

MACROECONOMIC STABILIZATION REFORM IN ALGERIA:1990-2011

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ABSTRACT

Algeria started implementing, since the nineties and under the supervision of the IMF, a set of economic reforms in its journey towards a free-market economic system. However, in spite of having been started more than two decades ago the transitional process is far from being completed. Except for the macroeconomic stabilization reform, the performance of Algeria in all other areas illustrates more a kind of patchwork than a coherent and well-structured program of transition. But, even the relative success of the macroeconomic stabilization policy is fading. The purpose of this paper is then to analyze this success and its decline.

بدأت الجزائر بتطبيق مجموعة من الإصلاحات الاقتصادية للانتقال نحو نظام اقتصاد السوق منذ سنوات التسعينات و تحت مراقبة صندوق النقد الدولي، و لكن و رغم بدأ هذه الإصلاحات منذ فترة إلا أنه يبقى الكثير على انتهاء إصلاحات الانتقال إلى اقتصاد السوق. باستثناء إصلاحات الاستقرار ماكرو الاقتصادي، بقي أداء الإصلاحات في الجزائر في باقي الميادين بعيدا عن برنامج انتقال متناسق و مهيكل، غير أنه حتى النجاح المتعلق بالاستقرار ماكرو الاقتصادي بدأ ينخفض. الهدف من هذا المقال اذن هو تحليل هذا النجاح و الانخفاض.

Key words: Algeria, reforms, macroeconomic stabilization, fiscal discipline, monetary restraint, Washington Consensus, inflation, IMF.

INTRODUCTION

If after a long reign of the Keynesianism in the economic field, in theory and in practice, the late seventies have seen a renaissance of the market fundamentalism, especially in the USA and the UK where this phenomenon was labeled Reaganism¹ and/or Thatcherism, the late eighties were undoubtedly marked by the disintegration of the communism and the long process of a substitution of a market-based economic system² to the planned economic system, by all the former socialist countries (except Cuba and North Korea), as well as by many other developing countries, including Algeria which opened up economically as well as politically. Indeed, under the supervision of the international monetary fund (IMF), Algeria started to implement a set of economic reforms in the nineties imbedded in the so called 'Washington Consensus'³, imposed on it by the international financial institutions (IFI), especially the IMF. The country was obediently complying with the IMF exigencies as long as it needed its assistance (financial in particular). But as soon as the financial situation of Algeria improved in the early years of the twenty first century, the implementation of the IMF reform package started to loosen up. In any case the reform program was never seriously conceived let alone debated nationally. The process was more of a patch work than any solid, coherent and transparent program: enacting a law now and then, privatizing a (small) public enterprise here and there and continuing to delay the much necessary and needed remaining structural and institutional reforms.

Not surprisingly and more than two decades later on, the country is still, in a no-system-land: it has a foot in the old system and the other, very timidly, in the market system. Not a single reform has been successfully, sustainably and thoroughly completed. The only reform that had some relative success is the macroeconomic stabilization. But even in this case the success is fading. The goal of the present paper is to analyze this success and its fading. For that purpose we will start by reviewing the types of reforms required by the IFI, after which we will look at the macroeconomic stabilization reform and the performance of Algeria in this area.

I. The Washington Consensus Economic Reforms for a Transition Towards a Free Market Economic System

The economic reforms that the IMF imposes on countries that need its financial assistance, are elements of a standard package of economic policies designed to force/help countries such as Algeria, to transit towards a free-market oriented

¹Bartlett, 1981. See also Bartlett and Roth, 1984.

² Blanchard, Dornbusch, Krugman, Layard and Summers, 1990.

³ Williamson, 1990. P. 1.

economy⁴. By doing so and besides getting the IMF financial assistance that will help it get through the balance of payment crisis in which it was trapped at the time in the late eighties, Algeria was hoping to catch up with the economic performances of the more advanced market economies, close the income gap with them and achieve good living standards, a high employment level, and a satisfactory reduction of the poverty level, through high economic growth rates. These reforms have been grouped in several different ways. Let us then give some details about them, using what we think is the best classification: *stabilization*, *liberalization*, *privatization*, and what we would call '*institutionalization*'.

