ALGERIA

Table 1	2019
Population, million	43.4
GDP, current US$ billion	171.2
GDP per capita, current US$	3941.7
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]	109.9
Life expectancy at birth, years[b]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011).
(b) Most recent WDI value (2018).

The COVID-19 pandemic and concurrent crash in oil prices stormed Algeria's vulnerable macroeconomic environment, and the new authorities are now grappling with a multifaceted crisis. Swift lockdown measures have helped slow down the pandemic, severely affecting activity in the meantime. The sharp fall in global hydrocarbon prices and demand added to the sector's difficulties, cutting further into the hydrocarbon rent. Therefore, swift action to curb the twin deficits and structural reforms to foster private-led growth have only become more urgent.

Key conditions and challenges

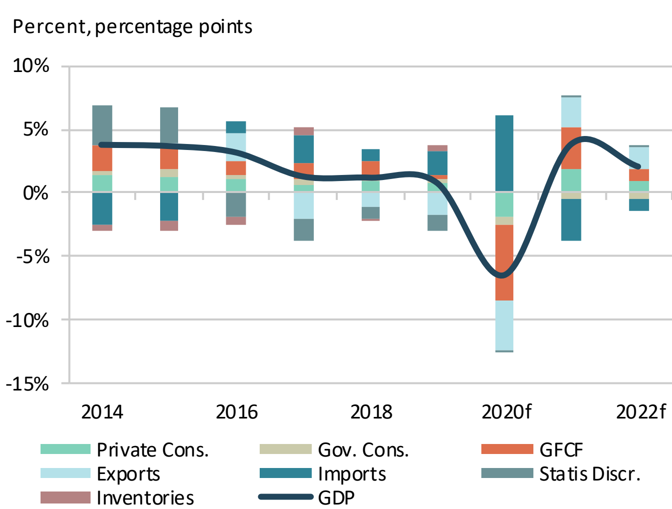
Algeria's long-term growth performance is slowing down, driven by a shrinking hydrocarbon sector, a winded public-led growth model, and an underdeveloped private sector. Between 2010 and 2016, GDP growth averaged 3.3 percent, before falling to an average of 1.1 percent after 2017, when GDP per capita growth turned negative. Faced with underinvestment, the hydrocarbon sector shrank by 2.1 percent yearly since 2010, and rising domestic consumption cut into export volumes, which fell by 2.8 percent yearly on average. At the mercy of oil price movements, current account and budget deficits averaged 13 and 11 percent of GDP since the 2014 oil shock. Long the driver of growth, real public spending moderated, and non-hydrocarbon sectors are slowing down. The small, low-productivity and mostly informal private sector struggles to take over as the new growth engine, facing red tape, limited access to credit and land, a significant skill gap or the omnipresence of state-owned enterprises.

The COVID-19 pandemic and concurrent crash in oil prices endangered a fragile economic environment. As in most countries, lockdown measures to curb contagion have impacted entire sectors. Labor-intensive and informal service and construction sectors are particularly affected, putting the livelihoods of vulnerable segments of the population at risk. Meanwhile, the decline in exports and sharp fall in hydrocarbon prices is taking a heavy toll on fiscal and external revenues, despite the dinar's depreciation. GDP is expected to contract by 6.5 percent in 2020, with significant uncertainty regarding the evolution of the pandemic, globally and in Algeria. The National Socioeconomic Recovery Strategy's success will hinge on its ability to restore macroeconomic equilibria and on the strength of the private sector response, just as reductions in public spending could endanger growth and employment. Swift and decisive reforms to boost private sector development are indeed essential in fostering growth and creating jobs, in the short and long term.

Recent developments

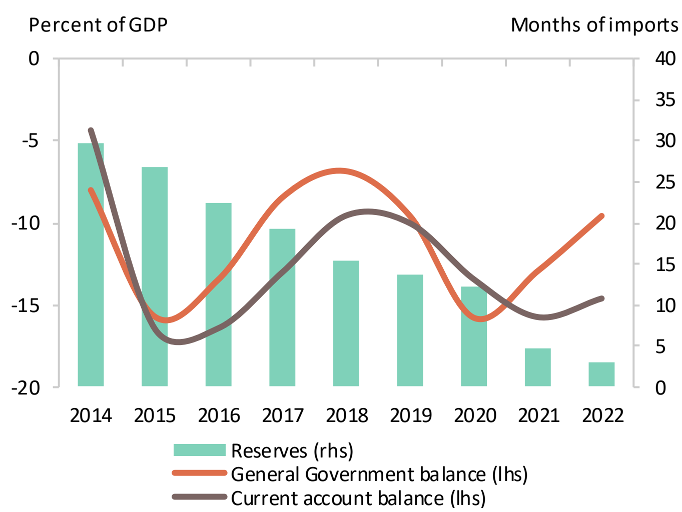
In 2019, protracted social mobilization and a lengthy political transition increased economic uncertainty and discouraged activity. Consumption slowed, as did investment, albeit more markedly. Correspondingly, growth moderated in construction, agriculture and commercial services. While nonhydrocarbon GDP growth moderated, to 2.4 percent, hydrocarbon GDP shrunk by 4.9 percent. A new Hydrocarbon Law with improved terms for investors was published, seeking to revive investment. Meanwhile, restrictions on foreign investment were lifted in non-strategic sectors. The current account deficit stabilized, as imports tracked lower domestic spending and import restriction policies, canceling the

FIGURE 1 Algeria / Real GDP growth and contributions to real GDP growth



Sources: Algerian authorities, World Bank staff estimates.

