MONETARY AND FINANCIAL TRENDS IN THE FOURTH QUARTER OF 2013

The purpose of this note is to analyze the main financial and monetary trends in 2013 with a particular emphasis on the second half, marked by financial volatility that affected especially emerging countries.

The global economy entered in 2013 in a phase of significant change, namely a transition in which the recovery in advanced economies combined with a strengthening activity in emerging and developing economies, correlatively to the sharp increase in international trade. The recovery of advanced economies was stronger in the second half driven by the acceleration of growth of the US economy in the fourth quarter of 2013 and the exit of the Euro zone from recession during the same quarter. Favorable banking and financing conditions have contributed to the strengthening of the recovery of advanced economies in context of very low inflation.

Faced with a strong pace of growth in developed countries, the recovery was moderate in emerging and developing countries, some of them recording macro- financial imbalances and experiencing sluggish domestic demand while facing tighter global financial conditions and capital outflows related to the severity of the financial volatility in the second half of 2013. Accordingly, the currencies of several emerging countries have experienced significant pressures that led central banks to intervene in foreign exchange markets to mitigate the exchange rates adjustments, drawing on their official reserves. In addition, risks associated with a reversal of capital flows are on the rise for emerging countries in view of normalization of US monetary policy.

The national economy which is among emerging economies that are currently resilient -low external financial exposure, high level of foreign exchange reserves and flexibility of their exchange rate- is affected by other risks weighting on the short term outlook of the global economy, particularly through the price of oil.

1-EVOLUTION OF THE BALANCE OF PAYMENTS

The evolution of the current external balance in 2013 confirms the vulnerability of the balance of external payments to any under performance of oil exports, judging by the developments recorded in the second and third quarters of 2013 through persistent upward trend in imports of goods. After the major external shock of 2009 (62.3 $/barrel) followed by a strengthened viability of the balance of external payments in 2011 (112.94 $/barrel) and 2012 (111.05 $/barrel), the year 2013 recorded a small surplus of the current external balance with an average price of the barrel of crude oil at 109.55 $.

The average monthly price of oil fluctuated between 101.45 $/barrel and 115.79 $/barrel during the year 2013. After a rise in the first quarter 2013 to 112.51$ with respect to the last quarter of 2012 (110.24 $/barrel), the quarterly average price decreased in the second quarter 2013 to 104.40$ (-7.21%) resulting in a semester average price of 108.55 $/barrel. Conversely, price improvement was observed in the third and fourth quarter 2013 (110.59 and 110.63 $/barrel respectively).

Accordingly, and as a result of the sharp decline in volume of oil exported (-7.37%), hydrocarbon exports contracted in value by 10.27% in 2013 compared to 2012. Exports amounted to 63.33 billion dollars in 2013 versus 70.58 billion dollars in 2012, with exports in the second half declining from 32.3 billion dollars to 31.1 billion dollars. Quarterly profile of hydrocarbon exports indicates a contraction in the second quarter 2013 to 14.61 billion dollars versus 17.66 billion dollars in the first quarter, followed by stabilization in the third quarter at 14.60 billion dollars. Thereafter, these exports rose to 16.46 billion dollars in the fourth quarter of 2013. As regards non hydrocarbon exports, they remained stable at 1.1 billion dollars in 2013 as compared to their level of 2012 and 2011, confirming their structural weakness in a situation of upward trend in imports of goods in annual rate.

Imports of FOB goods increased by 6.9% and reached 55.13 billion dollars in 2013 versus 51.57 billion dollars in 2012. The level of imports in 2013 is unsustainable in view of the profile of imports in both volume and value.

Quarterly data indicate an upward trend in the first half of 2013 while the third quarter recording a decline in FOB imports to 12.46 billion dollars versus 15.14 billion dollars in the second quarter and 14.13 billion dollars in the first. These imports amounted then to 13.41 billion dollars in the fourth quarter of 2013 confirming the reduction in imports of goods in the second half under the effect of contraction of imports of petroleum products, foodstuff, raw materials, semi finished products and equipment goods.

