Algeria

key figures

• Land area, thousands of km²	2 382
• Population, thousands (2004)	32 339
• GDP per capita, $ (2003)	2 092
• Life expectancy (2000-2005)	69.7
• Illiteracy rate (2004)	29.0

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Algeria

GROWTH RATES OF 6.9 PER CENT in 2003 and 5.4 per cent 2004 confirm the country's economic health and stability and underpin expectation of further substantial growth of around 4.5 per cent in 2005 and 2006. Algeria has reduced its debt ratio to 24.7 per cent, rebuilt official reserves to the equivalent of nearly two years of imports, still has a budget surplus (even taking into account its FRR revenue regulation fund) and has inflation under control.

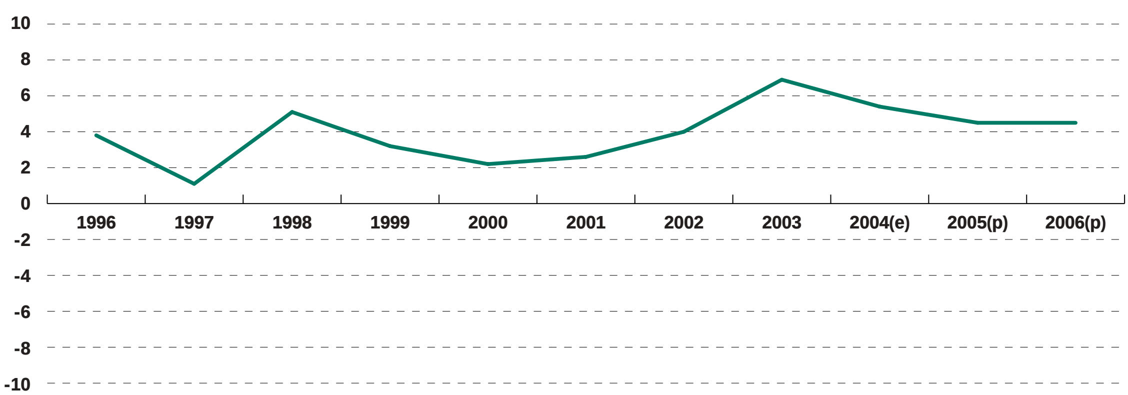
The macroeconomic situation, though still too vulnerable to oil and natural gas price fluctuations, has been maintained in the demand-driven context of the 2000-04 economic revival plan (PSRE) for much greater public investment. This has significantly increased imports, which have helped speed up growth over the past three years and cut unemployment by nearly 4 percentage points to 23.7 per cent from the 28 per cent or so it was a few years ago.

However, these results are mainly due to the oil and gas sector (currently benefiting from favourable world prices), on which the economy greatly depends for growth, its external position and especially its budget balance. This dependence, which has not lessened over the years, is partly due to slow structural adjustment of the economy, as shown by the flagging manufacturing sector and the large chunks of the economy still under state control and not performing well despite getting subsidies.

Overall performance is good, but the economy still relies too heavily on the oil and gas sector for growth.

The economy's ability to use its proclaimed liberalisation to improve living standards and increase investment to about 30 per cent of GDP depends on the government stepping up structural reform, striking the right balance between public and private sectors and making production sectors more flexible and competitive.

Figure 1 - Real GDP Growth

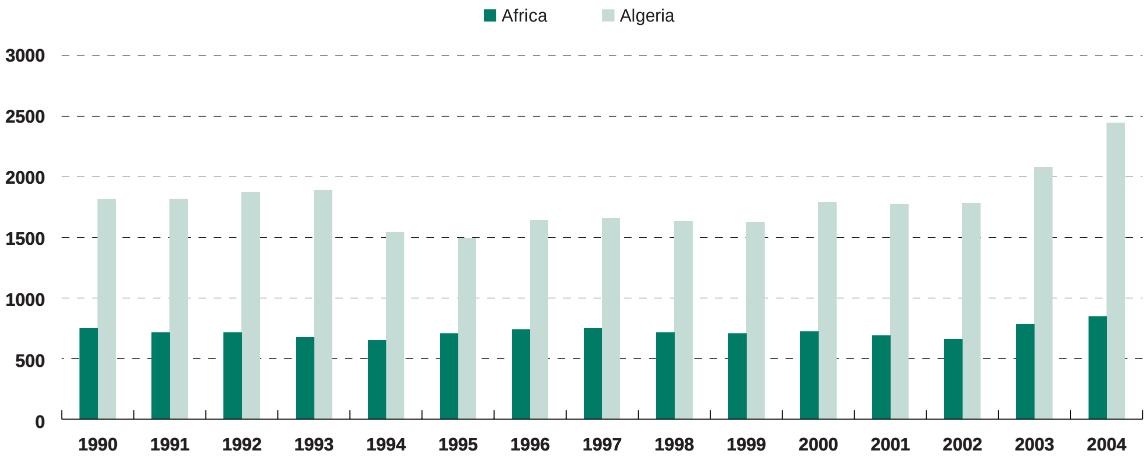


Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

After several years of only slight growth, the economy began to take off in 2001 and this progress has been confirmed and expanded. Growth accelerated to 6.9 per cent in 2003, 1.8 percentage points more than the record in 1998. As well as the big contribution of oil and gas, other sectors, notably construction and services, played their part and non-oil/gas GDP increased 6.1 per cent in 2003. Overall growth in 2004 was slightly less at 5.4 per cent (5 per cent non-oil/gas) and the government expected it to be 4.5 per cent in 2005 and 2006.

