ALGERIA

Table 1	2020
Population, million	43.9
GDP, current US$ billion	147.7
GDP per capita, current US$	3364.5
National poverty rate[a]	5.5
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	3.7
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	107.3
Life expectancy at birth, years[b]	76.9
Total GHG Emissions (mtCO2e)	212.1

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2011).
(b) Most recent WDI value (2019).

The Algerian economy is undergoing a fragile recovery, supported by a rebound in hydrocarbon output, exports and prices. Together with high oil prices, continued exchange rate depreciation and import compression policies have eased fiscal and external financing requirements, however contributing to a significant uptick in inflation. Amid protracted economic uncertainty, accelerating the implementation of the Government Action Plan will be essential to sustain the recovery, transition away from dependance on hydrocarbon exports and restore macroeconomic equilibria, while safeguarding social achievements.

Key conditions and challenges

Algeria's economic performance has been declining, due to stagnating hydrocarbon production and a winded public sector-led model. The oil and gas sector shrank by 2.1 percent yearly since 2010 due to declining investments, with the rise in domestic consumption leading to a steeper contraction in export volumes. This, combined with the decline in international oil prices, resulted in the current account and overall budget deficits averaging 13 percent and 11 percent of GDP, respectively, since 2015, leading to consecutive phases of currency depreciation and import compression policies, as well as to large scale monetary financing. Real public spending stagnated, nonhydrocarbon sectors slowed down, and average annual real GDP growth fell to 1.1 percent in 2017 -2019, causing GDP per capita to decline. The transition to a private sector-led growth model is proving challenging, with private firms remaining small, of low productivity, largely informal, and confronted to a high regulatory burden, limited access to credit and skills, or the omnipresence of state-owned enterprises.

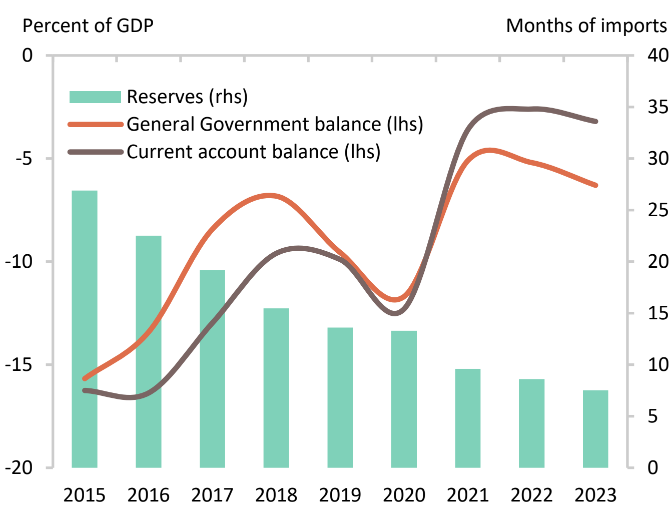
In 2021, the strong recovery in global hydrocarbon prices and demand is providing temporary relief to the Algerian economy, as well as an opportunity for the new Government to engage key structural reforms. In September 2021, the authorities presented an updated Action Plan, which ambitions to foster the economy's transition towards a sustainable, private-led growth model, and restore macroeconomic equilibria. It argues for continued public finance management reforms and spending rationalization, including through the transition from a costly universal subsidy system to a targeted one, to foster social equity. It advocates for cross-cutting and significant improvements to the business environment, including through the reform of the Investment Law, as well as the restructuring and opening to private shareholding of public banks and state-owned enterprises. To protect waning international reserves, it reaffirms its commitment to curb imports and boost nonhydrocarbon exports.

Recent developments

In Q1-2021, GDP staged a modest recovery from a 4.9 percent contraction in 2020, as the surge in natural gas production added to the increase in OPEC crude oil production quotas to boost hydrocarbon production and exports. Supported by the lifting of lockdown measures, nonhydrocarbon GDP timidly reached Q1-2019 levels, with the rebound in construction and industrial activity overperforming the services sector. On the demand side, the rebound in consumption outpaced that of investment, as both returned to pre-pandemic levels.

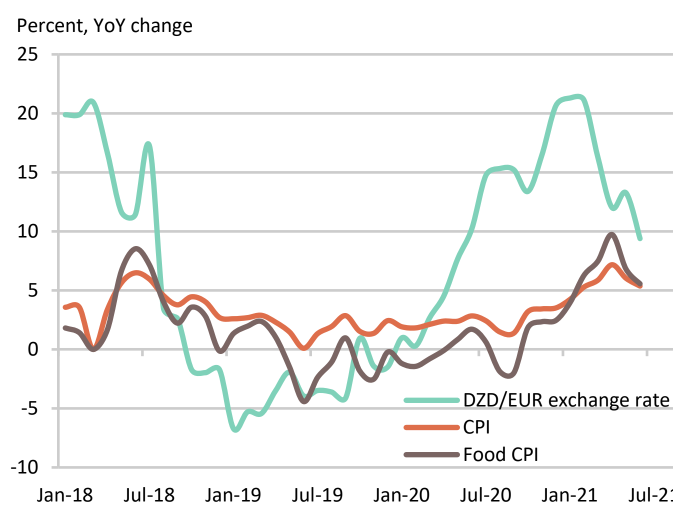
In 2020, the overall budget deficit increased moderately, to reach 11.7 percent of GDP. Oil revenues plummeted and tax

