

The Parallel Economy Dilemma in Algeria: An Examination of Causes, Effects, and Solutions

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Received: 31/10/2024

Accepted: 06/12/2024

Abstract:

Many countries around the world, particularly developing nations experiencing economic, social, and political challenges, face a shift of some of their economic activities towards the informal economy. This study aims to highlight the causes and effects of the informal economy in Algeria on the formal economy, as well as methods to combat it. The study adopted a descriptive and analytical approach to achieve the objective and address the posed problem.

The study concluded that the informal economy deepens the fragility of the local labor market and results in significant tax revenue losses for the state. It also found that the size of the informal economy in Algeria has progressively increased, reaching high levels, accounting for half of the gross domestic product. This necessitates that the Algerian state takes effective measures to mitigate this phenomenon and integrate it into the formal economy.

Key Words: *Informal Economy, Economic Causes, Economic Effects, Gross Domestic Product, Combating Methods.*

JEL Classification: *E26 ,O17.*

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1. Introduction

When hearing the term "parallel economy," one might immediately think of illegal activities such as drug trafficking, human organ trade, or currency trading. This perception, however, is incomplete. The parallel economy encompasses a wide range of commercial and economic activities that occur outside official records or "under the table," bypassing laws and taxes.

Certainly, some of these activities include illegal matters such as drug trafficking, prostitution, and money laundering, but the majority of parallel economy activities are legal. The informal economy is known by various names, including the shadow economy, unregulated economy, underground economy, or the black market.

Economists estimate the size of the parallel economy globally to be in the trillions of dollars. In developed countries, this economy represents around 10% to 20% of the gross domestic product (GDP), and it employs about 61% of the global workforce, or nearly two billion people. In the United States, its size has ranged between 1 to 2 trillion dollars annually over the past decade.

In developing countries, the parallel economy accounts for more than a third to half of the national gross product (GNP), according to estimates by the World Bank. The International Labour Organization reports that this economy employs about half of the workforce, or more than three-quarters of it—excluding the agricultural sector—in developing countries.

In Algeria, the size of the hidden economy was approximately 28.1% of the GDP in 2011, while the unemployment rate stood at 11.2% in 2015.

Based on the above, this study attempts to answer the following research problem:

Research Problem: What are the causes and factors that have amplified the impact of the parallel economy on the formal economy in Algeria, and what are the effective methods to combat it?

Sub-Questions: To address the research problem, we have formulated the following sub-questions:

- What are the phenomena surrounding the parallel economy in Algeria?
- What is the size of the parallel economy in Algeria?
- What are the effects of the parallel economy on the formal economy in Algeria?

Significance of the Study: The significance of this study lies in the importance of addressing the parallel economy in Algeria, given its considerable impact on the national economy. The parallel economy weakens the formal economic structure by reducing tax revenues and increasing tax evasion. It also negatively affects labor policies and unemployment, while exacerbating the social class divide. Understanding the size and dimensions of the parallel economy can help policymakers develop effective strategies to mitigate its negative effects on Algeria's economic and social development.

Objectives of the Study: This study aims to provide an analysis and diagnosis of the state of the parallel economy in Algeria, by highlighting the following points:

- Exploring the main reasons for the increase in the size of the parallel economy in Algeria;
- Identifying the size of the parallel economy in Algeria;

Highlighting the effects of the parallel economy on the formal economy;

- Discussing methods to combat the parallel economy in Algeria.

Methodology: This research adopts a descriptive and analytical methodology aimed at identifying the phenomenon, positioning it correctly, and analyzing the most relevant indicators.

Research Structure: This study will be divided into the following sections:

- The concept of the parallel economy;
- The phenomena surrounding the parallel economy in Algeria;
- The size of the parallel economy in Algeria;
- The effects of the parallel economy on the formal economy;
- Methods to combat the parallel economy in Algeria.

2. The concept of the Parallel Economy

2.1 Definition of the Parallel Economy

There are several synonyms for the term "parallel economy," including the shadow economy, black economy, and informal economy. All of these refer to a concept that describes activities not included in the national accounts. These activities occur outside official economic channels and beyond the state's regulation and oversight. Such activities may be either legal or illegal (Schneider, 1986, p. 645).

The National Economic and Social Council defines it as "the hidden economy characterized by legal activities, but part or all of the production is concealed for various reasons, such as tax evasion, fiscal and para-fiscal fraud related to social contributions, non-declaration of labor, violations of labor legislation standards, and avoidance of statistical registration" (National Economic and Social Council, 2004, p. 21).

The International Monetary Fund (IMF) defines the parallel economy as the exchange of goods and services that are not recorded in official accounts. These informal products often evade taxes and usually operate in black markets.