The analysis of the structure of imports shows that imports of “industrial goods equipments” which rank first with a share of 27.6% recorded an increase of 18.9% compared to 2012. In addition, despite their decline in the third quarter of 2013 and stabilization in the fourth, this group contributed 68% of the overall increase of imports during the period under review. As regards the contribution of semi finished products that reached 19.2% of total imports in 2013, thus occupying the second position, their contribution to the overall increase of imports is estimated at 15.9%. Imports of semi-finished products increased by 5.7% in 2013 compared to 2012. Regarding imports of “non food consumer goods” which rank third with a share of 19.1% of total imports, their contribution to the rise in total imports is estimated at 31.7% with a growth rate of 12%. Moreover, with a share of 16.4% imports of “food-stuffs” that rank fourth increased by 6.3% and contribute 14.9% to the rise in total imports. However, imports with regards to “energy and lubricants group” which rank fifth in the structure of imports with a share of 7.4%, fell 12.1% to 4.097 billion dollars in 2013 versus 4.658 billion dollars in 2012.

With a surplus of 3.86 billion dollars in the first quarter of 2013, a performance better than that recorded in the third and fourth quarter of 2012, the trade balance posted a deficit in the second quarter of 2013 of 0.23 billion dollars mainly due to the contraction of hydrocarbon exports, while remaining in surplus in respect of the first half of 2013. Subsequently, the decrease in imports of goods in the third quarter is the source of recovery of the commercial surplus to 2.32 billion dollars in the same quarter, reflecting a positive trend supported by the stabilization of hydrocarbon exports. Trade surplus improved in the fourth quarter 2013 to 3.35 billion dollars, reaching 9.29 billion dollars for 2013 versus 3.62 billion dollars for the first half of the same year.

This reflects the vulnerability of the trade balance to the profile of hydrocarbon exports that experienced a contraction in volume, in situation of combined rise of imports of goods even if the second half 2013 recorded a decrease in the matter. This is a positive trend since the level of imports is even lower than that of the second half of 2012.

As for imports of services excluding factor income, they stabilized around 5 billion dollars for each semester of 2013 and decreased slightly compared to 2012. This positive trend contributed to the slight decrease in the deficit of services excluding factor income from 7.13 billion dollars in 2012 to 6.73 billion dollars in 2013.

Under the influence of the decrease in net transfers to 2.44 billion dollars versus 3.12 billion dollars in 2012 and a relative stabilization of the deficit of “factor income” at -4.16 billion dollars, the current account of the balance of payments ended the year 2013 with a surplus of 0.85 billion dollars after recording a deficit of 0.99 billion dollars in the first nine months of 2013. The performance in this area is even more significant since the surplus of 1.84 billion dollars more than offset the deficit of the first nine months, evaluated at -1.63 billion dollars that concerned mainly the second quarter. Overall, the current account surplus of the balance of external payments is very low compared to year 2012 and year 2011 which registered 12.30 billion dollars and 17.77 billion dollars respectively.

In view of the stabilization of oil prices and the decline in imports in the second half of 2013, the strong depletion of the excess in the external current account calls out in terms of the ability to export hydrocarbons by volume. In addition, efforts to promote non-oil exports do not seem to have fully achieved the desired results and despite measures taken in 2011 by the Council on Money and Credit and the Bank of Algeria, achievements in terms of import substitution still remain well below expectations.

Despite a relative improvement in net foreign direct investments to 1.87 billion dollars in a situation of deficit of the position of “net official capital”, the “financial operations and capital account” recorded a deficit estimated at 0.72 billion dollars in 2013.

As a result, the overall balance of external payments closed the year 2013 with a surplus of only 0.13 billion dollars or at a quasi-equilibrium, after the large surpluses recorded in 2012 and 2011 at 12.06 billion dollars and 20.14 billion dollars respectively.