Figure 2 - GDP Per Capita in Algeria and in Africa (current $)



Source: IMF.

Adequate rainfall produced exceptional harvests in 2003 and the agricultural sector grew 17 per cent (after shrinking 1.3 per cent in 2002), mainly because of good sector policies and financial management of state farmland since the national agricultural development plan (PNDA) was launched in 2000. Cereal production more than doubled in 2003 to nearly 42.4 million quintals (from 20.2 million in 2002). Non-cereal vegetable output, which is less erratic because of expanding irrigation, grew much more slowly (4 per cent). Livestock production continued to advance, showing a 7 per cent increase (5 per cent in 2002).

Agriculture was nearly 10 per cent of GDP in 2003 and its share of overall growth increased by 1.8 per cent after falling 0.1 per cent in 2002. The sector's growth is expected to slow in 2004 to 2.2 per cent, but should recover to 4.1 per cent in 2005.

The oil/gas sector strengthened its domination of the economy in 2003 with growth of 8.8 per cent, its best performance in a decade, thanks to new fields coming into production. The crude oil branch and liquefied natural gas (LNG) branches showed 33 per cent and 5.3 per cent growth respectively in a context of high world prices. This boosted the sector contribution to overall growth by 2.2 percentage points (+1.1 in 2002).

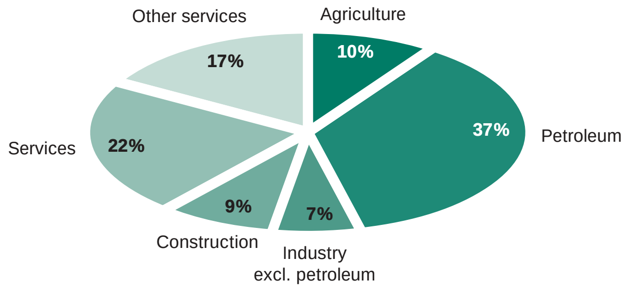
Oil production was 1.4 million barrels/day in 2004 and is expected to rise to 1.5 million in 2005. The national oil company Sonatrach was Africa's biggest firm in 2004, with a turnover of $31.5 billion ($18.6 billion in 2003), which was 43.8 per cent of Algeria's GDP and 5 per cent of that of the whole continent. Its exports were worth $28.5 billion (159 million oil-equivalent tonnes).

Natural gas production rose 5 per cent in 2004, to 144.3 billion cubic metres (137.6 billion in 2003), mainly because production started mid-year at the Saharan field of In Salah, which has an annual production capacity of 9 billion cubic metres. LNG production fell 15 per cent, to 40.7 million cubic metres (from 47.6 million in 2003), however, due to the destruction, in a January 2004 explosion, of the Skikda complex in eastern Algeria.

The government expects the oil/gas sector's growth to slow in 2004, to 6.4 per cent, and to 4.4 per cent in 2005. The sector accounts for 36.5 per cent of GDP, 65 per cent of government revenue and 97 per cent of export earnings, but only employs 3 per cent of the workforce. So with nationwide unemployment high, economic diversification is urgent.

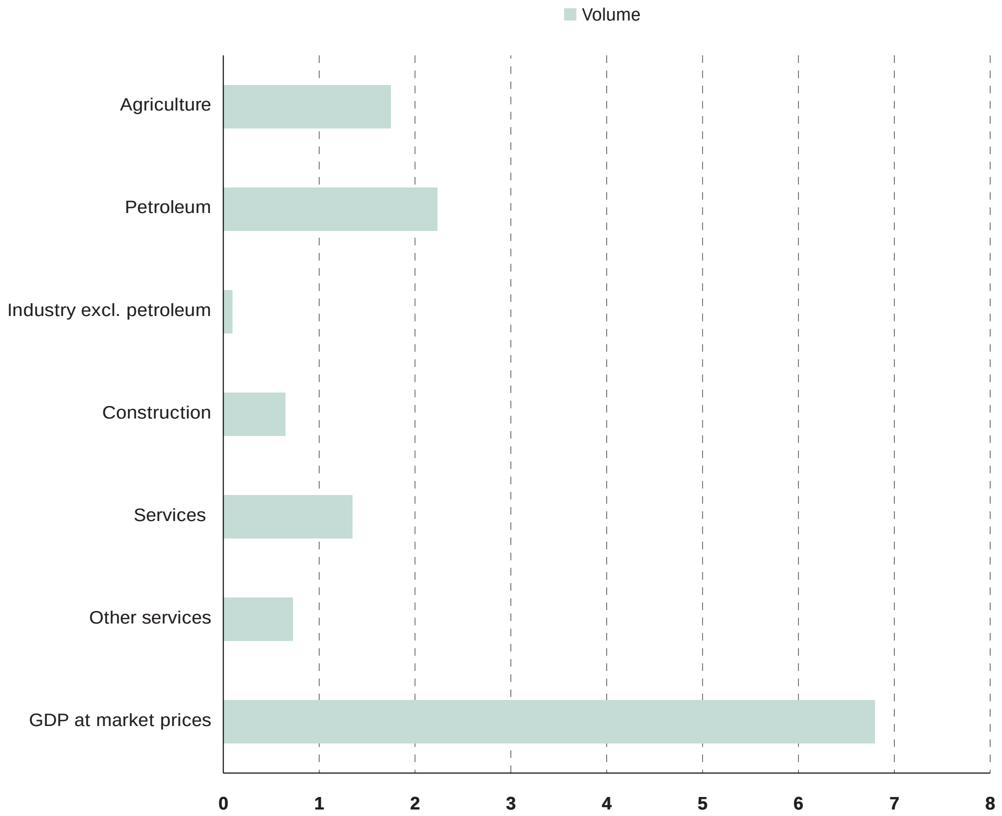
The construction sector performed quite strongly again in 2003, growing 5.8 per cent, even if less than the 8.2 per cent of 2002. This slowdown was due partly to a shortage of suitably-sized firms with the right skills, according to government officials. This