- A. Macroeconomic stabilization⁵:** its objective is to achieve a stable macroeconomic environment, where more emphasis is put on fiscal restraint (small, or no, budget deficits) and price stability⁶, such as to ensure a rapid decrease of inflation toward rates comparable to those of the free-market countries, mainly through *fiscal and monetary discipline, and a single, competitive and stable exchange rate*.
- B. The liberalization reform:** a structural reform, which concerns all four types of markets: domestic, foreign, labor, and financial markets. The purpose here is to put an end to the administered management of the economic activities and free all markets from government interference and open all of them to private (national and foreign) as well as public firms.

First, the *domestic markets liberalization* is supposed to be implemented through the de-monopolization and the privatization of the production and the distribution of goods and services in these markets, as well as through the deregulation of prices, profit margins and the elimination of government subsidies for goods and services.

Second, the *liberalization of foreign trade*⁷ is one of the most important requirements of the IMF. It requires the elimination of all quantitative restrictions to free trade, such as licenses, quotas... (that is all the non-tariff barriers to free trade), the reduction of the customs tariffs to very moderate levels, the adoption of competitive exchange rate (through devaluations...), and finally through the introduction of the balance of payment's current account convertibility.

⁴OECD, 1992a. See also: OECD, 1992b.

⁵Akacem, 2004.

⁶And **financial stability**, especially since the 2008 global financial crisis.

⁷Kebier, 2002.

The third, the structural reform is the *liberalization of the labor market* which is supposed to make the later very flexible⁸ by introducing a wage bargaining system, and a deregulation of hiring and firing, in particular a reduction of the dismissal costs...

The fourth mandatory market *liberalization*, is that of the *finance and banking sector*⁹, through the authorization for the creation of private (national and foreign banks), the restructuration, the liberalization, the privatization of the state owned financial institutions, the creation and promotion of a money market, a stock market, a bond market, a mortgage market, and a foreign exchange market. In this context it is also recommended that the central bank of the country be more independent from the government so as to make the conduct of the monetary policy by the central bank, independent from the conduct of the fiscal policy by the government.

C. Privatization¹⁰: this structural reform concerns the privatization of the whole economy. First, by the promotion and the boosting of the development of the private sector by promoting new private investments and allowing the entry of private firms in all markets. Second, by the privatization and the restructuration¹¹ of state owned enterprises (SOEs). This is assumed to be implemented in two phases. In the first stage, the concerned country should implement a small scale privatization of small state owned enterprises. In the second phase, a large scale restructuration and privatization¹² of the larger public firms, should take place.

D. The institutional reforms: these are the last block of the recommended/required reforms. The importance and the role of institutions and institutional changes for economic and social development as well as growth has been, a *bit too late*, recognized and pushed forward by the IMF and other international funding agencies. In any case and as we think they should have, institutional reforms have never been, among their top priorities. By institutional reforms, we mean reforms of the administrative, legal, political, and social institutions as well as economic institutions. These institutions must be made

⁸See Galbraith, 1980 and Stiglitz, 2002, p. 84: where he says that the flexibility demanded by the IMF is simply a code name for low wages and less protection for workers.

⁹Benhalima, 1997.

¹⁰Schutte, 1999.

¹¹Oufriha, 1998.

¹²Frydman, and Rapaczynski, 1993.

transparent, competent, independent and accountable and easily understood and accepted by the population in order to secure the necessary support for the success of all the reforms. The speed, the sequencing and the method of this reform are also important for the outcomes in terms of growth and development. Indeed, the very success of the stabilization and structural reforms needs a very good governance of the whole process. Needless to say that a good governance of the reforms policies needs solid and efficient institutions, as these are promoters and facilitators of economic change, growth and development as well as a must for a well-functioning market economy.

Hence, and according at least to the IMF, a transition towards a free market economy needs implementation of the four types of policies described above: macroeconomic stabilization, liberalization, privatization and institutionalization. The macroeconomic stabilization reform is the policy that the IMF insists the most on, at the start of the reform program. It is a *sine qua non* condition for the financial assistance of the IMF in particular. Let us then look at the performance of Algeria in this reform.