In total, the outstanding foreign exchange reserves (excluding gold) is evaluated at 194.012 billion dollars at the end of December 2013 versus 190.661 billion dollars at the end of December 2012 in situation of low flow of reserves that coupled with the valuation effect. The level of reserves fell to 189.75 billion dollars at the end of June 2013 as a result of the current account deficit in the second quarter then rose to 191.866 billion dollars at the end of September 2013. Moreover, even if the increase of reserves was low compared to years 2012 and 2011, the net financial external position of Algeria remains strong, supported by historically low levels of external debt that amounted to 3.396 billion dollars at the end of December 2013 versus 3.676 billion dollars at the end of December 2012. The level of reserves thus built up exceeds the usual adequacy threshold for emerging countries and allows Algeria to cope with possible external shocks and preserve external stability.

In 2013, Bank of Algeria pursued the prudent management of official foreign exchange reserves by putting forward more rigorous monitoring and risk management through appropriate precautionary measures to preserve capital investment from any loss, while achieving an acceptable level of performance given the persistent environment of low global interest rates. At the end of December 2013, the 10 year US government bonds posted a yield of 3.03% while German government bonds of the same maturity posted a yield of 1.92%.

In addition, the prudent management by Bank of Algeria of the official foreign exchange reserves contributes to the external financial stability over the medium term in the context of flexible conduct of policy of effective exchange rate of the dinar close to its fundamental equilibrium level. To this end, the intervention of Bank of Algeria on the interbank foreign exchange market helped mitigate the impact on the national economy of volatility in international foreign exchange markets as from May 2013 that resulted in strong depreciations of currencies of several emerging countries and even posed risks to their financial stability. This led some central banks to intervene in foreign exchange markets and tighten their monetary policy.

It is in such context of volatility of exchange rates of major currencies as from May 2013 that the average rate of the Algerian dinar versus USD experienced a depreciation of 2.36%. The yearly average exchange rate of Algerian dinar versus USD stood at 79.3809 in 2013 versus 77.5519 in 2012.

On the contrary, the monthly exchange rate average of Algerian dinar versus USD recorded a depreciation of only 0.6% between December 2012 and December 2013 with rates of 78.1868 and 78.6569 respectively. The end of month exchange rate of dinar versus USD reached a peak of 81.4128 at end of September 2013 and a high of 81.9104 at end of July 2013. In terms of end of period quarterly variation, the fourth quarter of 2013 experienced an appreciation of 4% of the dinar versus USD with respect to third quarter of the same year when the end of period exchange rate went from 81.4128 at end of September to 78.1524 at end of December 2013. However, in terms of quarterly average, the appreciation of dinar versus USD was 0.34% between the third and fourth quarter of 2013, that is to say a rate of 80.3915 and 80.1209 respectively. This favorable trend is to link with the surplus of the current account in the last quarter of the year under review after the deficit recorded during the first nine months.

At the same time, the average annual exchange rate of the dinar versus the Euro depreciated by 3.21% in 2013 with respect to 2012, passing from 102.1627 in 2012 to 105.4374 in 2013 while the Euro appreciating by 3.37% versus USD (1.3281 in 2013 versus 1.2848 in 2012). The quarterly average rate in 2013 of dinar versus Euro recorded an appreciation of 2.75% in the fourth quarter of 2013 with respect to the third quarter of the same year, the exchange rate moving from 109.9155 in the third quarter to 106.8930 in the fourth quarter of 2013.

That is a low depreciation, both versus dollar and Euro, compared to those of currencies of certain emerging countries. For example, the average exchange rate of dollar in 2013 recorded an appreciation versus the Brazilian Real and the Indian Rupee of 10.44% and 9.68% respectively. As for the Euro, its annual average exchange rate for 2013 compared to 2012 appreciated by 14.23% versus the Brazilian Real, 13.47% versus Indian Rupee and 12.28% versus Russian Ruble.

In all and as a result of the depletion of the inflation differential between Algeria and its fifteen major trading partner countries (1.71% through December 2013 versus 6.23% through December 2012) and of the increase of relative prices, the real effective exchange rate of the dinar depreciated on average by 3.79% in 2013 relative to the same period of 2012. However, the effective exchange rate of the dinar remains appreciated by approximately 4% through December 2013, relative to its equilibrium level determined according to macro-economic fundamentals.