2.2 Characteristics of the Parallel Economy

The parallel economy has several key characteristics (Boughazala, 2023, p. 325):

- It encompasses all informal economic activities, such as trade, employment, and other activities conducted outside the formal framework.
- It affects all segments of society, regardless of their cultural or social backgrounds.
- It is a common problem faced by most countries, whether developing or developed.
- It lacks legitimacy, as it is not officially recognized by the state.
- It operates in secrecy, avoiding legal and official methods in its dealings.
- It does not provide resources to the state, as it generates no financial revenues for the treasury.
- It weakens government oversight, contributing to the emergence of parallel markets used for money laundering and wealth accumulation.

2.3 Causes of the Emergence and Growth of the Parallel Economy

Several reasons contribute to the rise and expansion of the parallel economy, varying from one country to another. The most important causes include: (Zaalani, 2011, pp. 198- 200)

2.3.1 High Tax Rates: The higher and more numerous the taxes imposed on economic activities in the formal economy, the greater the incentive for individuals and businesses to shift to the parallel economy to avoid these tax burdens.

2.3.2 Excessive Government Intervention in Economic Activity: Direct and increasing

government intervention in economic activities expands the parallel economy, as individuals and companies seek to avoid governmental restrictions and regulations.

2.3.3 Imbalance in Local Production Structure and Supply Shortages: Developing countries often suffer from structural imbalances in their economies, leading to shortages in the supply of consumer goods. To meet domestic demand, imports are often resorted to, which leads to inflation and a decline in the purchasing power of the national currency. As a result, some turn to the parallel economy to produce these goods and satisfy domestic demand.

2.3.4 State Budget Deficits: When expenditures exceed revenues, countries typically impose new taxes or resort to inflationary financing to cover the deficit. These actions increase tax burdens and inflationary pressures, pushing individuals to seek additional income through informal economic activities.

2.3.5 Growth of Small and Individual Enterprises: These enterprises contribute to the growth of the parallel economy as their transactions are often conducted in cash rather than through banks, facilitating tax evasion—one of the prominent features of the parallel economy.

2.3.6 Governmental Systems and Restrictions: Certain legislations may push individuals and economic operators to evade formal regulations and resort to informal activities. For example, limited travel allowances, such as the €100 limit in some European countries, may be insufficient to cover costs, forcing travelers to purchase hard currency from the black market at higher prices compared to banks (Ben Turki & Zammoum, 2019, p. 68)

3. Phenomena Surrounding the Parallel Economy in Algeria

Several negative phenomena significantly impact the national economy and actively contribute to the expansion of the parallel economy. These can be summarized as follows:

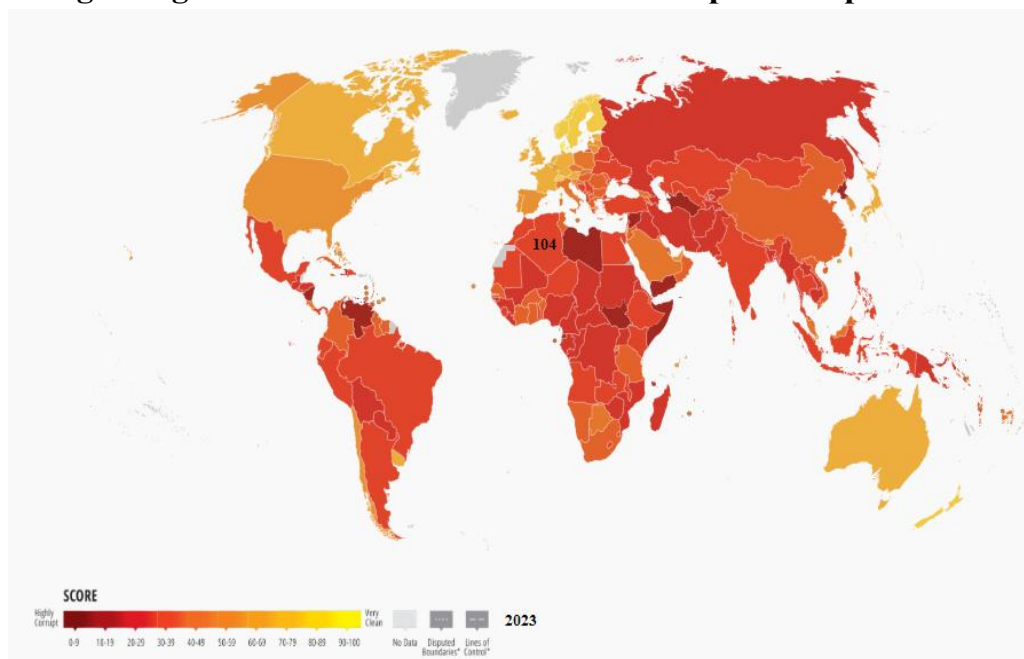
3.1 Corruption: According to Transparency International, corruption is defined as "the abuse of public power or position for personal gain, either directly or indirectly, through favoritism" (Ben Marzouk & Abdo, 2009, p. 81).

