two main thrusts which shape the government's proposals; reduction of the role of the state (which would entail the gradual privatization of major public services) and a readjustment of public policy dealing with housing construction, agricultural development and employment subsidies.

A. Reduction of the role of the state in economic matters

On the one hand, reduction of the role of the state will first begin by controlling the evolution of the public spending, and on the other, by the stabilization and privatization of the competitive public sector and the financial system. Replacing the "operator" state by a "regulatory" state will be the second phase with gradual externalization of the public services which are monopolies and at the same time, strengthening the ability to observe and control the economic activities of the administration.

i) Controlling the evolution of public spending

It looks as if public spending has brought under control and is on the right track in 1993, the budget was almost 9% of GNP, in 1996 a surplus of 3% of GNP was recorded and the budget should record a surplus of about 1.5% in 1997. There are, however, three mid-term risks which affect public finance. In 1998, servicing the external debt (which stands at 33 billion dollars) will be further burdened by the withdrawal of the window for rescheduling. The state will also have to face several deadlines of internal debts which have increased substantially as a result of the restructuring of production and banking systems, currently almost 25% of GNP (9 billion dollars).

Ultimately, the social impact of the economic reforms will result in substantial costs for all of the organizations involved in social welfare (especially the national insurance company for unemployment) and the local organizations. In order to be able to rein in the mounting expenses, the government program recognizes the need to implement a more stringent and austere budget as well as decentralization or "partitioning" public expenses which are difficult to manage (local public finances, social welfare, servicing the foreign debt)

- The program therefore advocates a "rationalization of public manpower" and a move to reduce the total salary of the administration which was already reduced from 10% of GNP in 1993 to 8.5% in 1996.
- A substantial shift towards decentralization will affect local public revenues (around 8% of GNP); the regional organizations will especially have the possibility to develop and manage local taxes.
- The government program also recognizes the need for contracts to define the relations between health organizations and social security coffers, as well as "heightened economic truth for certain national insurance benefits." Transfers for health care abroad are being gradually reduced.
- The exterior financial balance which ultimately brought to the surface the economic crisis of 1992-1993 will continue to be the object of great scrutiny by the Algerian authorities. The policy of prudent management for bilateral credit which was applied in 1996 will be continued. Exports not including hydrocarbons will be systematically encouraged. New foreign debt management techniques will be proposed such as converting part of the debt to buy shares in private companies. New methods for foreign financing will be encouraged such as B.O.T. techniques.

ii) Modernization of economic financing

Measures aimed at restructuring the financial sector should be implemented in the coming months within the general framework of stabilization and restructuring of the production system. In particular, the five public banks which are currently unable to secure a stable reserve will be obliged to confirm in the mid term to stabilization plans for their investments and management modernization which were recommended following

audits conducted under the auspices of the World Bank, in order to ensure production financing. In the short term, the configuration of the banking system will undergo different arrangements. The BDL (Bank for Local Development) will be privatized. The BADR (Bank for Agricultural and Rural Development) will be merged with the Agricultural Mutual Credit so as to develop financing for agro-alimentary activities.

The BAD (Algerian Bank for Development) will be split up into an investment bank and a leasing bank. The CNEP (national Saving and Reserve Bank) will specialize in financing housing construction. In order to accelerate the reforms of banks and insurance companies of Algeria, private institutions and the establishment of branches for foreign banks will be encouraged. The government also intends to hasten the transformation from an economy of intermediary financing to an economy of direct financing (non-inflationary and conducive to productive investment) by pursuing the modernization of republic shares and establishing a financial market. Consequently, after having well managed the reforms of treasury bonds and after having "worn down" the investors (banks, insurers, social security banks) to the subscriptions by allocation, the Treasury will have to develop a secondary market for public shares and emergence of specialists in treasury stocks.

After having established the regulatory and legislative framework needed to operate the Bourse of Algiers in the future, the COSOB (Commission for the Organization and Supervision of Stock Exchange Operations) will have to attend to the first stock transactions from now till the end of 1997. In view of this rapid establishment of primary and secondary markets for stocks and shares, markets which will eventually become attractive to foreign investment, the government has appealed for International Corporation, not only for training personnel but also for the acquisition of needed technological support (regulatory delivery systems and share quotations).

iii) Rationalization and privatization of the competitive public sector

The establishment of a financial system which would no longer be a simple intermediary between the treasury and private companies will, in the mid-term, benefit from a productive system. In the short term, however, the adoption by the banks of cautious credit management will emphasize the need to rapidly stabilize the public industrial sector, linked until now, almost exclusively with financial auditing. The "bank-companies" mechanism which was reactivated at the end of 1996, will thus allow public companies to obtain bank credit to counterbalance the effective application of structural recovery (reduction of total value, transfer of shares, establishing branch offices, readjustment of basic jobs).