2. MONETARY DEVELOPMENTS

Money supply is estimated at 11,945.82 billion dinars at end of December 2013 versus 11,015.14 billion dinars at end of 2012 and 11,261.44 billion dinars at end of the first half 2013 or an annual growth rate of 8.45%, of which 6.08% for the second half. This confirms the decelerating rate of monetary expansion that characterized the year 2012 (10.94% versus 19.91% in 2011). The decelerating pace of monetary expansion relates also to the monetary aggregate M2 (excluding deposits of the hydrocarbon sector) whose rate fell to 10.21% in 2013 versus 16.59% in 2012. However, money supply M2 (excluding deposits of the hydrocarbon sector) grew faster and at a semester pace almost equal to money supply M2 broadly defined, confirming the diminishing role of resources of the hydrocarbon sector in the means of action of banks.

The pace of deceleration of monetary expansion in 2013 to one digit ratio combines with a significant growth of credit to the economy in the context of moderate growth in net foreign assets in the aggregate monetary situation.

The outstanding net foreign assets evaluated at 15,218.17 billion dinars at end of December 2013 versus 14,939.97 billion dinars at end of December 2012 increased slightly in 2013 by 1.86% compared to 2012 (7.31%), in connection with the evolution of the external position. This aggregate occupies a very significant place in the consolidated monetary situation even if playing a light role in the process of monetary creation. In particular, the ratio of net foreign assets over M2 reached 1.274 at end of 2013 after passing from 0.834 at end of 2004 to 1.473 at end of 2008. This confirms the importance of the position of foreign assets as collateral for bank notes and coins in the national economy.

Moreover, after several years of sustained accumulation of resources by the Treasury in the Revenue Regulation Fund, the year 2013 recorded a relative stabilization of the financial position of the State in the monetary situation, even if the second quarter recorded an improvement in this area. Deposits with CCP (postal current accounts) and the Treasury which are components of the " net claims on the State" aggregate grew by 10.1% in 2013, mainly in the first half (9.1%). Thus, the financial position of the state as a net creditor vis-à-vis the banking system remains significant, despite the increase in the "credit to the economy" aggregate in 2013 in situation of decelerating pace of monetary expansion.

However, the outstanding financial savings of Treasury, namely savings on accounts held with Bank of Algeria increased to 5,994.93 billion dinars at end of June 2013 versus 5,712.24 billion dinars at end of December 2012, dropping to 5,646.65 billion dinars at end of December 2013, in context of relative stabilization of the outstanding amount of Treasury securities issued by tender on the monetary market. This outstanding amount recording 600.85 billion dinars at end of December 2012, 592.2 billion dinars at end March 2013, 577.14 billion dinars at end of September 2013 and 590.37 billion dinars at end of December 2013.

Consequently, the strong growth rate of credits to the economy (20.21%) emerges as the main determinant of monetary expansion in 2013. This rate of growth of equal importance in semester rhythm is much higher than the rate recorded the previous year (15.1%). The dynamism of bank credit to the economy supported by facilitation and support measures taken by the government in the beginning of the year is even more significant in real terms in 2013 compared to 2012. Indeed, the year 2013 registered a record in terms of growth of credits to the economy in real terms, anchored on domestic banks and non-dependent on financial savings of the hydrocarbon sector. Thus the ratio of credit to the economy over M2 (excluding deposits of the hydrocarbon sector) rose to 45.1% at the end of December 2013 versus 41.3% at the end of December 2012 (41.9% at the end of December 2011).

This clearly indicates a significant impetus in the banking intermediation in terms of allocation of credits and resource mobilization relying less on those of the hydrocarbon sector while experiencing significant potential with regards to banking services for private companies and households.

Bank credits to the economy reached 5,154.24 billion dinars at end of December 2013 (4,742.67 billion dinars at end of June 2013 versus 4,287.64 billion dinars at end of December 2012 and 3,726.51 billion dinars at end of December 2011). In quarterly pace, the dynamism of bank credits was more sustained in the second and third quarters of 2013. At end of December 2013, credits to private companies reached 2,366.69 billion dinars (2,164.53 billion dinars at end of June 2013 versus 1,940.24 billion dinars at end of 2012), so that credits to the private sector including households (2,721.57 billion dinars) exceed outstanding credits to the public sector (2,432.32 billion dinars). Moreover, the period under review was marked by an increase in lending, both to the private sector (21.12%) and public sector (19.22%) although the latter mobilizing more long term financing.