Corruption cases uncovered in trials from December 2019 to September 2020 caused massive losses to the public treasury, estimated at around 12 trillion dinars, equivalent to 70 billion dollars. These losses involved the granting of privileges, credits, the conclusion of illegal contracts, and tax exemptions. The cases implicated various officials and business owners who squandered public funds through various means. Among the most notable cases were the car assembly scandal and the covert financing of an election campaign, which resulted in losses estimated at 13 billion dinars. Another case led to losses of 200 billion dinars, while other illegal activities resulted in losses amounting to 10 trillion dinars and 300 billion dinars in separate cases (Bachouch, 2020).

Since 2003, several major corruption scandals have emerged, starting with private bank cases that were liquidated under mysterious circumstances without any actual prosecution of the owners who fled abroad, notably the El Khalifa group. This was followed by a series of other notorious scandals, including the East-West Highway scandal and the Sonatrach affair (Boussayoud, 2003, p. 121).

Before examining Algeria's ranking in certain international indices, we begin by reviewing the global corruption map prepared by Transparency International.

Fig.1. Algeria's Position on the Global Corruption Map for 2023



Source: (Transparency International, 2023)

The global corruption map, published by Transparency International, shows that Algeria is among the countries with widespread corruption in various forms. Algeria falls within the seventh category, marked in dark red, which indicates low scores in corruption and good governance, ranging from 30 to 39 out of 100 points.

As for the 'Corruption Perceptions Index' (CPI), it ranks 180 countries and territories based on perceived levels of corruption in the public sector, according to the opinions of experts and business leaders. The scale ranges from 0 to 100 points, where zero represents the most corrupt countries and 100 represents the least corrupt. More than two-thirds of the countries scored below 50 out of 100, strongly indicating that they face significant corruption challenges. The global average is stuck at just 43, while the vast majority of countries have made no progress or have regressed over the past decade; moreover, 23 countries have fallen to their lowest scores to date this year. Algeria ranked 104th out of 180 countries in 2023.

The following table illustrates Algeria's rank and score in the Corruption Perceptions Index from 2003 to 2023:

Table 1. Algeria's rank and score in the Corruption Perceptions Index from 2003 to 2023

Year	Number of Countries	Score out of 100	Rank				
				2013	177	36	94
2003	133	26	88	2014	175	36	100
2004	146	27	97	2015	168	36	88
2005	159	28	97	2016	176	34	108
2006	163	31	84	2017	180	33	112
2007	180	30	99	2018	180	35	105
2008	180	32	92	2019	180	35	106
2009	180	28	111	2020	180	36	104
2010	178	29	110	2021	180	33	117
2011	183	29	112	2022	180	33	116
2012	176	34	105	2023	180	36	104

Source: (Transparency International, 2023)

From Table (01), it is clear that Algeria is among the group of countries lagging behind in the field of transparency and combating corruption. In 2003, Algeria received a poor score of 26, ranking 88th out of 133 countries, which was attributed to the widespread prevalence of bribery and corruption. There was a slight improvement in the corruption score between 2004 and 2006, but no significant progress was observed in subsequent years. In 2015, Algeria ranked 88th out of 168 countries, while in 2023, it ranked 104th out of 180 countries with a score of 36, the best score achieved during the period from 2013 to 2015 and in 2020. Despite this, the ranking remains "low and unsurprising," according to the Algerian Association for the Fight Against Corruption.

The association noted that Algeria's score of 36 out of 100 and its ranking of 104 are the same as those for the years 2013, 2014, and 2020. Algeria also ranked 17th in Africa and 9th in the Arab world.

Although Algeria received the same score in 2014, with a global ranking of 100, and in 2013 with a ranking of 94, the association pointed out that the ranking does not reflect an improvement in the situation. Rather, the apparent change is due to the decrease in the number of countries assessed, from 175 in 2014 to 168 in 2015, 176 in 2016, and 180 countries during the years 2017 to 2023.

In conclusion, Algeria's position in the "Corruption Perceptions Index" is poor, consistently occupying low and troubling rankings. Since the report began covering Algeria 20 years ago, the country has shown no significant progress. This stagnation is attributed to the ineffectiveness of government policies, despite Algeria's ratification of anti-corruption agreements and the enactment of laws, all in the absence of political will.

3.2 Brand Counterfeiting: The Comité National Anti Contrefaçon defines brand counterfeiting as a "deliberate and intentional attempt to deceive consumers by imitating and selling goods bearing trademarks that closely resemble the original brands but with a noticeable difference in quality, as these counterfeit goods are of lower quality compared to the original brands."