Figure 3 - GDP by Sector in 2003 (in percentage)



Source: Authors' estimates based on Ministry of Finance and Office National des Statistiques data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (in percentage)



Source: Authors' estimates based on Office National des Statistiques data.

meant the sector did not fully benefit from investment programmes such as the repair of infrastructures damaged by the 21 May 2003 earthquake, ongoing infrastructure and PSRE housing projects and the extension of oil-related public works. The sector should grow about 5.4 per cent in 2004 and contribute 0.6 per cent of overall growth.

Algerian industry, apart from these two sectors, is hampered by many largely inefficient and unprofitable state-owned firms whose wage bill exceeds their turnover. The non-oil/gas and non-construction industrial sector registered a 1.7 per cent fall in growth in 2003 to 1.2 per cent, mostly due to structural problems in manufacturing industry. But it grew 3.2 per cent in 2004 due to private sector efforts and accounted for 0.2 per cent of overall growth. It should expand by 2.4 per cent in 2005 and again supply 0.2 per cent of total growth.

Manufacturing has slumped by 50 per cent over the past 15 years, causing a significant loss of industrial activity despite strenuous financial efforts on the part of the government. All state-owned manufacturing did less business in 2003 – 20.6 per cent in agro-food, 10.4 per cent in chemicals, rubber and plastics, 7.6 per cent in construction materials and 5.3 per cent in the wood, cork and paper industries. But some sectors grew, notably steel, metal, mechanical and electrical industries (ISMME) (9.1 per cent), energy (6.6 per cent) and to a lesser extent mines and quarries (0.7 per cent.

The government wants to tackle the situation by boosting and speeding up the modernisation of production to adapt it to the demands of growing economic liberalisation and by upgrading management skills and capacity. This should make manufacturing more competitive and, above all, make the rather unadventurous private sector more dynamic. Privately controlled industry grew 2.9 per cent in 2003. This was down certainly from 6.6 per cent in 2002 but still showed a potential that could be better used. Private sector activity in 2003 grew in construction materials and ceramics (2.4 per cent), chemicals (2.2) and agro-food (1.7).

The services sector has grown more than 5 per cent a year since 2000 and expanded 7.3 per cent in 2004, mainly due to transport development, itself boosted by growth in commerce and distribution resulting from much stronger import growth. Growth should fall back slightly, to 6.5 per cent, in 2005, reducing its contribution to overall growth from 1.7 per cent in 2004 to 1.5 per cent in 2005.

The growth of consumption overall increased 0.9 per cent in 2003 to 4 per cent and its contribution to overall economic growth improved 0.5 per cent.

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	**25.1**	**27.0**	**30.4**	**29.8**	**28.8**	**28.6**	**28.8**
Public	6.4	8.4	10.1	11.0	10.8	11.1	11.5
Private	18.7	18.6	20.3	18.8	18.0	17.6	17.4
Consumption	**68.6**	**58.4**	**59.6**	**55.2**	**51.4**	**48.0**	**49.0**
Public	15.8	14.7	15.3	14.1	13.3	12.3	12.2
Private	52.8	43.6	44.2	41.1	38.1	35.6	36.8
External sector	**6.3**	**14.6**	**10.0**	**15.0**	**19.8**	**23.4**	**22.2**
Exports	30.2	36.6	35.6	39.0	42.2	45.3	43.2
Imports	-23.9	-22.0	-25.6	-23.9	-22.4	-22.0	-21.0

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

Consumption is expected to increase 5.1 per cent in 2004 and 3.8 per cent in 2005 due to increases in private consumption (5.3 per cent in 2004 and 3.9 per cent in 2005) and public consumption (4.6 per cent in 2004 and 3.3 per cent in 2005). But overall consumption fell to 51.4 per cent of GDP in 2004 (from 55.2 per cent in 2003) and is expected to sink further (to 48 per cent) in 2005.

Gross capital formation rose 6.5 per cent in 2003 and the investment rate was one of the highest in the region (29.8 per cent in 2003 and 28.8 in 2004). Investment should hold up in 2005 (28.6 per cent) and 2006 (28.8 per cent) and enable the country to base its growth on solid foundations, as long as the public-private balance improves and infrastructure projects are implemented more strictly and efficiently.