The substantial growth of credits to the economy in 2013 was driven by the dynamism of medium and long term credits whose relative share reached 72.43% at the end of December 2013 (70.07% at the end of June 2013, versus 68.24% at end of 2012 and 63.42% at end of 2011) while that of short term credits fell to 27.57% at end of 2013 (31.76% at end of 2012). Indeed, with an outstanding amount of 3,732.98 billion dinars at end of 2013, medium and long term credits increased by 27.58% in 2013 versus 23.80% in 2012. This reflects the improvement in the structure and financing terms (extension of maturity and decrease in cost), correlatively to facilitation measures taken early 2013 that made more effective the apparatus of support implemented by the government in the framework of development of healthy credits to SME's in order to stimulate economic growth. For the record, this apparatus was introduced in the fourth quarter of 2011 and then stimulated during 2013.

Credits to households are also rising (16.03%) in the context of financial inclusion, mainly in respect of mortgages (18.74% at end of December 2013), driven by a developing housing market. In particular, the flow of mortgages rose 60.52% in 2013.

Based on the analysis of the increasing role of the credit aggregate in 2013 as one of the counterparties of money supply M2, changes in the structure of M2 provide information, particularly on the saving behavior of economic agents and its impact on means of action of banks. In situation of low growth of net foreign assets and strong contraction of deposits of the hydrocarbon sector (-20.15%), the growth rate of M2 (excluding deposits of the hydrocarbon sector) stood at 10.21% in 2013 (4.76% in the first half), versus 8.45% in respect of M2 aggregate in the broad sense.

Despite the strong contraction of deposits of the hydrocarbon sector, deposits in dinars raised by banks increased by 7.90% in 2013 (0.91%in the second half versus 6.02% in 2012). It is worth noting that the effect of the contraction in the second quarter affected mainly sight deposits of the hydrocarbon sector (-73.53% in respect of the first half) which led to a decrease of 4.88% in sight deposits collected by banks in the first half 2013. However, the latter increased by 10.85% in the second half 2013, ending the year with a growth rate of 5.44%. Indeed, after a strong contraction in the first half, deposits of the hydrocarbon sector grew by 30.57% in the second half 2013 to achieve an outstanding amount of 509.61 billion dinars at end of period.

This amount represents 79.85% of the level of end 2012 and only half (49.53%) of the outstanding amount of end of 2011, reflecting the depletion of the self-financing capacity of the hydrocarbon sector in respect of the sectorial investment program. In addition, imports of petroleum products contributed to the downside trend.

As regards sight and term deposits in dinars of public companies (excluding the hydrocarbon sector), they rose 11.07% in 2013, mainly in the second half. This contributed to the development of means of actions of banks during the period under review, while the situation of the hydrocarbon sector showed a contraction. In respect of the same period, sight and term deposits in dinars of private companies and households increased by 9.47% after the significant growth recorded in 2012 (14.7%). Breakdown of these deposits shows that sight and term deposits in dinars of private companies with banks rose by 16.54%, a rhythm well below that of growth rate of bank credits to such economic agents (21.98%) which have allocated a portion of these funds to their import transactions.

As regards sight and term deposits in dinars of households with banks which hold a relative share of 30.8%, they increased by 6.16% in 2013 versus 13.8% in 2012, in relation with the households income effect. Also, deposits with CCP and Treasury which represent most of their deposits continued to grow in 2013 (10.07%) but in situation of slow rate compared to the same period of last year (30.46%). As for deposits of foreign currencies, they rose 12.45% (7.2% in 2012) reaching 68.4% of the outstanding amount of deposits in foreign currencies mobilized by banks at the end of December 2013.

The quasi money aggregate grew at a faster pace (10.78%) than that of money supply M2 (8.45%) as a result of changes in the pace of deposits in foreign currencies and term deposits in dinars. This represents a marked deceleration in the expansion of quasi money with respect to 2012 (19.59%), as a result of the small increase in term deposits, in situation of net depletion of excess of investments over savings. Moreover, the resource base of banks is now less vulnerable to an external shock affecting the oil and gas sector.