II. MACROECONOMIC STABILIZATION

If there is a reform that Algeria has carried out with a success, although a relative one, since 1989 when the reform program was initiated by Algeria, it is definitely the reform of economic stabilization, especially since 1994¹³, under the pressure and the control of the IMF. The results of this achievement are a positive balance of payment¹⁴ as soon as 1997, a successful fiscal adjustment, and a low and contained inflation¹⁵ for a long time. The performance of Algeria, in this area has been impressive, especially if one bears in mind the security, political and social climate prevailing at the time¹⁶. Let us then show some of the *results* of the prudent *fiscal and monetary stabilization policies* and analyze the recent developments in this area:

First, the country saw a dramatic *reduction of inflation* for a long period of time: from a peak rate of 32% in 1992¹⁷ to a low rate of 0.3% in 2000. However, the control of inflation has begun to falter. Inflation has indeed been picking up again, from the low rate of 0.3% in 2000 to a rate of 4.5% in 2001 and an average

¹³ Oufriha, 1999. pp. 177-194.

¹⁴ Nashshibi, et al, 1998.

¹⁵ Berkane, 2002.

¹⁶ Akacem, 2009.

¹⁷ Nashshibi, 1998, Op. Cit. See also Oufriha, Op. Cit., pp. 177-194 and Abdoun, 1999. Pp. 27-42.

of 5% during the past recent years, with a rate of 5.7% in 2009¹⁸, hence slowly but relentlessly returning to the rates that the country experienced before the nineties, when the macroeconomic management was particularly lax. Indeed the prices of consumer goods experience almost continuous outbreaks since 2006, the starting year of the acceleration. As of Mai 2012, and on a yearly basis, the inflation rate was 9.3%¹⁹. This inexorable upward trend of the inflation is very disquieting especially since the government seems powerless to control it. Another cause for concern is that the country risks very well ending up with double-digit rates, from September on.

Second, the *fiscal discipline* imposed by the IMF has paid off too. Supported by a strict *income policy*, in particular through a very strict control of wages in the public sector and elsewhere (at least in first years of the reform), the *fiscal adjustment* has been achieved through targeted transfers to the needy (*targeted income support*) and only to the needy (a social safety net), replacing henceforth the former generalized and wasteful system of subsidies to several products such as food, utilities, housing, transports, education, health... The result is an overall fiscal balance of the central government that improved from a deficit of 13.3% of GDP in 1988, to surpluses of, for instance, 2.4% in 1997 and 9.9% in 2000. A tax reform (that put in place broad tax bases and low tax rates), intended to reduce the numerous distortions that taxes introduce in the functioning of markets, accompanied the *fiscal discipline* policy and was intended, besides providing favorable conditions for a tight monetary policy, to decrease the budget's vulnerability to potential oil price declines as well as making more resources available for the government budget.

However, and here again, the fiscal discipline has been subsiding, as illustrated: in one hand, by the huge cost of the celebration of various cultural events: "Algeria Capital of the Arab culture, Tlemcen Capital of the Islamic culture, le Panaf of 2009 (The Festival cultural Pan African) and before that The year of Algeria in France"²⁰; in the other hand, by the too big increases in wages all over the country, in some cases the salary increases exceeded 100% which caused a too big shock to the economy, (after the so-called Arab Spring that caused deep political changes in the MENA region) as well the pervasive return of prices subsidies in a desperate attempt to buy-off social and political stability; and finally, by the increasing aggregate domestic demand driven by the government implementation, since 2001, of three economic recovery plans (the third one is still going on, supposedly until 2014); the three economic stimulus packages have been focusing on major infrastructure projects with massive appeal to foreign

¹⁸IMF, 2012.P. 15.

¹⁹Elwatan, 05/07/2012, p.8, (Algerian daily newspaper).