Macroeconomic Policies

Fiscal and Monetary Policy

Budget policy has been an important government tool in recent years, giving form to decisions about the use of oil/gas revenue, supporting economic growth, meeting growing social demands and preserving macroeconomic stability.

From 2001 to 2004, the government implemented a $7 billion economic revival plan (PSRE) to boost growth and jobs. It set up a revenue regulation fund (FRR) in 2000 to enable the budget to be adapted to oil price fluctuations and drew up a medium-term expenditure framework (MTEF) independent of oil/gas revenue. It reformed taxation to gradually reduce the government's dependence on oil/gas revenue and divert spending to education and health with the aim of preparing the way for economic liberalisation by giving people more skills and qualifications.

Budget revenue was up nearly 12 per cent year-on-year in 2004 at 2 201 billion dinars and represented 37.1 per cent of GDP. The increase was mostly from oil/gas revenue, which rose more than 16 per cent to 1 569 billion dinars and accounted for more than 71 per cent of all government revenue. Supplementary budget laws are based on a $19 a barrel oil price, so the FRR has plenty of funds. It received, for example, 448.9 billion dinars in 2003 after the average oil price increased $25.20 to $28.90 and exports rose to 24.9 per cent of GDP from 23.2 per cent in 2002. However, non-FRR revenue fell 3.5 per cent year-on-year in 2003.

Direct tax revenue rose 7.9 per cent in 2004 (11.4 per cent in 2003) and tax from goods and services by 15.2 per cent (4.7 per cent in 2003) but customs revenue was down 5.6 per cent (after increasing 11.1 per cent in 2003) and registration and stamp duty returns by 10.5 per cent (7.2 per cent in 2003). Budget revenue is expected to be 38.3 per cent of GDP in 2005 and 36.7 per cent in 2006.

Budgeted expenditure in 2004 was 1 878 billion dinars, up 7.1 per cent year-on-year, but its share of GDP fell to 31.8 per cent (33.1 per cent in 2003). The higher spending was matched by a shift (resulting from implementation of the PSRE and PNDA) in the respective shares of current and capital spending in total expenditure. Capital spending grew steadily from 8.4 per cent of GDP in 2001, to 10.2 per cent in 2002 and 10.8 per cent in 2003. It should stay at 10.6 per cent in 2004, reflecting the government's wish to give more weight to capital spending as a means of boosting the economy and standard of living.

Current spending declined slightly to 21 per cent of GDP in 2004 (22.6 per cent in 2003). Overall expenditure should stabilise in 2005 and 2006 at about 30 per cent of GDP, due to reduced current spending and wages.

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue and grants[a]	**32.2**	**34.9**	**36.0**	**38.2**	**37.1**	**38.3**	**36.7**
Tax revenue	11.0	9.0	10.4	9.7	9.4	9.3	9.3
Oil revenue	20.8	24.0	23.1	27.6	26.0	27.2	25.5
Total expenditure and net lending[a]	**29.2**	**31.5**	**35.8**	**33.1**	**31.8**	**29.8**	**30.2**
Current expenditure	22.4	23.2	24.9	22.6	21.0	19.0	18.9
Excluding interest	*18.9*	*19.7*	*21.8*	*20.4*	*19.2*	*17.8*	*17.9*
Wages and salaries	8.7	7.6	7.8	7.4	7.0	6.4	6.3
Interest	3.5	3.5	3.1	2.3	1.8	1.2	1.1
Capital expenditure	6.8	8.4	10.2	10.8	10.6	10.8	11.2
Primary balance	**6.4**	**6.9**	**3.3**	**7.4**	**7.4**	**9.7**	**7.5**
Overall balance	**2.9**	**3.4**	**0.2**	**5.1**	**5.3**	**8.5**	**6.5**

a. Only major items are reported.
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Interest on public debt has fallen from 3.5 per cent of GDP in 2001 to 1.8 per cent in 2004 and is expected to shrink to 1.2 and 1.1 per cent respectively in 2005 and 2006.

Revenue increased faster than expenditure and the 2004 budget surplus was 5.3 per cent of GDP and should rise to 8.5 per cent in 2005 before dropping to 6.5 per cent in 2006. The government has been trying to reduce the debt since 2001.

Against a background of consolidation of net external assets and budget-based economic stimulation, the Bank of Algeria continued with a cautious monetary policy in 2004, seeking to control money supply and bank liquidity so as to minimise the risk of inflation without discouraging private investment. The main challenge will be to offset the considerable effect of the banks' excess liquidity. It had mopped up 250 billion dinars in cash on the interbank market by the end of December 2003, reduced its liquidities absorption rate from 0.75 per cent in June 2003 and to 0.25 per cent in September 2003, and upped its reserves requirement from 4.25 to 6.25 per cent.

Excess liquidity increased over the year however because of growing net external assets and due to banks accumulating money faster than they use it. The liquidity ratio of M2 (total money supply) to GDP rose from 65.3 to 65.5 per cent between 2003 and 2004. The need to continue tightly controlling bank liquidity should prevent growth of non-performing bank loans. M2 increased 15.8 per cent in 2004, mainly because of a 26.3 per cent rise in cash and bank deposits (M1) due more to an increase in fiduciary money, treasury deposits and post office cheque accounts than in demand deposits in banks.