Finally, the monetary deceleration also concerned the fiduciary circulation which increased in 2013 at the same rate (8.52%) of monetary aggregate M2 but with a more sustained growth in the second half (7.25%) with respect to the first half 2013 (1.18%). As a result, the ratio of fiduciary circulation over M2 remained stable at end of 2013 (26.8%) compared to the ratio of end of 2012, indicating stability of the demand for financial savings and cash holdings of households in situation of decreasing inflationary pressures.

Moreover, having regard to the soaring inflation recorded during the year 2012 (8.89%), the Bank of Algeria introduced as from mid-January 2013 a new instrument of monetary policy, namely the six month reverse transaction instrument with a rate of remuneration of 1.5%. In addition to the extension, as from January 2013 of the maturity of the reverse transaction instrument to absorb more stable liquidities of banks, the rate of constitution of mandatory minimum reserves was raised in May 2013 to 12%, a year after raising that same rate by 2%, from 9% to 11%. This strengthening of the instruments of monetary policy aims at consolidating the efficiency of monetary policies in ensuring the effective absorption of excess liquidity in the monetary market.

Bank liquidity that remained stable in the first quarter of 2013 contracted in the second quarter to 2,542.49 billion dinars at the end of June 2013 versus 2,865.94 billion dinars at the end of March 2013 and 2,876.26 billion dinars at the end of December 2012. Bank liquidity improved slightly during the third and fourth quarter 2013 to stand at 2,692.99 billion dinars at the end of December 2013. Indeed, the excess liquidity was absorbed in an effective manner by the instruments of reverse transactions (1,350 billion dinars) in situation of reduced reliance of banks to the overnight deposit facility (479.90 billion dinars at the end of December 2013 versus 838.08 billion dinars at the end of December 2012). Moreover, in the context of mandatory reserves, banks have increased their balances with Bank of Algeria. Furthermore, if the interbank monetary market remained virtually inactive in the first quarter of 2013 in view of the dissemination of excess liquidity, interbank loans and borrowings resumed from May 2013 with interest rates on the interbank market close to 2%.

Finally, in the context of preservation of macroeconomic stability as a primary objective, monetary policy supported by the flexible conduct of the exchange rate policy plays an active role. To this end, Bank of Algeria absorbs in an effective manner the excess liquidity and contributes to contain the inflationary phenomenon.

3. ON THE DECELERATION OF INFLATION

The inflationary phenomenon emerged with a particular acuity in 2012 after a long period of moderate inflation that followed the structural adjustment. It is a phenomenon of essentially endogenous nature and anchored on a very limited number of fresh products whose prices have increased steeply in the first quarter of 2012. Indeed, as from January 2012, the overall index of consumer prices for the Greater Algiers brought up a sharp and sudden rise (2.31%) equivalent to 5.5 times the monthly average rise of that index for the year 2011. Soaring prices of a very limited number of fresh products explain 96% of inflation on annual average of this category of products for the whole year 2012 (21.37%).Moreover, inflation in consumer prices (excluding food) was only 6.09% in 2012, a year in which the inflation rate reached a high of 8.89%.

After 19 months of uninterrupted uptrend between July 2011 and January 2013, inflation in monthly average initiated a downtrend movement in February 2013. Indeed, the inflation rate in annual average stood at 8.07% in March 2013 and 6.59% in June 2013 versus 8.89% in December 2012. The inflation continued to slow to 5.32% in September 2011 and 3.26% in December 2013, its lowest level since July 2007. This corresponds to a decrease of 5.63 percentage points compared to December 2012, which is lower than the deceleration of the inflation pace in respect of the “food and non-alcoholic beverages“ group (9.04%), whose weighting is important in the consumer price index.