²⁰Elwatan, 27/05/2012 (last page in comment of Hassan Moali).

companies and foreign labor. A much more serious challenge for the Algeria government is that for the ongoing expenses to be sustainable a world-oil-price of at least \$140 a barrel, is needed according to some Algerian economists who also expect that maintaining the current rate of operating expenses and social transfers will not be possible after 2015²¹. In the (near) future the government bills can be met only as long as the world-oil-prices stay well above the 100 dollars a barrel. In the meantime the inflation upward trend continues its journey and it is only the massive support of the government for some products' prices that prevents inflation to exceed the threshold of ten percent. The continuation of the administered prices policy for several products (such as bread, milk, electricity, fuel, rent and water...) temporarily holds back an inflation that becomes dangerous²². Moreover, according to the UGTA (General Union of Algerian Workers) and CNES (National Economic and Social Council) wage increases granted to civil servants were literally eaten up by the inflation. These two institutions are so alarmed over the impact of inflation on the purchasing power of citizens, that they made it clear that the wage increases awarded in order to preserve the social and political stability are now void²³, and should expect more salary increases demand in the very near future and hence more budgetary problems. "The Finance Minister did talk earlier this year about his objective of keeping inflation within an "acceptable", threshold level not exceeding 4%"²⁴. This goal is now out of reach, whatever the measures taken. Because inflation is now out of control. The government does not have the necessary leverage to take control of it. The finance minister has certainly raised the need to master the government spending, but his concern was prompted by the fear that the state revenues dry up due to falling oil prices, not by a desire to master inflation²⁵. Moreover, higher inflation may further aggravate the structural problems of the Algerian economy, marked notably by a nearly exclusive reliance on hydrocarbons, which provided 97.42%% of export revenue during the first half in 2012. But in spite of the gloomy outlook the government fiscal laxity is unfortunately encouraged by the good result in the trade balance, which recorded a surplus of 15.78 billion dollars in the first half of this year, higher than expected despite falling oil prices²⁶.

Third, before being positive, the economic growth rates of the country have been negative on average during a long period 1990-1994. However, the real growth

²¹Elwatan, 16/07/2012, page 3.

²²Le Quotidiend'Oran, 2012. (Algerian daily newspaper), July 24. www.lequotidien-oran.com

²³Ibid., 06/08/2012.

²⁴Ibid., 24/07/2012.

²⁵Ibid., 24/07/2012.

²⁶Ibid., 24/07/2012.

rate became positive as soon as 1995. It even reached a rate of 5.1 in 2005. Nevertheless, it is since then stagnating at around 2%: it reached 2% in 2006, 2.4% in 2009, and 3.3% in 2010²⁷. Hence these rates while positive are still far from the ones that were expected and hoped for, especially considering the sacrifices and the sufferings that the population had to endure.

Forth, and in addition to the disappointing growth, unemployment²⁸ remained at a very (too) high level: 28% in 1998, and 30% in 2000, for example. Moreover, we can say that the unemployment rate actually increased from an average of about 20% during the years 1987-1992, to an average of 30% after the implementation of the stabilisation reforms. Thus, insufficient economic growth and rapid population growth led to a marked worsening of unemployment. This rate began to know, however, a downward trend. It was 23.7% in 2003, 17% in 2004 and around 10% since 2009, at least according to official sources²⁹. In any case, the youth unemployment official rate is still at the very high level of 25%, despite its recent downward trend. However, this decline in unemployment is mainly due to the three economic recovery plans and to the way the rate itself is computed.

Fifth and concerning the external debt, the service ratio was reduced from 83% in 1993 to 30% of GDP in 1997 and even much lower later, 12.5% as soon as 2005, which decreased to 1.5% in 2008. Since then it is slowly growing (about 2% of GDP in 2010). Nonetheless, and in spite of all the government efforts to diversify the economy, oil revenues still cover 98% of exports incomes and about 70% of the budgetary revenues³⁰.

However, the relative success of the stabilization reform is also due, at least partly, to other factors such as a global favorable economic conjuncture, notably very good climatic conditions and favorable world-oil-prices³¹ which for instance, allowed Algeria to buy back the quasi totality of its external debts, to launch the three fiscal stimuli, but which in turn reflects the dependence of Algeria on hydrocarbon export revenues which still represent nowadays 98% of the total of foreign currency revenues.

Another very important factor in the conduct of the stabilization policies and their relative success in Algeria, is the crucial importance of the independence of the monetary authority (responsible for the conduct of monetary policy through notably the central bank) from the government (which conducts the fiscal policy

²⁷ IMF, 2012.P. 3.

²⁸ Adli, and Akacem, 2012.

²⁹ IMF, 2011b.

³⁰ IMF, 2011a.