The rise in the phenomenon of counterfeiting both local and imported brands in Algeria is linked to trade liberalization and the opening of foreign trade since 1991, which led to the widespread imitation of brands across a wide range of products. The following table illustrates the types of counterfeit goods found in Algerian markets.

Table 2. Types of Counterfeit Goods in Algerian Markets During the Period 2005–2015

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sportswear	-	-	-	-	10.92	86.68	64.02	21.66	22	16	2.61
Household electrical appliances	1	28	-	0.39	0.47	9.54	-	7.59	1.04	5	0.3
Spare parts	28	28	12.25	10.24	0.12	2.37	-	1.15	-	6	0.19
Hardware	-	4	3.77	-	4.03	0.32	2.34	1.16	-	-	-
Cosmetics	1	18.5	30.86	81.85	29.74	-	30.74	59.01	70.93	60	29.40
Electrical tools	2	19	13.45	1.95	2.09	1.9	2.09	8.59	6.72	3.3	2
Cigarettes	66	-	30.68	-	40.75	-	-	0.84	-	-	-
Food products	2	2.5	8.99	5.57	0.59	-	-	-	-	11	64.41

Source: (Kara, 2017, p. 15)

The data in Table (02) shows that the phenomenon of counterfeiting has affected various economic sectors to varying degrees during the period from 2005 to 2015. Among the sectors most significantly impacted by counterfeiting are the following:

Cosmetics: Counterfeiting in this sector maintained high levels from 2007 to 2012, reaching 70.93%. Laboratory reports revealed that these products contained dangerous substances such as lead, chalk, and other toxic materials. Some of the most commonly counterfeited global brands found in Algerian markets include Christine, Venice, and L'Oréal.

Tobacco: The counterfeiting of cigarettes peaked in 2005, with 66% of products being fake.

Food products: Counterfeiting in this sector reached 64.41% in 2015. Among the most commonly counterfeited food items were Khayma tea, Cap tomato paste, and Elio cooking oil. It is noteworthy that most of these counterfeit products are imported from abroad.

Regarding statistics, the General Manager of the World Trade Center in Algeria noted that in 2017, more than 700,000 counterfeit products were recorded, primarily in the field of sports equipment (which accounted for 40%), in addition to food products, cosmetics, and mobile phone chargers. He added that China is the primary source of these counterfeit products, followed by other countries such as Bangladesh, India, Turkey, and Malaysia. (Algerian Press Service, 2019).

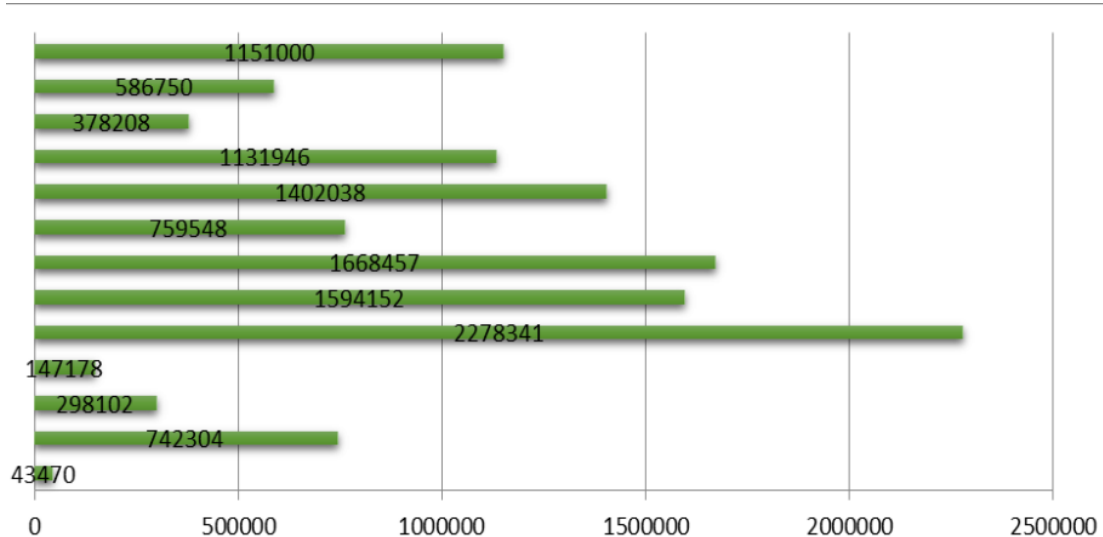
In 2018, Algerian customs authorities seized 455,516 counterfeit products. Of these, the largest portion—323,432 products, or more than 71% of the total counterfeit items smuggled illegally into the country that year—originated from China.