These developments showed that net external assets, which totalled, 3 018.6 billion dinars in 2004 (2 342.7 billion in 2003), were the main source of money creation by the banking system. This is confirmed by the 14.3 per cent drop in net internal assets, due to domestic credit falling 13.4 per cent. Net loans to the government fell 77 per cent while loans to the economy grew 6 per cent.

Inflation was 4 per cent in 2004, slightly up on 2003's 2.6 per cent, and is expected to fall to 3.6 per cent in 2005 and 3.2 per cent in 2006.

The Bank of Algeria intervened on the exchange market to stabilise the dinar after its real value fell considerably in 2002 and 2003 (9 per cent a year on average), but the gap between the official and parallel markets remains large at over 25 per cent. The dinar is only convertible for trade but firms with a convertible dinar export account (Cedac) are not allowed to hold more than 10 per cent of it in foreign currency.

External Position

Goods exports, at $33.3 billion in 2004 ($24.5 billion in 2003), increased 36.1 per cent as oil/gas exports rose 35.3 per cent, helped by both higher oil prices and higher export volumes. Oil/gas exports generated more than 97 per cent of the country's foreign currency earnings. Non-oil/gas exports increased 79.3 per cent in 2004 after dropping 21.6 per cent in 2003 but still only accounted for 2.5 per cent of total exports.

The highly oil-price-dependent export structure shows how much remains to be done, as the country prepares for activation of its association agreement with the European Union (EU) and membership of the World Trade Organisation (WTO), to diversify its production sector and make it more competitive. The necessary transition will involve paying greater attention to the euro-dinar exchange rate and speeding up reform to encourage the private sector as a way of revitalising, or rather reviving, the manufacturing sector.

Imports, at $17.6 billion, were up 32.1 per cent in 2004 but their share of GDP fell. The increase was mainly due to an increase in imports of capital goods corresponding to investment growth and to lower import tariffs. The country's main trading partner, the EU, takes 55 per cent of exports and supplies 57 per cent of imports.

Algeria had a $15.7 billion trade surplus in 2004 (up from $11.6 billion in 2003 and $6.7 billion in 2002). Exports should rise 20.1 per cent in 2005 and imports 8.8 per cent, resulting in the trade and current account surpluses being increased to 25.1 and 16.7 per cent of GDP respectively. The trend should be confirmed in 2006 when the trade surplus is expected to stand at 23.8 per cent of GDP.

However, the 2004 trade surplus was offset by increased deficits in services ($1.94 billion) and factor income ($3.2 billion) in the current account, which nevertheless turned in a very respectable performance with a surplus of nearly $12.73 billion, representing 15.4 per cent of GDP (13.2 in 2003).

The capital account deficit more than doubled in 2004, however, to reach $3.04 billion ($1.37 billion in 2003), due to the slowing of foreign direct investment, which came only to $0.39 billion (down from $0.62 billion in 2003).

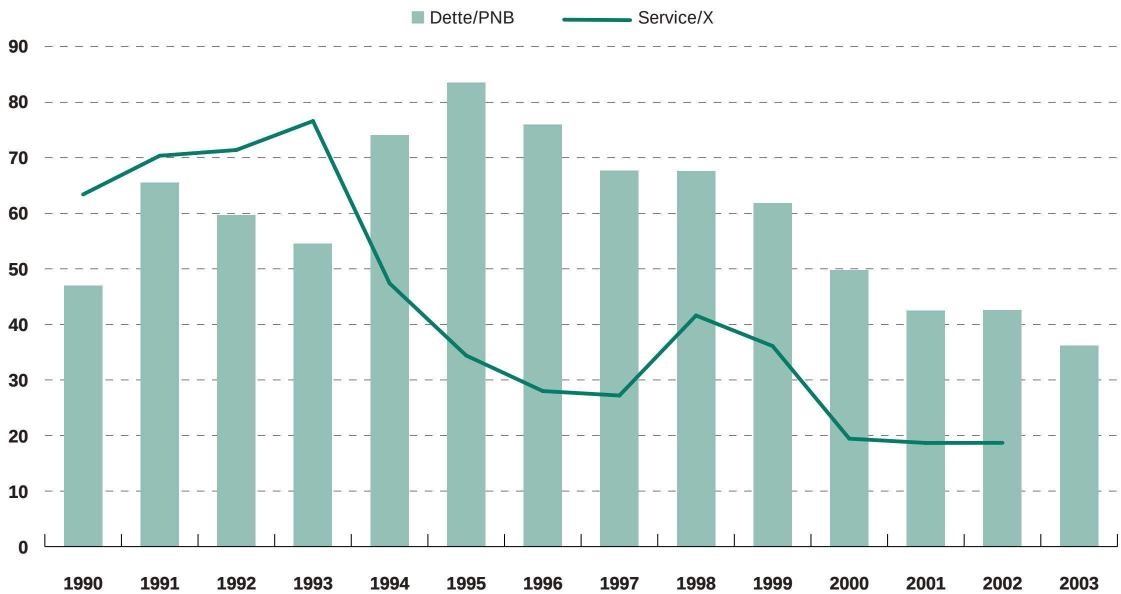
Overall, the 2004 balance of payments surplus totalled nearly $9.7 billion, enabling the government to continue the efforts it has been making since 1999 to build up foreign exchange reserves. These came to $42.3 billion in 2004 ($32.9 billion at the end of 2003), equivalent to two years of imports.

Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	8.8	17.5	12.0	16.7	21.5	25.1	23.8
Exports of goods (f.o.b.)	28.2	34.8	33.5	36.8	40.2	43.5	41.4
Imports of goods (f.o.b.)	-19.4	-17.3	-21.5	-20.0	-18.7	-18.4	-17.6
Services	-3.0	-2.8	-2.1	-2.0			
Factor income	-5.3	-3.1	-4.0	-4.1			
Current transfers	1.9	1.2	1.9	2.6			
Current account balance	**2.4**	**12.9**	**7.8**	**13.2**			

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

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

Medium and long-term external debt was $20.4 billion in 2004 and continued to fall in relation to GDP. It fell from 36.2 per cent of GDP in 2003 to 24.7 per cent in 2004, while the ratio of debt service to exports improved 1.8 percentage points.

Structural Issues

Structural reforms to reduce the government's role in the distribution of goods and services, improve financial and banking facilities and make the legal system more effective are vital to improve business conditions. Government activity is still weighed down by complicated bureaucracy, widespread sinecures and chronic corruption.

The small and medium-term enterprises/industries (SME/SMI) sector has grown from scratch, as there was no networking in Algeria and no industrial policy for SMEs, even though a ministry of SME/SMIs has existed since 1992. The growth of the sector meets a genuine economic need, especially for jobs to reduce the high 23.7 per cent unemployment rate. Many incentives are now being put in place. The country's informal economy is very vigorous, including in the financial sector.

Formally organised and regulated micro-credit is very new to Algeria and has only officially existed since a January 2004 decree broadly defined such activity and the procedures for its creation. These facilities are destined to contribute to the creation of firms producing goods and services, including in homes, by funding the purchase of equipment and raw materials for start-up purposes or for the purchase of raw materials more generally. They are offered to those with no income or only small irregular earnings with the aim of helping them to integrate socially and economically through the creation of businesses needing investment of between 50 000 and 400 000 dinars. These people have to be 18 or older, have a fixed address, possess some know-how in the business they are proposing and not be getting any similar aid.

The contribution required to get such loans depends on the borrower's qualifications, the total start-up cost and the place where the business is located. It is 5 per cent of the total cost of setting up a business through the acquisition of equipment and raw materials and 3 per cent when the applicant has a diploma or other recognised certificate or when a business is in the southern or Hauts Plateaux regions. For the second kind of loan, for buying raw materials, the minimum personal contribution is 10 per cent of the total cost but cannot be more than 30 000 dinars.

Bank loans can supplement these contributions with the help of the national micro-credit support fund FNSM but are subject to normal bank lending rules. Bank loans can be up to 95 per cent of the total cost of the business (between 50 000 and 100 000 dinars) and up to 97 per cent when the applicant has a diploma or the business is in a special area. Funding is only up to 70 per cent when the cost is between 100 000 and 400 000 dinars.

Interest relief on micro-credit loans by banks and financial institutions applies to 80 per cent of the normal loan rate for the business in question and 90 per cent for businesses in the south and the Hauts Plateaux. To ensure project viability, borrowers can have free technical help and interest-free government loans, again depending on the applicant's qualifications, total cost and location. Micro-credit borrowers seeking bank loans have to join and pay dues to the FGMM micro-credit mutual guarantee fund set up in 2004.

The national micro-credit management agency ANGEM was set up in January 2004 under the authority of the prime minister and is monitored day-to-day by the minister of labour. It has a policy council composed of representatives of sector bodies and institutions and a committee that monitors implementation of the council's decisions. ANGEM provides supports and advice for borrowers as they start up their businesses, dispenses interest-free loans and checks that the business is complying with its original terms and conditions. It complements other facilities set up since 1996, mainly by the national youth employment agency ANSEJ.

In 2003, the regulatory framework for banks was changed to allow them to expand into helping young business people in the production sector. Bank funding of such projects was raised to up to 70 per cent of total investment. Loan periods were extended to up to seven years and micro-businesses were made eligible for operating loans needed for production cycles.

A total of 293 800 micro-enterprise projects had been registered by 30 September 2004, including 252 involving expansion of existing production capacity. ANSEJ reckons they could create about 820 000 new jobs. Agriculture is the most popular sector for projects (25.5 per cent), followed by services (25 per cent), trades and crafts (11 per cent) and industry (8.3 per cent). The extension projects are mainly in trades and crafts (30 per cent), services (22 per cent) and industry (13 per cent).

Out of 236 800 eligible projects, 123 600 (52 per cent) resulted in loan applications to the banks, of which 64,000 were successful. Another 17 700 applications are pending and 42 000 have been rejected. Loans totalling 77 333 billion dinars were granted towards investments totalling 118 066 billion dinars, giving a funding rate of 65 per cent. Of the 64 000 successful applications, 52 500 were funded by ANSEJ for a total investment of 91.1 billion dinars, comprising 61.2 billion dinars in bank loans, 16.6 billion dinars in interest-free loans from the national youth employment fund FNSEJ and 13.3 billion dinars of applicants' own money.