To face the critical lack of productive investment in Algeria and awaiting the restructuring of the financial system, the choice was made to systematically open the capital of public companies to national and foreign private capital. The principle of complete privatization of companies in competitive sectors is clearly outlined in this program. This privatization can, if necessary, be conducted through public privatization, by distributing complimentary coupons to certain categories of the population (mujahidins, workers who have been laid off because of the restricting, victims of terrorism, young, first-time jobseekers).

iv) Gradual externalization of public services operated as monopolies

Demonstrating the determination of the Algerian executive branch to pursue true liberalization of the economy regardless of eventual public reaction, the government program announced that state would gradually abandon public service functions. The state will therefore progressively delegate the production in network industries (characterized by increasing returns) on a contractual basis. The retained operators will receive subsidies to compensate for the eventual losses resulting from the tariffication of certain collective goods that they will have to produce.

The railway company SNTF will thus be branched out before some of its activities are privatized. In the same way, SONELGAZ (gas-electricity), during the first phase, will become EPIC basing its work on contractual work. The reorganization of the PTT (postal services and telecommunications) will consist of the separation of postal services and telecommunications; among its activities, the profit-making ones will be delegated to private operators on a contractual basis while the regulatory, standardization and control functions will remain the domain of public authorities.

v) Strengthening the observation capacity and administration control

The gradual withdrawal of the state as operator will eventually be compensated by the strengthening of its regulatory activities. The government program outlines throughout the text, the development of the administrative control bodies: general inspection of finances, inspection of labor, inspection of urbanism, water and forestry police etc. It also recognizes a marked improvement in the public statistical office as well as the development of the analytical capabilities and economic forecasts of the administration, especially within the framework of developing plans for a five-year law for economic trends 2000-2005 which will constitute the first phase.

B. Three new priorities in public policies While awaiting for optimal regulation to result from market mechanisms which is what the program aims for, public policy will continue to support housing construction, agricultural development and job creation. According to this program, this support is temporary and should not become permanent nor compromise the prospects for midterm growth by delaying the application of indispensable reforms.

i) Housing Construction

In order to solve the very serious housing crisis from within, the government is particularly concerned about quickly setting up regulatory mechanisms for housing offers as dictated by the market (which presents an unmet demand of 1.5 million units). According to the government program, by providing the conditions which stimulate construction, 800,000 units will be delivered in three years, which will cover additional demand for the same period (at 250,000 houses per year). Without budgetary constraints, the government is committed to finalize the program for social housing in progress which plans delivery of 238,000 units in 1998.

The first axis of reforms will be implemented by restructuring the financial system. As mentioned above, the CNEP will become a housing bank; also to be established is a fund for mortgage guarantees, a refinancing company, a bank to guarantee public markets which would allow the confining rules of Algeria's public accounting to become more flexible. The state will also encourage real estate developers through tax exemptions and will support the self-construction by individuals through a system of subsidies. The second axis of reforms will constitute the reestablishment of truth in rental pricing, which is indispensable for real estate construction to be profitable. "Social" rent will be gradually suppressed and replaced by housing allowances assigned to households.

ii) Government support for employment

Unemployment which affects almost 80% of those under thirty and represents 28% of the active population, constitutes, along with the housing crisis, the great social problem of Algeria. While awaiting the slow long-term absorption of the demographic shock of the years 1970-1980 and the establishment in the mid-term of a sustained growth rate (the government program predicts 7% growth of GNP in the year 2000, or 4% more than the natural growth rate of the population) through structural reforms, the government plans to develop an active policy to support employment.

Public works (renovation of railway tracks, reforestation of mountainous regions, completion of the trans-saharan etc.) will constitute the first axis of this policy. Collective utility works will be developed with the financial support of the World Bank. Ultimately the first step in the fight against youth unemployment will be to support the creation of companies which are the first employ workers.

iii) Agricultural development

Agriculture, today considered one of the sectors which contribute the most to the development of Algeria, will also be the object of special government attention. The growth of agricultural production (at about 5% per year since 1986, while the GNP not including hydrocarbons stagnated in volume during the same period) will result in a decrease in "the cost of food" and keep a considerable portion of the population employed. The government will first focus on stabilizing production conditions, especially by clarifying the legislative framework.

The bill on the privatization of public agricultural land, adopted by the Council of Ministers in December 1996, should therefore be quickly presented before Parliament. The holding company entrusted with agro-alimentary industries will have to establish a finance company to support agricultural investment. Finally (to emphasize the main measures) numerous public works will be completed from now to the year 2000, which will result in the construction of 29 new dams which will increase by almost 30% the capacity of existing reservoirs.