³¹ Easterly, And Levine, 2002.

through the Ministry of Finance)³². The central bank should indeed be independent from the fiscal policy authority. Otherwise the missions of these two bodies may be, and have been, in conflict. Without a minimum of independence of the monetary authority, the conflict might as has been in Algeria, resolved in favor of the executive branch whose action is generally destabilizing, especially during election times. The Law of Money and Credit of 1990, the legislative cornerstone of the transition of the country towards a market economy, provided some independence for the Bank of Algeria (the Algerian central bank), in the conduct of monetary policy, whereby Algeria has acquired what might be called a *monetary credibility* for more than a decade. Unfortunately, on April 20, 2001, this law was modified, following a dispute between the Minister of Finance and the Governor of the Bank of Algeria on the level of interest rates most appropriate to the economic situation of the time: the paradox is that in this case a *law* was amended by an *ordinance*! This ordinance itself has been modified a couple of time since then (2003 et 2010)³³, reducing even more the independence of the monetary authority. A practical result is that the central bank is no more independent from the government, which is now, in an indirect way, the institution that makes decisions about the monetary policy to be implemented, (in addition to the fiscal policy). A direct and negative consequence is a loss in the Algerian institutions credibility, following the legal instability and uncertainty that these modifications created, which resulted not only on a loss of more than a decade of *monetary credibility*, but the credibility of the whole country decreased. Indeed almost all around the world, the monetary policy³⁴ is conducted more or less independently by the central bank, while the government is responsible for the fiscal policy. This is mainly to avoid political interferences (and the resulting political *business* cycles: elections, budget deficits...) with the management of the monetary policy and ensure that the latter is more efficient, especially in fighting inflation.

Consequently, since the 2001 ordinance, the governor and vice governors of the Algerian Central Bank, are not anymore appointed as before, for a fixed term, but for an undetermined period of time, which means that they may be fired at any time by the government. In addition, three members, supposedly independent, are added to the Council of Money and Credit (CMC, the monetary authority), but still appointed by the Minister of Finance, also for an unspecified period. In short, and for all practical purposes, monetary policy is now conducted (even though

³²Bofings, 1990.

³³See www.bank-of-algeria.dz and www.joradp.dz/JO2000/2010/050/FP10.pdf

³⁴Bofings, Op. cit.

indirectly through the CMC) by the Ministry of Finance, since any member of the CMC that appear to have a different opinion from that of the ministry, could immediately and legally be fired and replaced by another one more accommodating. This is sad, harmful and not serious at all.

The reason for this change in the above law is that while Algeria was at the time (2001), somewhat and financially much more comfortable than when the IMF came to the country, and while the levels of unemployment and of poverty were still very high, the governor of the central bank, '*more monarchist than the monarch*', wanted to stick to the recommendation of the IMF, and not decrease the interest rate to boost economic growth and hence employment, alleviating somewhat the level of poverty. The motive of the governor is that he has to insure price stability. However the rate of inflation was not high enough (0.3% in 2001) to be of concern, and the minister of finance tried to persuade him, rightly, that given the economic situation, it was very important to care more about growth and employment and the reduction of poverty than inflation, especially since the latter was still under control. Faced with the refusal and stubbornness of the governor, the minister sacked the latter and modified the law. Even though the minister was rightly concerned about the economic activity and the social stability, the conflict could have, and should have, been resolved in another manner, through a public debate in the parliament, for instance. This way, would have not only maintained the credibility of the monetary authority but also that of the whole country and its institutions, especially the government, as to the seriousness with which, reforms were being conducted, and the credibility in general especially vis-à-vis potential investors, who need a minimum of legal stability and certainty. Indeed how can any investor trust and invest in a country where laws, regulations... can be changed suddenly, overnight, without any warning and frequently? Such practices can only lead to a large degree of uncertainty and risk for any investor, national or foreign³⁵. One solution to the above problem would be to appoint the governor, vice governors and independent members, for a fixed period of time for their respective missions, with the provision that no one of them can be fired before the end of his mandate without the approval of the parliament. This way, everyone would work in peace of mind; the independence of the monetary authority would be preserved (which would give more credibility to the monetary policy). In case of conflict, the decision by the parliament will insure that the verdict is a collective one. But more important is *the public debate* that this procedure will allow. The (public) debate allows each party to have the opportunity to defend its position in the Parliament, and especially make the matter public, leading to a more transparent monetary policy,

³⁵For example, the foreign partners of Sonatrach, the Algerian national oil company, have regularly complained about the legal and fiscal instability, which makes it very difficult for them to anticipate the long-term profitability of their investments in Algeria.

as well as preventing individual, untimely, unrestricted, and authoritarian dismissal decisions (whether due to differences of vision or to a conflict of personalities) by members of the government.