The Bank of Algeria and the state banking commission increased supervision of banks and financial institutions in 2003 to help them meet the demands of economic restructuring. This helped them to cope with the collapse of two private banks, El Khalifa and the BCIA. Two decrees tightened conditions for setting up in the financial sector and revised the rules governing activity and control. The bankruptcies nevertheless damaged the financial sector, mainly because savers and investors lost confidence in it.

The government is still aware of the need to hasten banking reform so the sector can play its financial intermediary role on a secure footing. The reform aims to go beyond the gap that has developed between private banks and state banks, which are crippled by a large number of bad loans and are unused to competition, while the commercial banks look for immediate profit, with harmful effects on the system's stability. The recapitalised state banks' accounts have been sorted out but they still hold 92.7 per cent of all bank assets and borrowing terms for potential investors have become much too strict.

New facilities to help investors have been created as part of continuing efforts towards financial innovation. They include an investment guarantee fund (FGI), with a capital of 30 billion dinars supplied by the government, the banks and financial institutions, which is destined to provide better cover against the risk of insolvency and bankruptcy.

The government wants to speed up modernisation of bank procedures, introduce computerised payments and interbank transfers, revitalise the capital market and set up specialised financial institutions so as to establish a new relationship between businesses and banks based on profitability and prudential rules.

The government continued in 2004 to develop the country's infrastructures as a means of encouraging private sector initiative. A 40 billion economic growth support plan (PSCE) was launched in August 2004. Work on roads includes major projects such as the coast road, the east-west motorway, the Hauts Plateaux by-pass, north-south freeways, the trans-Sahara, the opening of new and repaired roads aimed at ending the isolation of about 700 000 people and improving traffic movement in major towns and cities.

The new Houari Boumediene airport in Algiers and those in Toughourt, Béchar and Constantine are being completed and others are being built in the Hauts Plateaux and the south. Strengthening seaport facilities through which nearly 90 per cent of the country's trade passes is a priority. Reorganisation of the national shipping company CNAN is being speeded up and plans are afoot to upgrade, better manage and increase the capacity of ports, especially that of Algiers. The PSCE also provides for the building of two high-speed railway lines and completion the Algiers subway system, which has been under construction for the past nearly 30 years.

Great efforts are needed to modernise telecommunications. Only 30 per cent of households had access to a phone in 2003 and there was a waiting list of 700 000 for a fixed line. Algérie Télécoms, a publicly-traded company created out of the posts and telecommunications sector reorganisation begun in 2000, plans to add half a million lines with the help of the Ericsson group.

Algérie Télécoms and Orascom Télécoms Algérie shared the mobile phone market until the arrival of a Kuwaiti group, National Mobile Telecommunications, which bought the third GSM licence in December 2003 for $421 million. The mobile phone market is estimated at 2 million lines in the short term, 6 million medium-term and 12 million long-term.

The government has revived privatisation in a bid to speed up infrastructure upgrading and that of the economy generally. A total of 111 state-owned firms were privatised in 2004 but 1 283 firms still remain to be divested. About 300 should be disposed of in 2005. The privatisations have created some 2 400 new jobs and raised about 18 billion dinars (187 million). They have also involved planned investment totalling 24.72 billion dinars (257 million), not including 8.2 billion dinars (85 million) of public debt taken on by buyers. The government has said it does not want to privatise "strategic" or "sovereign" firms in areas such as oil/gas, electricity, gas and railways.

A new legal framework installed in 2001 has made privatisation easier by introducing greater transparency and simpler procedures. The privatisation strategy is defined by the state holdings council (CPE), with assistance from the ministry of state holdings, and is implemented by 28 holdings management companies (SGP), set up to manage the equity of public firms up for privatisation.

A first reform plan in the oil/gas sector in 1999 aimed to streamline exploration and production and convert Sonatrach from a state company into a publicly-traded one. The firm's development plans in China, Peru, Libya and Jordan would need part of the firm to be sold to the private sector. The plan was rejected in 2004 after opposition by the country's main trade union, the UGTA, which staged a two-day strike in February 2003 that was followed 98 per cent nationwide.

The plan should have a better chance of going through in spring 2005 since the union has reached agreement that 20 per cent of firm's shares will be reserved for national interests (its workers, the general public via the stock exchange and institutional investors).

Sonatrach invested $3.9 billion in 2004 and plans to invest $5.1 billion in 2005 to develop natural gas deposits, drill 65 wells and carry out prospection in Africa and Latin America. The firm is due to open a 747 km trans-Mediterranean gas pipeline (Medgaz) between Algeria and Spain in July 2005. With capacity to carry 8-10 billion cubic metres of gas a year, it should earn Algeria an annual $500 million from 2007.

Political and Social Context

A row broke out in 2003 between President Abdelaziz Bouteflika and Prime Minister Ali Benflis. Connected with the early start of the presidential election campaign, it resulted in a battle for control of the ruling party, the National Liberation Front (FLN), which ended with Benflis' replacement by Ahmed Ouyahia in May 2003. Bouteflika was re-elected with 85 per cent of the vote on 8 April 2004. He pledged to continue democratisation, strengthen the rule of law and respect for human rights and consolidate civil peace. Security improved noticeably but labour unrest persisted in 2004, notably in the education and health sectors.

