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The fiscal stimulus in Algeria between 2005 and 2014: A predictable failure

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Abstract

This paper tries to show that the massive public expenditures incurred in Algeria, during successive growth programs since the early 2000s, didn't give rise to the economic growth rates that could justify such a vast amount of expenditures. This situation poses a problem of rares wasted resources and poor performances. With little effect on economic growth, increased income distributed during these programs have given rise, however, to an unprecedented increase in imports of goods and services. From a purely theoretical point of view, this situation is paradoxical but not impossible. A simple IS-LM model made it possible to predict this outcome. The structural and institutional constraints of the Algerian economy, clearly indicated the likelihood of such an outcome. From the beginning, the instigators of this economic policy should know its limits and choose another one. That is very important for a country like Algeria whose economy is weak and dependent. Ultimately, it is the strategy of insertion of the Algerian economy into the global economy that, finally, will determine the outcome of any growth policy.

1. Introduction

The March 17, 2019 edition of the Bloomberg agency said that Algeria is becoming the sixth member of the "shaky five" of OPEC[1]. The article refers to the political crisis that has shaken the country since February, following the outgoing president's desire to run for what would have been a life-time presidency. This crisis is likely to aggravate the decline in oil production (a drop of 400,000 barrels/day since 2014). This political crisis occurs in a very gloomy economic context, due to a drop in Algerian financial revenues, following a sharp fall in oil prices.

In fact, the causes of this spring 2019 citizen uprising are not only political. The economic factors played a key role in this major event. The economic crisis that hard hit the country following the brutal turnabout of the international oil market, since 2014, has various aspects: huge foreign trade and fiscal deficits, running the printing press and rampant inflation, economic stagnation, austerity policies and aggravation of unemployment, etc. This crisis comes after a period of splendour, from 2001 to 2014, when exceptional oil prices allowed the country to gain considerable sums of international payments. During that period, this financial windfall was used

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[1] The other five are Iran, Venezuela, Nigeria, Libya and Angola.