However, more than two decades after the start of the reform program, and in spite of all these important gains, the expected increase in economic growth did not materialize and the transition toward a market-based economy is far from being completed. Other structural reforms, the hard core of the reform program, namely reforms of the institutions, the banking and the SOEs sectors have yet to gain momentum. Instead, the country is witnessing a worsening of poverty and unemployment (especially the youth unemployment). The growth rate was 2.4% in 2009³⁶ and 3.3% of GDP in 2010 (rates well below potential), while a rate of at least 7% over a period of several years, is needed to reasonably and sustainably reduce unemployment level below the official rate of 10 % of the labor force. More serious, is the fact that the authorities are failing to persevere with the reform program at a moment where they might also lose macroeconomic control. Indeed, and as stated above, after being subdued to almost a zero-rate (0.3 % in 2000), inflation is gaining momentum again. This situation is being aggravated by the expansionary fiscal policy pursued presently and the loosening of the monetary policy (the central bank decreased its interest rate to 4% in 2010³⁷, down from 7.5% before October 2000), knowing that a durably, sound and stable supporting macroeconomic environment is essential to the success of the transitional reforms.

Moreover, macroeconomic stability alone does not matter that much. Economic stability should not be an end in itself even though one of its goals is to stabilize the consumers' purchasing power. What matters is what the government does with it. Indeed, and since one of the main objectives of the stabilization program is to provide a stable and favorable economic environment for the success of the other reforms and hence achieve reasonable growth rates, *macroeconomic stability* should not be an end in itself but rather an *instrument of growth*. Hence, to hope to achieve satisfactory growth rates, it is essential to implement, at the same time, all the reforms recommended/imposed by the IMF, *after of course having adapted them to the Algerian economic and social context*. However, if economic stability is a necessary condition for economic growth, it is certainly not a sufficient condition. For some authors, the reforms prescribed by the IMF including the stabilization reform, are not even necessary. To support their view they cite the experience of some Asian countries like Taiwan and South Korea, which experienced very high growth rates, while having an opposite path to what usually the IMF requires³⁸.

³⁶Le Quotidien d'Oran, 2010, 20 oct., <http://lequotidien-oran.com>.

³⁷IMF, 2012. P. 30.

³⁸ Stiglitz, 2002, pp. 89-133.

Finally and on another hand, if macroeconomic stabilization can have a positive impact on economic growth, particularly by creating the necessary and favorable environment for the economic activity in general and the domestic and foreign investment in particular, the very relative economic growth which Algeria is once again realizing, especially since 2003, is far from being due to the economic reforms, at least not solely to these reforms. Other factors have, as we have indicated above, contributed to this growth. These factors include first an exceptional rainfall that Algeria has had in recent years with a very positive impact on agriculture and food industry (and hence on food prices and inflation). In addition, global economic conditions were very favorable to Algeria through, particularly, high oil prices that have enabled Algeria to experience unprecedented financial affluence³⁹, and have a solid fiscal stand. This enabled the launch of three economic stimulus packages of a few hundred billion dollars, from 2001 on. The positive effects of the first two plans have already been felt mainly through higher rates of GDP growth, which even if they are still insufficient to reduce unemployment, the fact remains that they have contributed to the very large increase in the number of jobs created during the period (as already stated the unemployment rate decreased, officially, from 30 to around 10% in 2011). Thus the relative economic growth experienced by the Algerian economy at present, even though at low levels, is not in our view a sustainable growth (at least if it is not supported by the continuation and deepening of a coherent and well-conceived reform program), because this growth is supported mainly by an increasing aggregate domestic demand, especially since the launch of the three stimulus plans. Indeed and as it is well known, the multiplier in an open economy, like Algeria, of the extra expenditures due to the economic recovery plans, can have a significant, long-lasting and positive effect on GDP and therefore employment, poverty and living standards, only if the additional domestic demand is satisfied, at least in a large part, by the domestic productive industries, that is to say, by a domestic 'supply response' consistent and fast enough. In other words, unless domestic firms are able to absorb the additional government expenditures induced by the economic stimulus packages, the multiplier effect will play more for the foreign suppliers than for Algeria itself. Therefore, the massive stimulus package may be more beneficial for foreign economies than for the Algerian economy, which was unfortunately the case for our country, because not only imports have increased dramatically since the first stimulus package, but and moreover, almost all big public projects have been granted to non-residents and foreign companies which tend to import all their inputs, including unskilled work force. Indeed and for example, 60% of the housing projects that were to be built under the first recovery plan were built by Chinese companies which import almost all their