The country needs to strengthen its social sector achievements, reflected in a 3.5 per cent increase in GDP per capita between 2001 and 2004 and a fall in the proportion of the population under the poverty line from 14.1 per cent in 1995 to 13 per cent in 2002. Unemployment remains very high, despite dropping from 27.3 per cent of the active population in 2001 to 23.7 per cent in 2003, and affects urban (23.9 per cent) and rural areas (23.4 per cent) fairly equally. Young people are worst hit, with 43.9 per cent in the 20-24 age group out of work.

The government increased efforts in 2004 to boost living standards, making use, notably, of the different provisions of the PSRE to try to ease social tensions and improve national unity and stability. But social services continue to fall short of targets in terms of quality and regional coverage.

Reorganisation of the state electricity firm Sonelgaz has resulted in the creation of decentralised subsidiaries and the construction of new installations in several regions, including Algiers, Skikda and Oran. These developments should further boost national electricity coverage, which increased from 90 per cent in 2002 to 93 per cent in 2003.

Water supply problems and nationwide rationing are caused by lack of co-ordination among the many parties involved, bad management of the network, non-payment of bills and non-observance of regulations. Old-fashioned production methods and lack of trained staff, which lead to extensive leakage and high running and maintenance costs, are also to blame. The national water distribution agency, ADE, has been strengthened and its action plan is starting to produce results. About 85 per cent of Algerians had water in 2004 (95 per cent in urban areas and 70 per cent in the countryside). Sewage systems greatly need improving.

The housing ministry estimates that there is a national shortage of 2 million homes, but only 67 164 units were begun in 2003 and 74 071 delivered, markedly fewer than in 2002, especially in low-cost housing. A partnership with the World Bank plans to improve the situation and the PSCE provides for the construction of a million low-cost units in 2005.

The country reached a new demographic milestone in 2000, when the gross birth rate fell below 20 per 1 000 (to 19.2) and Algeria officially became a medium-fertility country. The synthetic fertility index fell, from 4 children per woman in the early 1990s to 2.4 in 2002 (2.1 urban and 2.7 rural). The average age of marriage rose from 27.7 to 33 for men between 1987 and 2002 and from 23.7 to 29.6 for women, due to the spread of modern contraception methods, women working and better education.

The health-care system has made clear progress, as shown both by the main disease indicators and by improved staffing, equipment and infrastructure. The government drew up a serious health programme in 2001 and pledged massive investment. Budget money for health was nearly 65 per cent higher in 2004 than in 1999 and focused on rebuilding infrastructure, building new installations and upgrading equipment.

This substantially improved access to health care and coverage of the population's health care needs. As a result, the gross mortality rate fell to 4.41 per 1 000 in 2002 and average life expectancy rose from 67.3 years in the early 1990s to 73.9 in 2003. Infant mortality, at 41.2 per 1 000, is quite low for Africa, which averaged 79.3 per 1 000 in 2004 and where some countries exceed 100.

Much remains to be done to improve the finances of public health bodies and find better ways to fund the system, expand the private health sector and improve staffing. Care quality also needs to improve to cope with new ailments arising from the demographic changes.

Educational reform has focused on teacher training, reforming curricula and general reorganisation of the sector. It has strengthened initial training for new teachers and set up a national training and refresher programme for working teachers and a range of measures to improve their status. Curricula have been revised, notably for language teaching, textbook content and the criteria used for choosing between the different disciplines. Science has been emphasised and new information and communication technology is being introduced as a teaching tool and a means of access to knowledge.

Overall reform of the system provides for: the expansion of pre-school education for five year olds; the organisation of compulsory basic education in two phases (one for primary education which will be reduced in the medium-term from six to five years and a second four year phase for intermediate education); introduction of a post-compulsory cycle comprising secondary and technological education and ending with the baccalaureate; and technical and professional education ending with a technical certificate or professional baccalaureate("bac"). Higher education has been reorganised into an ordinary university degree ("bac" + 3 years), a master's degree ("bac" + 5 years) and a doctorate ("bac" + 8 years).

A national education and training council (CNEF) and national education monitoring centre (ONE) have been set up to monitor and assess the reforms. The basic education reform introducing new subjects (science and technology, music and drawing) in primary schools, English from the age of nine and the fourth year in the intermediate cycle, came into effect in the 2003/04 school year. In 2004/05, French was introduced in the second year of primary school and the first stage of the higher education reform (new version of ordinary degree and doctorate) was implemented. The master's degree will not be introduced until the first new ordinary degrees are awarded in 2008.

The fresh resources brought in with the reform have resulted in reductions in the number of children per teacher and per class, which fell respectively from 38 to 28 and from 36 to 27 in the first two phases of basic education between 2001 and 2003. During this time, 71 new secondary schools were built that will bring classroom size down to about 19 pupils, one of the lowest in the region.

Illiteracy in the 15+ population fell to 31 per cent in 2003 (from 47 per cent in 1990), while school enrolment increased to 95 per cent in primary education and 62 per cent in secondary in 2003.