



Explicit Government Subsidy Policy and Its Impact on the State Budget in Algeria

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Received: 05/01/2026

Accepted: 02/05/2026

Published: 12/06/2026

Abstract

The Algerian Ministry of Finance considers government subsidies to refer to certain forms of assistance provided by the state to individuals as consumers or producers, either directly (explicit subsidies) or indirectly (implicit subsidies), with the aim of alleviating the burden of living costs and achieving income redistribution, thereby contributing to a certain degree of social equity.

Accordingly, this study seeks to evaluate the policy of explicit government subsidies and their impact on the state budget by highlighting the case of Algeria during the period from 1993 to 2021. The study concludes that the current system of explicit subsidies constitutes a significant burden on the state budget.

Keywords: Government Subsidies, State Budget, Explicit Subsidies, Implicit Subsidies.

Introduction

Government subsidies constitute one of the most important instruments employed by states to achieve economic and social development objectives. For decades, they have represented a fundamental pillar of economic policy. Subsidies aim to accomplish several goals, most notably maintaining price stability, supporting low-income groups, promoting a more equitable distribution of wealth, encouraging domestic producers, protecting national production, and enhancing its competitiveness against imported products.

Despite the positive economic and social effects generated by government subsidies, they have increasingly become a burden on public finances, particularly due to the expansion of the beneficiary base and the rising costs associated with their implementation. Moreover, certain negative practices, such as the excessive consumption, waste, and smuggling of subsidized goods, have reduced their effectiveness and intensified the pressure placed on public budgets.

Research Problem

Algeria has relied on government subsidies as a tool for achieving economic development and social stability through the support of essential goods, vulnerable social groups, and energy



resources. However, with the increasing cost of subsidies and their impact on public finances, the following research problem arises:

What is the impact of the various explicit government subsidy policies on the state budget in Algeria?

Significance of the Study

The significance of this study stems from the role played by government subsidy policies in achieving economic and social objectives, as well as their growing impact on the state's general budget and public financial balances. This necessitates evaluating their effectiveness and contributing to the rationalization of public expenditures while improving the efficiency of the subsidy system.

Objectives of the Study

This study aims to highlight the impact of government subsidy policies on the general state budget of Algeria by clarifying the concept of government subsidies, their various forms, and their financial and economic implications. It also seeks to analyze their effects on public financial balances and propose mechanisms for rationalizing the subsidy system and directing it toward eligible beneficiaries, thereby enhancing economic efficiency and achieving social justice.

1. Conceptual Framework of Government Subsidy Policy

1.1 Concept of Government Subsidies

The Algerian Ministry of Finance defines government subsidies as certain forms of assistance provided by the state to individuals, either as consumers or producers, whether directly (explicit subsidies) or indirectly (implicit subsidies). The primary objective is to alleviate the burden of living costs on poor and low-income groups, while also contributing to the redistribution of national income in favor of the less affluent segments of society. Ultimately, this policy aims to achieve a degree of social justice. (Hançal, 2018, p. 112)

1.2 Types of Government Subsidies

Government subsidies take various forms depending on the nature of the goods and services benefiting from them, as well as the targeted beneficiaries. In general, they can be classified into two main categories: direct (explicit) subsidies and indirect (implicit) subsidies. The following table illustrates the different types of government support.

Table 1. Types of Government Subsidies

Objective	Definition	Type of Subsidy
To redistribute national income and increase individuals' purchasing power.	Direct cash assistance provided to individuals and economic units.	Direct Primary Redistributive Subsidy
To indirectly influence the redistribution of national income.	Provision of goods and services at prices lower than their actual cost.	Indirect Primary Redistributive Subsidy