According to estimates from the European Union Intellectual Property Office, counterfeiting causes annual losses of 60 billion euros across several key sectors of the European economy. An investigation revealed that direct annual losses resulting from piracy and counterfeiting reach 7.4% of sales in these sectors. Counterfeiting also negatively impacts

the labor market by reducing productivity in legitimate companies, which suffer from declining market share due to counterfeit products, leading to job cuts. The study estimated that approximately 468,000 jobs have been lost across the European Union due to this phenomenon. (Algerian Press Service, 2019)

Through rigorous monitoring at various ports, customs authorities were able to seize a significant amount of counterfeit goods, as illustrated in the following figure:

Fig.2. Quantity of Counterfeit Goods Seized by Customs Authorities from 2003 to 2015 (Unit: Thousands)



Source: (Sous-direction de la lutte contre la contrefaçon, 2015, p. 02)

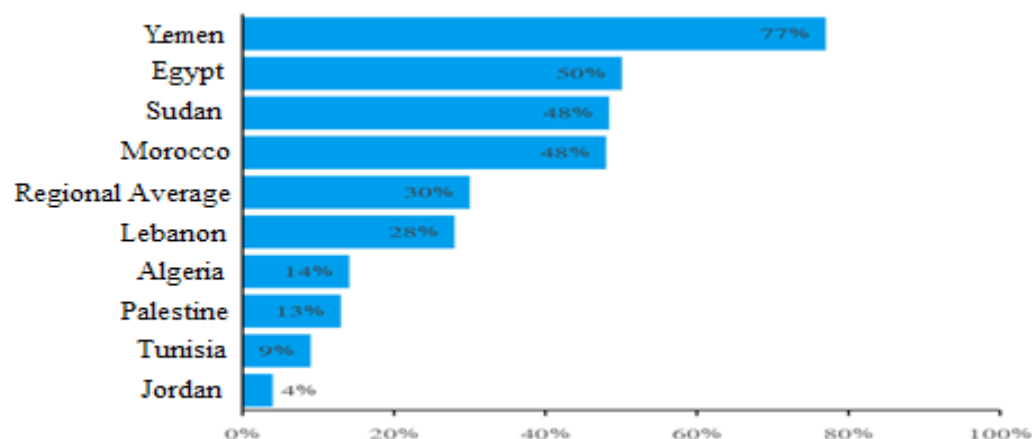
According to Figure (02), the highest amount of seized counterfeit goods was recorded in 2007, reaching 2,278,341 units. This amount then dropped to 759,548 units in 2013. However, it rose again in 2014 and 2015, reaching 1,402,038 and 1,131,946 units respectively, indicating the widespread nature of counterfeiting in Algeria.

3.3 Bribery: In a study conducted by Transparency International in 2016 on Middle Eastern and North African countries, aiming to assess the prevalence of bribery and identify the services most affected by it, a series of questions were posed to citizens to determine whether they had paid a bribe and for which of the following essential services:

- Public schools
- Public hospitals and clinics
- Personal identification documents (ID)
- Vital services
- Police
- Courts

The results showed that 30% of those who interacted with public services in the past twelve months had paid a bribe. Based on bribery rates in each country and their adult population, this percentage is estimated to represent about 50 million people.

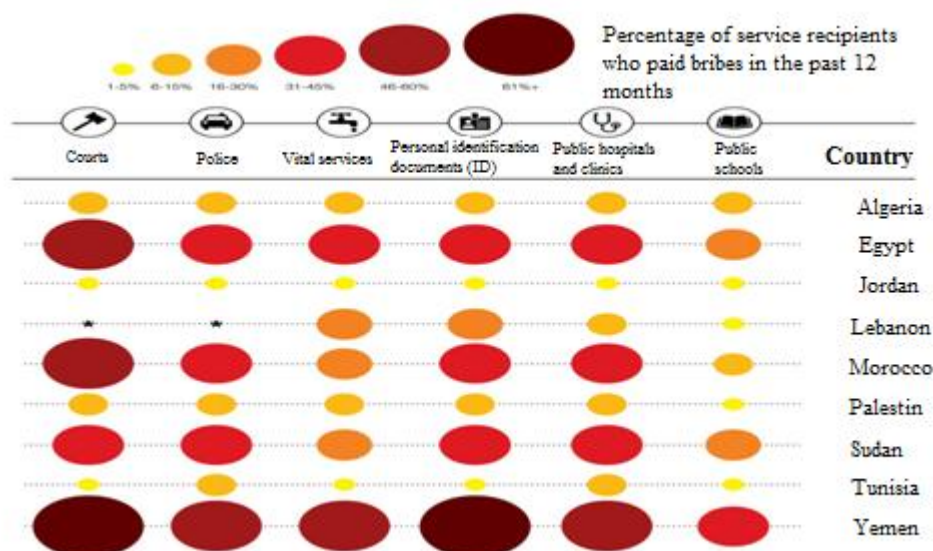
Fig.3. Number of public service users who paid a bribe in the past 12 months.