FIGURE 1 Algeria / Twin deficits declined markedly



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 Algeria / But inflationary risks are materializing



Sources: Algerian authorities and World Bank staff estimates.

revenues declined markedly, amid contracting activity and imports, as well as tax deferrals to alleviate the crisis' impact on firms. Current expenditures and support to public banks exposed to struggling SOEs increased markedly, but overall spending contracted nonetheless, as public investment collapsed. Public debt remained stable, as fiscal financing needs were addressed by absorbing Treasury savings and SOE liquidity, leaving official public debt unaffected. In 2021, the Treasury resumed financing through the Central Bank, and banks purchased large amounts of Treasury securities as part of a debt buyback program, causing public debt to rise by 16 percent in H1-2021.

After a moderate increase in 2020, the current account and trade deficit narrowed significantly in H1-2021, benefitting from the recovery in hydrocarbon exports and prices and a limited recovery in imports, held down by continued import compression policies and a depreciated exchange rate. Therefore, the pace of international reserves depletion moderated in H1-2021, after having reached 13.3 months of imports at end-2020. Efforts to curb imports, however, caused imports of equipment and intermediate products to plummet, holding back investment and the recovery, and contributed to a marked acceleration in inflation during H1-2021.

Outlook

A fragile recovery is expected in 2021 and 2022, amid a modest one in nonhydrocarbon sectors and a strong rebound in the hydrocarbon sector. As the latter resumes its structural decline, GDP growth is expected to slow down. Despite the acceleration of the COVID-19 vaccination campaign (13% of Algerians have received at least one dose as of September 12), deteriorated employment and firm revenues will constrain private consumption and investment, while limited fiscal space will constrain the recovery in public investment. Sustained exchange rate depreciation and high hydrocarbon prices will help contain the overall budget deficit, as higher hydrocarbon revenues balance out increases in public spending and realized contingent liabilities. Together with import compression policies, they will also contain the current account deficit. Domestic financing through the central bank and the banking sector will increase public debt, which will remain on favorable terms. Higher liquidity, depreciation and increased scarcity of imports will keep fueling inflation which, combined with subdued activity and employment, will negatively impact living standards. Vulnerable households, already disproportionally affected by the negative consequences of the COVID-19 crisis, will be more seriously affected.

Developments in the global hydrocarbon market and the pace of domestic structural reform implementation will condition the economic outlook. Lower hydrocarbon prices and demand would raise fiscal and external financing needs, and weigh on the availability of liquidity and credit to finance the recovery. Absent external financing, they would imply further depreciation and import restrictions to protect international reserves, increasing the scarcity of imported inputs and equipment, hindering investment, and raising inflation. While domestic production could substitute for imports, contribute to addressing macroeconomic equilibria and curb inflationary pressures, there remains significant uncertainty surrounding the implementation of the Government Action Plan, essential to private sector development. Therefore, a slower pace of structural reform implementation would delay the recovery, prevent embarking on a sustainable growth path, and increase the social cost of contingency measures.

TABLE 2 Algeria / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.8	-4.9	3.9	1.8	1.6
Private Consumption	2.8	2.1	-2.9	2.2	2.1	2.0
Government Consumption	2.3	1.9	-0.3	1.3	-2.4	-2.4
Gross Fixed Capital Investment	3.1	1.0	-5.0	3.5	1.7	2.6
Exports, Goods and Services	-3.7	-7.2	-9.8	13.8	1.1	-0.5
Imports, Goods and Services	-3.6	-7.2	-16.0	8.7	-2.9	-2.6
Real GDP growth, at constant factor prices	1.5	1.0	-4.6	3.9	1.8	1.6
Agriculture	3.5	2.7	1.6	1.6	1.5	1.4
Industry	-2.6	-1.7	-7.3	7.1	1.5	1.0
Services	5.6	3.3	-3.4	1.5	2.2	2.2
Inflation (Consumer Price Index)	4.3	2.0	2.4	5.8	6.8	6.6
Current Account Balance (% of GDP)	-9.6	-9.9	-12.3	-3.8	-2.7	-3.4
Fiscal Balance (% of GDP)	-6.8	-9.6	-11.7	-5.3	-5.5	-6.6
Debt (% of GDP)	37.8	45.1	49.8	49.8	52.5	56.7
Primary Balance (% of GDP)	-6.3	-9.1	-10.8	-4.5	-4.7	-5.7
GHG emissions growth (mtCO2e)	3.2	0.8	-3.9	5.5	3.0	2.5
Energy related GHG emissions (% of total)	63.4	64.7	65.9	66.1	66.6	67.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.