To increase individuals' monetary income, such as social benefits and social security payments.	Assistance that redirects purchasing power through transfers to beneficiary individuals.	Direct Transfer Subsidy
To increase real income indirectly, such as subsidies aimed at reducing prices.	Assistance that enhances beneficiaries' purchasing power through the provision of free goods and services.	Indirect Transfer Subsidy
To satisfy essential needs of the population, such as subsidies allocated to healthcare services.	Subsidies provided by the state due to their social importance.	Complementary Government Subsidy
To support the country's economic transition from a centrally planned economy toward a market economy.	Subsidies granted for the production of goods or to guide individual productive activities.	Interventionist Government Subsidy
To reduce the cost of producing goods and services, such as tax and customs exemptions granted to certain projects and enterprises, as well as concessional loans, including housing loans.	Subsidies represented by the difference between the production cost of goods and services in the public sector and the selling price fixed by the state for individuals or productive and service units in both the public and private sectors.	Direct Subsidy
To reduce social disparities between high-income and low-income groups.	Financial support granted to producers to reduce prices and make products accessible to all consumers.	Economic Credit Subsidy
To mitigate rising prices and assist large families in coping with living expenses.	Financial support granted to public-sector employees, funded through tax revenues collected from all citizens and provided to low-income individuals without requiring any direct service to the state.	Social Credit Subsidy

Source: Future Jordanian Economic Observatory, Subsidy Restructuring: Economic and Social Impacts, Future Jordanian Economic Observatory, Jordan, 2014, p. 2.

2. Conceptual Framework of the State Budget

2.1 Definition of the State Budget

The state budget is defined as a financial and legal document that contains estimates of the revenues and expenditures of the state or any public entity for a specific fiscal year. This document reflects various public choices and policies in the form of financial figures and serves



as a tool for planning, implementation, and evaluation. It is prepared based on estimation and forecasting methods.

2.2 Components of the General Budget

The general budget consists of two main components: revenues and expenditures.

First: Revenues

These represent the various financial resources collected by the state through taxes, fees, duties, and royalties, in addition to proceeds from securities, loans, and other financial resources.

Second: Expenditures

These represent the various financial uses of the state and include wages and salaries, transfers, subsidies, operating expenditures, as well as investment expenditures allocated to different sectors.

2.3 Principles of the General Budget

The general budget is governed by a set of rules and general principles, including:

• Principle of Estimation

The figures contained in the budget are estimated rather than actual. They represent forecasts for the upcoming fiscal year concerning both government revenues and expenditures. For this reason, the budget is often referred to as the draft general budget. It differs from the final accounts, which are prepared on the basis of actual expenditures incurred and revenues collected during the previous fiscal year. Consequently, the actual figures often differ from the estimated figures contained in the general budget. (Qenawy, 2006)

• Annuality Principle

The general budget is prepared on the basis of estimates and forecasts covering one complete fiscal year, which is generally the calendar year beginning on January.

• Principle of Detailed Presentation

This principle requires the presentation and detailed classification of all public revenues and expenditures within the budget, distributed according to sectors, institutions, and sources of revenue, thereby enhancing transparency and accuracy in budget preparation.

• Principle of Budget Unity

This principle requires that all state revenues and expenditures be incorporated into a single document, allowing for a clear understanding of the budgetary situation and facilitating supervision and control over public finances.

• Principle of Non-Allocation (Non-Earmarking)

This principle requires that all public revenues and expenditures be included in the budget in a detailed manner without offsetting revenues against expenditures. This ensures a true representation of the state's financial position and strengthens oversight in the management of public funds.

• Principle of Budget Balance

The principle of financial balance requires that public revenues equal public expenditures. Accordingly, any proposal to increase expenditures or reduce revenues must be accompanied by measures that compensate for such changes through increased resources or reductions in other expenditures.

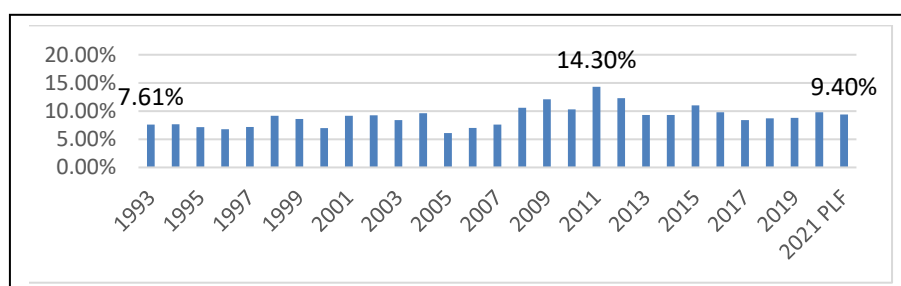


Applied Aspect

This study aims to evaluate the implications of explicit government subsidies on the state's general budget through a case study of Algeria during the period 1993–2020.