Source: (Transparency International, 2016, p. 17)

According to Figure (03), Algeria stands out as one of the countries least affected by bribery, with only one in eight people paying a bribe when using public services. The following figure illustrates the types of services for which individuals pay bribes.

Fig.4. Services for which people pay bribes



Source: (Transparency International, 2016, p. 21)

Figure (04) illustrates the bribery rates according to each service in the nine mentioned countries. The larger the circle, the higher the rate of bribes paid for that service, which helps in identifying the services suffering from the highest bribery rates. The results indicate that six services in Palestine, Jordan, Algeria, and Tunisia exhibit relatively lower levels of corruption compared to other countries in the region.

4. The Size of the Parallel Economy in Algeria

Several economic, social, and political factors have contributed to the growth of the parallel economy, making it a preferred avenue for many individuals. The following table illustrates the size of the parallel economy in Algeria.

Table 3. The Size of the Parallel Economy Income in Algeria during the period 2000-2018 (unit: billion DZD)

Years	Gross Domestic Product (GDP)	Percentage of Parallel Economy to GDP	Size of the Parallel Economy
2000	4098.8	%36.7	1504.25
2001	4235.6	%34.62	1466.36
2002	4455.3	%32.88	1464.9
2003	5264.2	%32.13	1691.38
2004	6150.4	%30.59	1881.4
2005	7563.6	%31.48	2381.02
2006	8520.6	%33.76	2876.55
2007	9306.2	%33.57	3124.09
2008	10993.8	%36.89	4055.61
2009	9968	%35.21	3509.73
2010	11991.6	%37.79	4531.62
2011	14526.6	%36.42	5290.58
2012	16115.4	%31.8	5424.69
2013	16569.3	%30.24	5010.55
2014	17228.6	%43.97	7575.41
2015	16702.1	%53.13	8873.82
2016	17406.8	%51.92	9037.61
2017	18594.1	%47.73	8874.96
2018	20452.3	%47.8	9776.19

Source: (Touhami, 2019, p. 220) (Koun & Khalil, 2020, p. 495) (Hassain & Sahad, 2020, p. 430)

The data presented in Table (03) indicate that the size of the informal economy in Algeria amounted to approximately 1504.25 billion dinars in 2000, which represents 36.7% of the Gross Domestic Product (GDP). This figure then decreased to 1464.9 billion dinars in 2002, equivalent to 32.88% of GDP. By 2012, the volume had risen to 5424.69 billion dinars, accounting for 31.8% of GDP. Following that, the informal economy witnessed a slight decline in 2013, reaching 5010.55 billion dinars, or 30.24% of GDP. However, it continued to rise steadily until it reached 9776.19 billion dinars in 2018, which represents 47.8% of GDP. This table clearly illustrates that the informal economy in Algeria has been witnessing consistent and rapid growth, becoming an integral part of citizens' daily lives due to the absence of effective government measures to curb it and integrate it into the formal economy, which would, in turn, enhance national economic development.

5. The Impact of the Informal Economy on the Formal Economy

5.1 Impact on Pricing

Hidden Savings: Refers to measures taken by the private sector to accumulate a type of undeclared savings, which stimulates speculation and leads to a sharp crisis in supply and demand dynamics.

Complete Price Shifts in the Government Sector: This concerns sudden and significant changes in the prices of goods and services managed by the government.

Lack of Competition: This occurs in some semi-complete economic sectors where public institutions do not aim to generate profits, leading to monopolistic production, reduced productivity improvements, and lowered production costs. In this context, prices in the informal market are not linked to real costs but are influenced by supply and demand fluctuations, causing government prices to behave similarly to unofficial market prices and lose their economic meaning (Mefatih & Zouaoud, 2019, p. 12).

5.2 The Impact of the Informal Economy on Currency

Between 1976 and 1985, international economic and monetary relations experienced significant turmoil, which has had ongoing effects on Algeria to this day. Due to its dependency on the capitalist system, Algeria has been impacted by global monetary crises and upheavals, despite growing calls since the mid-1990s for the establishment of a new global system.

The central question is how the international monetary system affects Algeria. The problem of balance of payments deficits is exacerbated by fluctuations in exchange rates of major currencies, such as the British pound and the euro. A decrease in global demand leads to shrinking export markets, compelling Algeria to seek loans from multiple sources.

As for the depreciation of the local currency exchange rate, the exchange rate determines the proportion of local currency traded for foreign currency to finance the demand for goods and services. Algeria suffers from negative effects due to an unfavorable international environment, lacking proper adaptation mechanisms. Global demand fluctuations for raw materials contribute to a severe shortage of foreign currency from exports, leading to higher prices for imported goods and products.