³⁹which may once again relax the pressure to proceed convincingly with the necessary reforms.

labor needs. Hence the relative growth that has been experienced by Algeria, cannot be a sustainable growth since it is not led by domestic enterprises, but by imports from other, supplying countries, as long as oil revenues permit that. In fact, economic growth in Algeria that was already low is moving towards a very modest if not a weak level. In other words, to succeed to have satisfactory and more importantly, long-lasting growth, the government must act not only on the demand but also and especially on the supply side of the national economy, by encouraging and promoting *domestic* (national as well as foreign) firms, and possibly through the creation of national champions, as it is done today by almost all countries, including and especially the developed countries (France, Germany, Italy...) thanks to the **help** that their respective government provide them, even as the IMF and its ideologues advocate/require a much smaller role of the government in the economic activity.

Finally and to complete the stabilization reform, Algeria has also carried out a *new policy for the exchange rate*. The international financial institutions recommend in general, the adoption of a single and competitive exchange rate. Following the recommendations/requirements of the IMF, Algeria has adopted an intermediate exchange rate regime: *a single and managed float exchange rate*. It is not a fixed rate regime that the central bank must support by tapping into its stock of foreign exchange (which would be a very dangerous option, because the country risks to exhaust its stock of foreign currency only to support its national currency, which was the case, for example, in Russia after the financial crisis of 2008) or a floating exchange rate regime (with or without support) where the rate is determined solely by the foreign exchange market and subject to volatility. It is flexible but at the same time administered, that is, its flexibility is managed by the central bank and not determined by the market. However the management and the determination of the rate are totally opaque and discretionary.

CONCLUSION

Algeria remains financially in a relatively solid position but still faces important challenges in its expedition towards a free market economic system. The main one remains to achieve a sustainable and strong growth to improve the standards of living of the population by reducing, the still very high unemployment (especially among the youth⁴⁰), and the level of poverty. For that to happen the country should, first wean its economy from its dependency on hydrocarbon revenues and their fluctuating prices, and second embark seriously, albeit *patriotically*, on all the

⁴⁰IMF, 2011a.

necessary institutional and structural reforms. In many countries (such as Algeria) the reforms recommended/required by the international institutions (IMF, World Bank, WTO...) had a positive impact on the macro stability of the economic environment, and in some cases, even on economic growth. However in the case of Algeria the limits of the orthodoxy of the Washington consensus quickly emerged, as the satisfactory and sustainable economic growth, that was the main goal of the Consensus, and that was expected and hoped for by the country, did not materialize. Instead, Algeria experiences increased poverty and still suffers from a large unemployment rate, especially among young people. The latter was 21% in 2009⁴¹, still above the 20% nowadays, and hence remains very high even though it decreased from a much higher rate which exceeded 50% a decade ago. Nonetheless, one has to admit that in a few years after the start of the transition process in 1989, and especially after the revival of the reform program, as required by the IMF in 1994, the country has had some remarkable results, *at least in the early stages of the process*, especially for macroeconomic stabilization. However, after more than two decades and more than a dozen first ministers, since the start of the process, the transition to a market economy is far from complete and remains to be perfected⁴². Important reforms that constitute the core of the program, including the restructuring and the modernization of the banking and public enterprises sectors as well as the necessary institutional reforms are, still, if ever, in the conception stage. It is not known and it has not yet been decided what and how to go about it. There has been no firm, clear and final decision yet, nor a serious national debate on this subject. None of the successive governments since the beginning of the transition program (except, relatively for the Government of Mr. Mouloud Hamrouche in the very early nineties), has had a coherent and clear program of reforms, or adopted a clear timetable for the transition, or strengthened it with a clear and unambiguous legislation.