1. Analytical and Evaluative Study of the Impact of Explicit Government Subsidies on the State Budget

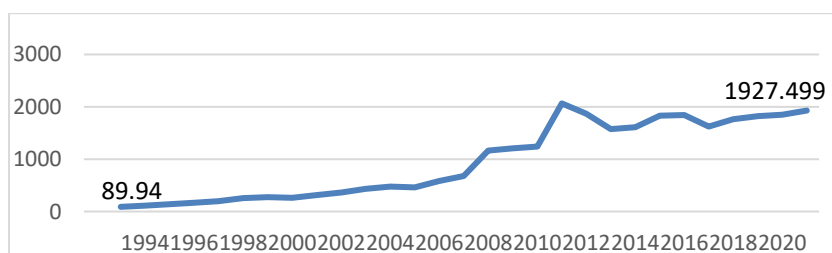
During the period 1993–2021, social transfers represented between 7.61% and 9.4% of Gross Domestic Product (GDP), as illustrated in Figure No. (02).



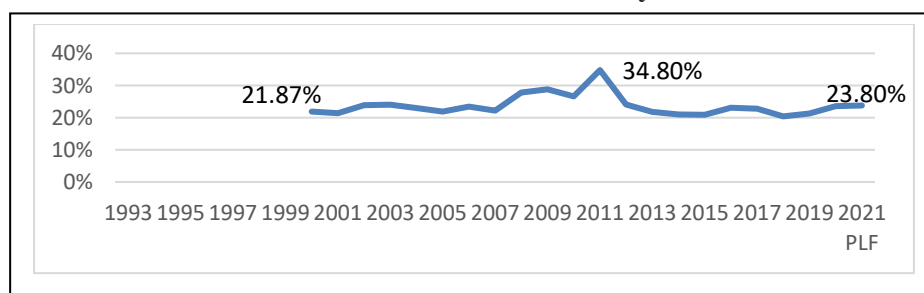
Source: Prepared by the researchers based on data from the reports presenting the Draft Finance Laws for the years 2001–2021.

It increased from 89.4 billion Algerian dinars (DZD) in 1993 to 1,847.5 billion DZD in 2020, and was estimated at 1,927.5 billion DZD in 2021 (Figure 03).

This growth rate was more than twice the growth rate of the Gross Domestic Product (GDP). These transfers represent a very substantial source of financing, as 23.8% of the State's general budget was allocated to social transfers in 2021. The highest share was recorded in 2011, when it reached 34.8% of the State's general budget (Figure 04).



Source: Prepared by the researchers based on data from the reports presenting the Draft Finance Laws for the years 2001–2021.

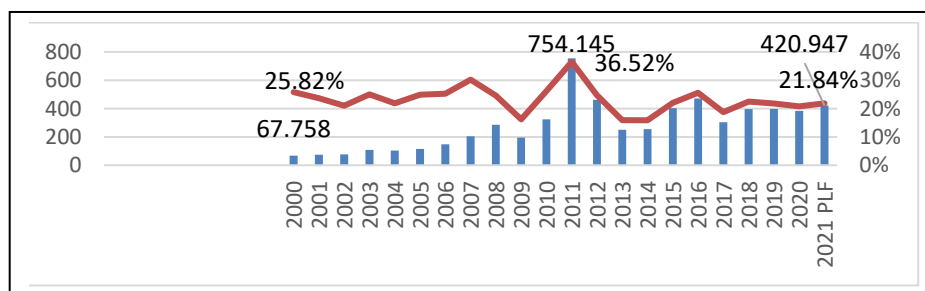


Source: Prepared by the researchers based on data from the reports presenting the Draft Finance Laws for the years 2001–2021.