FIGURE 2 Algeria / Twin deficits and international reserves



Sources: Algerian authorities, World Bank staff estimates.

effect of lower hydrocarbon prices. International reserves steadily declined, to 13.6 months of imports. Lower hydrocarbon revenues and increased spending raised the budget deficit to 9.6 percent of GDP, and public debt approached 47 percent of GDP, 70 percent of which is owed to the Central Bank following large monetary financing operations. The latest poverty estimates are from 2011, making it difficult to estimate the impact of COVID-19 on welfare. Despite low inflation and stable unemployment, with higher rates for women and youth, slowing growth is limiting the potential for job creation and poverty alleviation.

During Q1-2020, a sharp decline in hydrocarbon production and early consequences from the COVID-19 pandemic exacerbated economic difficulties. As the hydrocarbon sector shrank by 13.4 percent against Q1-2019, GDP contracted by 3.9 percent. Nonhydrocarbon GDP shrunk by 1.5 percent, against a sharp investment contraction, and moderate ones for private and public consumption. Services sectors suffered most, consistent with the imposition of lockdown measures. Industrial and construction activity stagnated, tracking public and private demand, while the agricultural sector proved resilient. Meanwhile, shrinking hydrocarbon production and a competitive global market caused a severe export volume contraction, compensated by an even higher fall in imports, curbing the current account deficit despite lower oil prices. Inflation remained low, at 2.1 percent during S1-2020.

Outlook

A significant contraction of the economy is expected for 2020 as a result of the COVID -19 pandemic, with large uncertainties as to the duration of the sanitary and economic crises. Lockdown measures will generate sharp falls in aggregate demand components, and the effect of economic uncertainty could be protracted. External and fiscal deficits will rise, with the fall in hydrocarbon revenues only partly counterbalanced by falling imports and public investment, respectively, and by currency devaluation. Inflation should remain subdued until demand starts recovering.

A partial recovery in 2021 and 2022 is predicated upon a partial recovery in demand, in hydrocarbon production and exports, and on a set of structural reforms that restore confidence and foster private sector investment. With structurally lower budget revenues, and absent foreign borrowing or monetary financing, fiscal consolidation is expected in the medium-term. The dinar's stronger depreciation against the Euro and Yuan than against the Dollar will deteriorate Algeria's terms of trade and accelerate reserve exhaustion, as imports could recover faster than oil exports. Meanwhile, imported inflationary pressures will mount and, together with the economic contraction and shrinking employment, the potential for poverty or vulnerability reduction will remain limited.

Risks are tilted to the downside and uncertainties as to the course and effectiveness of reforms remain high. New domestic or international wave(s) of COVID-19 infections would delay recovery, as would insufficient progress in fostering a new, private-led and sustainable growth model, amid a volatile economic environment. Lower hydrocarbon prices could force another exchange rate adjustment and, together with the realization of contingent liabilities arising from public banks exposed to struggling SOEs, renewed monetary financing. Protecting public investment while financing fiscal deficits without endangering banking liquidity and the recovery will constitute a challenge. Meanwhile, efforts to strengthen the statistical system and monitor socio-economic dynamics, including the household survey under preparation, should be a priority.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	1.3	1.2	0.8	-6.5	3.8	2.1
Private Consumption	1.8	2.8	2.1	-5.5	5.2	2.8
Government Consumption	2.8	2.3	1.9	-3.2	-2.4	-2.4
Gross Fixed Capital Investment	3.4	3.1	1.0	-16.6	10.6	2.7
Exports, Goods and Services	-6.1	-3.7	-6.1	-15.0	9.4	6.4
Imports, Goods and Services	-7.1	-3.6	-6.9	-24.3	16.1	4.6
Real GDP growth, at constant factor prices	1.7	1.5	1.0	-6.5	3.8	2.0
Agriculture	0.6	3.5	2.7	2.1	2.2	2.2
Industry	-0.1	-2.6	-1.7	-8.2	4.4	2.5
Services	4.0	5.6	3.3	-6.8	3.7	1.5
Inflation (Consumer Price Index)	5.9	3.5	2.3	2.1	3.8	4.2
Current Account Balance (% of GDP)	-13.0	-9.5	-10.0	-13.4	-15.7	-14.6
Fiscal Balance (% of GDP)	-8.4	-6.8	-9.6	-15.8	-12.9	-9.6
Debt (% of GDP)	27.4	37.7	47.0	68.2	77.4	81.2
Primary Balance (% of GDP)	-7.5	-6.3	-9.0	-15.1	-12.2	-8.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.