Even more serious is the fact that the authorities fail to persevere in the implementation of transition reforms at a time when they are starting to lose the benefits of macroeconomic stabilization in the economic environment and of the control of inflation, especially.

This is compounded by the expansionary fiscal policy of the three fiscal stimulus packages aimed at reducing unemployment and poverty and the huge increase in salaries after the beginning of the so-called Arab Spring. However, given among other things, the increased inflationary pressures that this will lead to, for the Algerian economy to recover without undoing all the positive aspects of more

⁴¹ IMF, 2011a.

⁴² Benachenhou, 1999. Pp. 67-88.

than two decades of economic reform (notably the early improvement and stabilization of the economic environment), will be hard. In any event, theory and statistical evidence show that this type of management of aggregate demand cannot have a significant and lasting impact on the economy and hence on employment and poverty, given the limited effect (very limited actually in the case of Algeria) of *the multiplier* in an open economy such as Algeria, with a very low aggregate *domestic supply* because of the fact that the domestic private sector is geared more toward trade activities than industrial activities, and hence the very limited capacity of the national apparatus of production to meet increasing aggregate demand, caused by the additional and exceptional injections of financial resources following the implementation of the recovery plans and which has led to an important increase in imports reaching in 2010 around 50 billion dollars, that is a little less than the amount of foreign currency receipts from the yearly oil export.

Nevertheless, and even if the reforms prescribed by the IMF are only necessary conditions and not at all sufficient to achieve satisfactory growth rates, the country having opted for a market economy and having begun the implementation of these reforms, cannot stop half way and has every interest in continuing to deepen and complete these reforms, but in a spirit of economic patriotism. Unfortunately and up to now, these reforms have been conducted with much hesitation, in a discontinuous manner and without any coherence. In the same vein, all the recommendations of the IMF and other think tank⁴³, supposedly independent, must of course, be taken seriously but also carefully analyzed before applying them, with intelligence and caution, in a spirit of economic patriotism, taking into account the economic, social, political and historical context of the country, and the experiences of other countries in the field, in order to avoid failures and the financial, social, political ... crises suffered by some of the 'good students' of the IMF (as for example, Asian countries in 1979, Argentina in 1999-2002...). In this context, we will never caution enough officials against any excessive deregulation of any market, or the implementation to the letter and uncritically of the measures and policies recommended by the international financial institutions (IMF, World Bank ...). Any reform that is implemented according to the policies concocted by the market fundamentalists (advocating a total deregulation of markets and therefore to trust employers to self-regulate and self-discipline against any abuse!), can have disastrous economic, social, and political consequences.

Of course, for all these reforms to achieve their goals, at a time when the Algerian society doesn't seem to be ready to accept anymore the hardship of the

⁴³Blanchard, et al., Op. cit.

consequences of the reforms already realized, when the government has still not adopted a clear time-table for the reforms and hasn't supported its reform efforts by clear legislations, when not only support for the transitional process has been eroded by the failure of the reforms to generate visible improvement in economic conditions, in employment and purchasing power in particular, and finally when in addition the reforms continue to face strong opposition⁴⁴ from various interest groups which will do anything needed to defend the status quo and preserve their threatened privileges and interests, will require a very significant *popular support*. Still, opposition to the remaining reforms can be overcome and support for the reforms can be gained, if the reforms are undertaken in the interests of all citizens and with great transparency, if the positive and/or negative impacts of these reforms are distributed fairly through all social strata of the population, if the State commits itself seriously and unequivocally in a fight against the endemic corruption, if finally a real reform of the legal system is undertaken with more independence, more competence, more transparency, more honesty and efficiency, and particularly more... *justice*, and finally if in addition, the State undertake political reforms necessary for a true democratic opening leading to a genuine rule of law. Otherwise the probability of an occurrence of an Algerian Spring will be far from negligible.

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⁴⁴ Werenfels, 2002. Pp. 1-28.

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