1. Housing Support

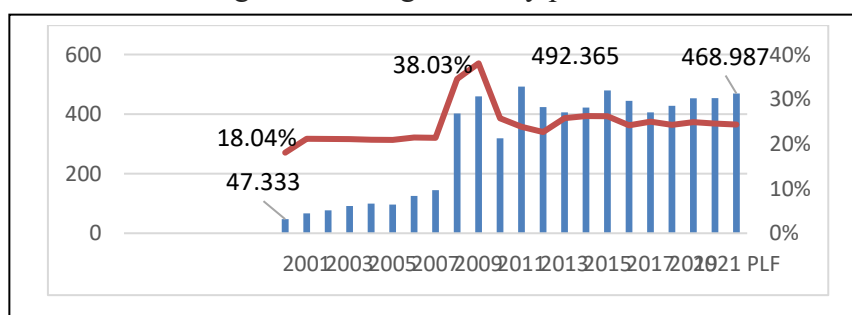
The structure of social transfers during the period 2000–2021 highlights the importance of household support. Housing subsidies reached 354.6 billion DZD in 2020, compared with 4.4 billion DZD in 2000, representing 19.2% of total social transfers. The highest level was recorded in 2011, amounting to 754.1 billion DZD.



Source: Prepared by the researchers based on data from the reports presenting the Draft Finance Laws for the years 2001–2021.

2. Family Support

This form of support is primarily intended to subsidize the prices of basic commodities, including cereals, milk, sugar, and cooking oil (see Figure 07), which account for the largest share (42%). Figure 06 shows significant growth in this support, particularly in 2009, 2011, and 2015. It represents 24.54% of total social transfers. This category of transfers also aims to support households in the fields of education and energy (electricity, gas, and water) and experienced considerable growth during the study period.



Source: Prepared by the researchers based on data from the reports presenting the Draft Finance Laws for the years 2001–2021.

2.1 Education Support

Figure 07 indicates that education support ranked second after consumer goods subsidies, accounting for 28% of the support provided to families in 2021. A notable increase in the assistance allocated to this category can be observed, particularly in 2020, when it reached 130.8 billion DZD.

2.2 Consumer Goods Price Subsidies

As previously noted, this category ranked first among family support measures. According to the available data, it increased from 3.1 billion DZD in 1993 to 198.8 billion DZD in 2020. Its



highest value was recorded in 2011, reaching 279.1 billion DZD, while its estimated value for 2021 was 198 billion DZD.

2.3 Subsidies for Access to Electricity, Gas, and Water

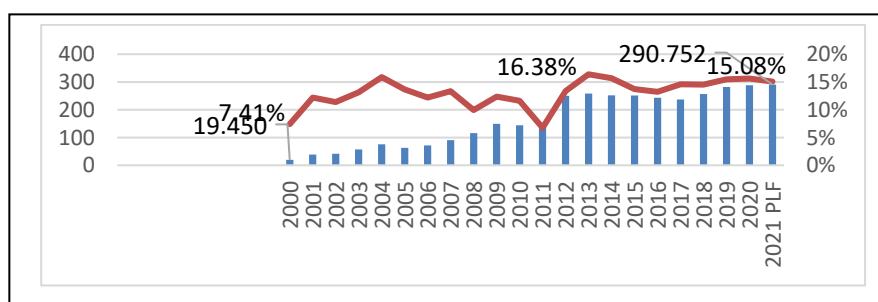
This category ranked third after education support. It experienced noticeable growth, although at a lower rate compared with the other categories, increasing from 3.3 billion DZD to 96.18 billion DZD in 2020.

2.4 Family-Allowance Subsidies

Family-allowance subsidies ranked last among the different forms of family support, amounting to 45.1 billion DZD in 2020 and representing only 10% of the total support provided to families.