In year on year average to December 2013, the rise in prices is milder (1.15%) while the average index for the year was rising by 3.26% compared to the year 2012. In addition, at end of 2013, the overall price level for the Capital City is practically unchanged at its value of January 2013, while the national index was rising by 0.9%. Disinflation observed during 2013 mostly affected “food’” and “miscellaneous” groups with inflation in yearly rate of 3.18% and 0.75% respectively, or at levels lower than the overall inflation (3.26%).

Indeed, by group of products, the inflation on annual average of three of the eight groups is higher than that of global inflation (3.26%). These are the groups “clothing and footwear“(7.75%), “transportation and communication” (5.61%) and “health and personal care“(4.14%). By group of products and on annual average with respect to year 2012, it is the inflation of “food products including alcoholic beverages” that experienced the largest decline of 9.04% followed by that of “manufactured products” (4.63%), while “services” experienced a slight increase of 1.2%. The average annual inflation of food products declining since February 2013, achieved 3.18% in December 2013, the lowest level since the month of September 2011. Within this category, the inflation of “fresh agricultural products“ reached 4.02%, a decrease of 17.35% versus a decrease of only 2.30% for the “ industrial food products” category.

In terms of the contribution to the global inflation on annual average in 2013, the cumulated inflation of food goods and services stands at 78.15%, well above their cumulated weight of 60.19%. Food goods, with a relative weight of 43.13% in the index contributed 45.96%, down 16.84% compared to December 2012, but rising 22.33% compared to 2012.

The contribution of “services” to the overall inflation is estimated at 32.19%, a level almost twice its relative weight. The contribution of “fresh agricultural products” of 28.42%, down 21.23% compared to 2012, explains that of the food goods group. Also, the contribution of prices of industrial food products to the inflation of food goods rose 17.23% in 2013 with respect to 2012, reaching 38.17%.

The disinflation trend confirmed and amplified in 2013 in both advanced economies (1.5% for the United States and 1.4% for the Euro zone) and emerging economies. The expansion of international trade and convergence in relative prices that they generate led to the diffusion of the disinflationary process allowing to maintain or to slightly increase real income in the context of moderate nominal increase and low inflation.

In consistency with disinflation among the main trading partners and for the first time since the year 2000, prices of imported goods generated at end of December 2013 a lowering of the level of price index with high import content (-3.5%), both in annual average and in year on year average.

However, regarding the impact of imported inflation, it should be noted that domestic prices of imported agricultural products do not sufficiently reflect the downward trend of their world markets prices, especially as they benefit implicit subsidies such as exemption from taxes and custom duties. Levels of domestic prices are thus almost always much higher than world prices, whereas they should evolve in parallel, upward or downward.

Underlying inflation on annual average as measured excluding food products reached a rate of 3.32% in December 2013, or a decline of 2.77% with respect to year 2012. Similarly, the same underlying inflation measured by excluding fresh agricultural products remains as moderate at the end of 2013 with rate of 3.03% versus 5.64% at the end of 2012.

In conclusion, the trend of disinflation confirmed in 2013, both on annual average and on year on year average, anchored on monetary deceleration. This monetary stability as well as achievements in external financial stability, especially the strength of the foreign exchange reserve position and the real effective exchange rate close to its equilibrium militates in favor of the progressive realization as from 2014 of the real potential of economic growth.

After the significant efforts in public investments and their effective contribution to growth excluding that of the hydrocarbon sector, productive investment in the non-hydrocarbon sector should make an enhanced contribution to growth potential. This growth potential should also be supported in the short term by a more sustained momentum with regards to implementation of investments in the hydrocarbon sector in which self-financing shall remain in force. The capacity of national financial savings which remains significant, judging by financial savings accumulated over the last twelve years, will allow the setting up, starting in year 2014, of a new financing scheme of productive investments, while durably discharging any recourse to foreign indebtedness.

Finally, the dynamics of credit to the economy in 2013 points that bank credit channel remains potentially significant in terms of financing both productive investments and SME’s. The necessary development of banking intermediation falls within the framework of the development of sound credit to the economy aimed at a sustained improvement of allocation of resources for inclusive growth. Also, in support of completion of financial inclusion, sustained efforts by commercial banks in terms of mobilization of term financial savings of companies and households driven by an adequate remuneration in real terms are expected as from the year 2014.