5.3 The Impact of the Informal Economy on Foreign Currency

Since the late 1980s, many developing countries began liberalizing their foreign exchange systems to maintain local currency stability and control the official exchange rate. In Algeria, foreign exchange policy was not given much importance after independence due to the state's monopoly over all economic activities, leading to the emergence of a parallel exchange market between 1974 and 1987.

After the events of October 1988, significant changes occurred, including:

- Accelerating price liberalization.
- The Central Bank's intervention in determining the exchange rate through management sessions with commercial banks.
- Among the reasons for the emergence of the parallel exchange rate: a shortage of foreign currency, prompting people to buy foreign currency at a higher rate in the parallel market.

Since 1994, the parallel exchange rate began to decline gradually due to a 40% devaluation of the local currency and the facilitation of foreign currency access through commercial loans, reducing demand for foreign currency in the parallel market and allowing for the availability of some missing goods in the national market (Mefatih & Zouaoud, 2019, p. 13).

Among the primary reasons that contributed to the prosperity of the parallel exchange market in Algeria are: (Aissaoui & Hani, 2024, p. 85)

- The reduction in foreign currency travel allowances for Algerian travelers, which do not exceed 100 euros, insufficient to cover a single night's stay in some European countries.
- Increased demand for foreign currency due to rising imports of various goods.
- The subsidy policy adopted by Algeria since independence.
- Exchange rate controls imposed by the Central Bank to protect foreign currency reserves.

Table 4. The Evolution of the Official and Parallel Exchange Rates for the Euro Against the Algerian Dinar (2001-2024)

Years	Official Exchange Rate	Parallel Exchange Rate	Value Change
2001	69.20	85	15.8
2002	75.36	96	20.64
2004	89.64	120	30.36
2005	91.3	94.5	63.2
2006	91.24	100	8.76
2007	94.99	105	10.01
2008	94.86	120	25.14
2009	101.29	125	23.71
2010	99.19	127	27.81
2011	102.21	142	39.79
2012	102.16	150	47.84
2013	105.43	141	35.57
2014	106.90	150	43.1
2015	111.44	160	48.56
2016	121.17	180	58.83
2017	125.32	185	55.18
2018	137.68	190	52.32
2019	133.7	200	66.3
2020	150.53	207	56.47
2021	159.79	216	56.21
2022	150.13	218	67.87
2023	148.32	227	78.68
2024	144.92	242	97.08

Source: (Aissaoui & Hani, 2024, p. 86)

According to Table (04), the exchange rate of the Algerian dinar against the euro witnessed a continuous decline during the period from 2001 to 2024. However, a significant drop in the value of the dinar began in 2011, where the difference between the official rate and the parallel market rate reached 39.79 Algerian dinars. By 2019, the euro's exchange rate in the parallel market had reached 200 dinars, with a gap of 66.3 dinars between the official rate and the parallel market rate. The most severe increase in the euro's price occurred in 2024, with its value in the parallel market reaching 242 dinars, and the difference between the official rate and the parallel market rate amounting to 97.08 dinars. This sharp increase reflects the high demand for euros and the inability of Algerian travelers and economic operators to purchase euros from banks, forcing them to resort to the black market. Consequently, this leads to an increase in the euro's price and a depreciation of the Algerian dinar.

5.4 The Impact of the Parallel Economy on Employment: The rising unemployment rate, particularly among young people, has made the parallel economy a haven that provides job opportunities without the restrictions or conditions imposed by the formal economy, which has failed to create sufficient opportunities. Therefore, unemployment is one of the main reasons contributing to the emergence and development of the parallel economy in Algeria. The following table illustrates the evolution of the unemployment rate in Algeria.

Table 5. Evolution of the Unemployment Rate in Algeria from 2016 to 2023 (unit: %)

Year	2016	2017	2018	2019	2020	2021	2022	2023
Total Unemployment Rate (%)	10.20	12.00	12.15	12.28	14.04	13.60	12.43	11.81
Male Unemployment (% of males in the labor force)	8.20	9.90	10.00	10.10	11.80	11.30	10.20	9.60
Female Unemployment (% of females in the labor force)	18.30	20.80	21.00	21.20	23.60	22.80	21.70	20.70

Source: (The World Bank, 2023)

The table above shows that the overall unemployment rate witnessed a significant increase from 10.20% in 2016 to 14.04% in 2020, which may reflect the impact of the COVID-19 pandemic on the labor market. After that, the rate gradually declined, reaching 11.81% in 2023, indicating a steady improvement in the job market. We also observe that the male unemployment rate gradually increased from 8.20% in 2016 to 11.80% in 2020, before decreasing from 2021 onwards, reaching 9.60% in 2023.

Looking at the female unemployment rate, it was consistently and significantly higher than the male unemployment rate. The rate increased from 18.30% in 2016 to 23.60% in 2020, and then gradually declined, reaching 20.70% in 2023.