3. Support for Contractual Pension Schemes

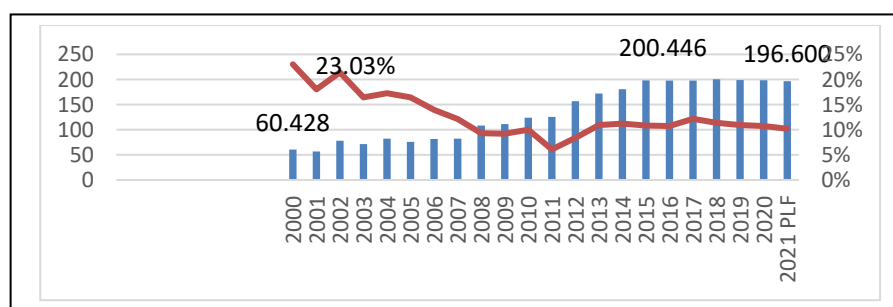
Expenditures on contractual pension schemes represented 8.1% of GDP in both 2000 and 2001. They amounted to 15.5 billion DZD in 2000, exceeding administrative projections. The number of beneficiaries and pension payments has continued to increase, albeit with annual fluctuations. The value rose to 288.3 billion DZD in 2020 and reached 290.7 billion DZD in 2021 (Figure 07).



Source: Prepared by the researchers based on data from the Budget Bill Presentation Reports for the years 2001–2021.

Support for Mujahideen (Veterans):

The figure illustrates the increase in support allocated to Mujahideen from DZD 60.4 billion in 2000 to DZD 196.6 billion in 2021, reaching a peak of approximately DZD 200.4 billion in 2015.

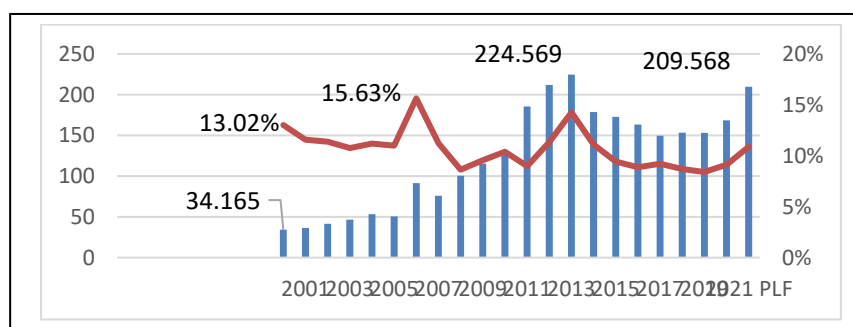


Source: Prepared by the researchers based on data from the Budget Bill Presentation Reports for the years 2001–2021.



1. Support for the Poor and Persons with Special Needs:

The figure shows an increase in expenditures from DZD 34.2 billion in 2000 to DZD 209.6 billion in 2021, with the highest level recorded in 2013. Moreover, its share of total social transfers fluctuated around 10%, reflecting the state's continued commitment to supporting vulnerable social groups.



Source: Prepared by the researchers based on data from the Budget Bill Presentation Reports for the years 2001–2021.

Conclusion

Despite the relative improvement in the economic situation compared to previous years, supported by stronger economic indicators and the overcoming of the repercussions of the COVID-19 pandemic, the evaluation results of the current explicit subsidy system indicate that it continues to constitute a significant burden on the state budget due to the high expenditures allocated to it and the resulting pressure on public financial resources.

Although these transfers play an important social and economic role in supporting purchasing power and improving citizens' living standards, one of the major shortcomings limiting their effectiveness is their universal nature, as they benefit all members of society without a precise distinction between eligible and non-eligible groups. This weakens the efficiency of subsidy targeting and contributes to various forms of waste and misuse, thereby reducing the achievement of the intended objectives and increasing the financial burden borne by the state. Accordingly, there is a need to reform the subsidy system by adopting more targeted mechanisms aimed at eligible beneficiaries. Such an approach would ensure greater social justice on the one hand and promote the rationalization of public expenditure while reducing pressure on the state budget on the other.

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