It appears that the COVID-19 pandemic had a major impact on unemployment rates, with a notable increase across all categories in 2020. Although the labor market has been recovering since 2021, with a gradual reduction in unemployment rates, there remains a significant gap between male and female unemployment rates, with female unemployment being considerably higher. This situation has greatly contributed to the expansion of informal activities, particularly among the youth, due to ineffective measures and employment support policies from the government.

6. Strategies for Combating the Informal Economy in Algeria

Combating the informal economy and integrating it into the formal economy requires significant efforts from the state. The authorities must address the informal economy in all its dimensions, identify the reasons behind its growth, and determine the individuals involved in this phenomenon. The state can adopt several steps to combat the informal economy, including (Mousoss, 2018, p. 186):

- **Creating favorable conditions for informal sector workers:** Encourage workers in the informal economy to transition to the formal economy by offering incentives such

as loans, creating dedicated commercial spaces, and providing administrative, technical, and financial assistance.

- **Facilitating licensing and reducing taxes:** Simplify the licensing process, lower taxes and fees for businesses operating in the informal economy, and reduce social security contributions by 50%, with the state covering the difference. This would encourage businesses to register their employees in the social security system.
- **Reforming the tax and customs systems:** Implement reforms aligned with global developments and develop mechanisms to monitor tax evasion and smuggling while imposing penalties on violators.
- **Raising wages and improving living standards:** Increase salaries in the formal sector to enhance workers' living standards and prevent them from resorting to the informal sector to boost their income.
- **Enacting transparent commercial laws:** Introduce transparent business laws that facilitate transactions and reduce the prevalence of the informal economy.
- **Establishing foreign exchange offices:** Manage foreign currency exchanged in the informal sector to stabilize exchange rates.
- **Encouraging investment:** Promote investment in industrial, agricultural, and tourism sectors to create new job opportunities and attract workers from the informal to the formal economy.
- **Modernizing the tax and banking systems:** Update Algeria's tax and banking systems to enhance their efficiency.

7. Conclusion:

In the early 1990s, the Algerian government recognized the need to change the previous economic system due to the economic challenges it had caused. Consequently, the government began transitioning towards a market economy, a shift driven by new economic challenges. This transition included the removal of subsidies, price liberalization, opening the doors to private investments, and the development of new mechanisms to manage the national economy. Although the market economy was new to Algeria, an informal economy had already begun to increasingly influence the national economy. Among the main reasons for the emergence of this informal economy were imbalances in supply and demand, as well as discrepancies between exports and imports. These imbalances created opportunities for unofficial profits, leading to the spontaneous rise of a parallel economy due to these gaps and challenges.

7.1 Research Findings: Based on our study, we reached several conclusions, which can be summarized as follows:

- The parallel economy is one of the main factors hindering economic growth, despite its potential to stimulate economic activity by alleviating unemployment, creating new job opportunities, and increasing individual income.
- The spread of the parallel economy in the national economy is due to several economic factors, including low individual income, high tax rates, scarcity of essential goods, and widespread corruption and bureaucracy in public institutions.

- The parallel economy exacerbates the fragility of the local labor market and results in significant tax revenue losses for the state.
- Supportive policies implemented by Algeria since independence have contributed to the increase in smuggling of subsidized goods and the growth of a parallel market for these goods.
- High unemployment rates, especially among youth, have made the parallel economy an attractive refuge that offers job opportunities without the restrictions or conditions of the formal economy, which has failed to provide sufficient employment opportunities.
- The size of the parallel economy in Algeria has seen continuous growth from year to year, reaching high levels that account for half of the GDP, prompting the state to take effective measures to address this phenomenon and integrate it into the formal economy.

7.2 Research Recommendations: Based on the study's findings, a set of recommendations has been formulated, which can be summarized as follows:

- Adopting a developmental policy based on the market economy: The state should implement developmental policies that strengthen the market economy, thus increasing demand for labor and rapidly improving productivity.
- Liberalizing foreign trade and establishing free trade zones: Foreign trade liberalization and the development of free trade zones should be prioritized as effective methods for reducing the parallel economy.
- Facilitating the opening of foreign exchange offices: Simplifying the procedures for opening foreign exchange offices could help reduce pressure on foreign currency values.
- Strengthening border controls: It is necessary to reinforce border surveillance and security to limit illegal activities.
- Enhancing efforts to combat tax evasion: Efforts by tax authorities to tackle tax evasion should be strengthened by developing more effective monitoring mechanisms.
- Introducing new commercial mechanisms: New, transparent, and competitive commercial frameworks should be applied to help reduce the parallel economy.
- Improving the business environment: The business climate should be improved by deregulating laws and increasing the economy's competitiveness.

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