

# ALGERIA

**Table 1** 2017

Population, million	411
GDP, current US\$ billion	160.6
GDP per capita, current US\$	3910
National poverty line <sup>a</sup>	5.5
International poverty rate (\$ 19) <sup>a</sup>	0.5
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	3.9
Gini index <sup>b</sup>	27.6
School enrollment, primary (% gross) <sup>c</sup>	113.6
Life expectancy at birth, years <sup>c</sup>	76.1

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2011).

(b) Most recent value (2011), 2011 PPPs

(c) Most recent WDI value (Grand Total)

*As fiscal expansion takes hold and oil prices return to moderately high levels, growth is expected to reach 2.5 percent for the whole year 2018. Sizable twin deficits remain, but recovering export revenues have eased the pressure on official reserves. In the medium term, the twin deficits will taper, as the government implements fiscal consolidation, resulting in headwinds for growth. The use of monetary finance for the fiscal deficit will need to be monitored for inflationary consequences.*

## Recent developments

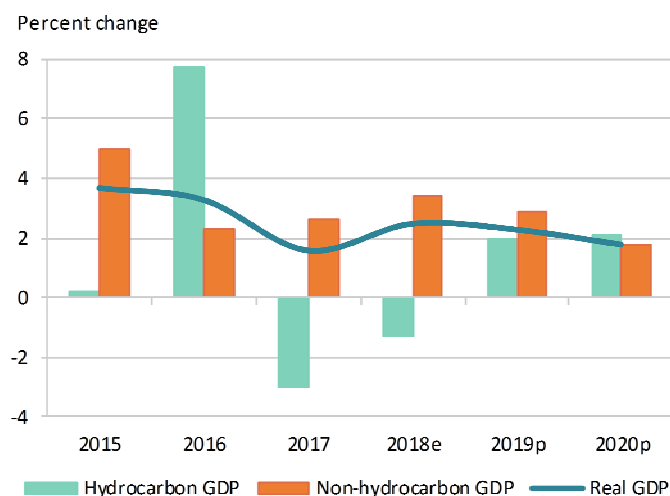
Following a strong slowdown in growth in the first half of 2017, the government eased its fiscal consolidation program during the last quarter of 2017 and in the first half of 2018. This fiscal relaxation coincides with a sharp increase in the international price of oil. This price effect more than offset the decline in production (-1.3 percent expected for 2018). As a result, real GDP is expected to grow by 2.5 percent, up from 1.6 percent in 2017, driven by the demand side. However, in the first quarter of 2018, real GDP grew by just 1.3 percent (compared to 3.4 percent for the same period in 2017), due to supply side constraints, such a significant decline in hydrocarbon production (-2.0 percent).

Substantial fiscal and external deficits remain. According to the 2018 Budget, Government spending is expected to increase substantially in 2018 (12 percent in nominal terms). However, the higher level of revenues due to oil price increase will lead to a slight decrease of fiscal deficit (projected at 6.9 percent of GDP, down from 9.0 percent in 2017). Preliminary data indicate that imports will increase slightly, by 2.6 percent (0.2 in real terms) in 2018, signaling that the imposition of licenses policy did not curb the volume of imports. Meanwhile exports (hydrocarbons accounting for about 95 percent) will increase significantly, by 26.0 percent mostly due to sharp increase in hydrocarbon price. This suggests a reduction of the

current account deficit to 8.5 percent of GDP in 2018 from 12.8 percent in 2017. As a result of these deficits and limited capital inflows, international reserves will continue to decline. Nonetheless, external debt remains very low as the budget deficits is financed by central bank lending (“unconventional financing”) and by credit from domestic banks. Despite the expansionary monetary policy, inflation remained under control at about 4.5 percent for the first half of 2018 and is expected to stabilize at 6.5 percent by end 2018; since the prices of key consumer goods are fixed by the government, through price subsidies.

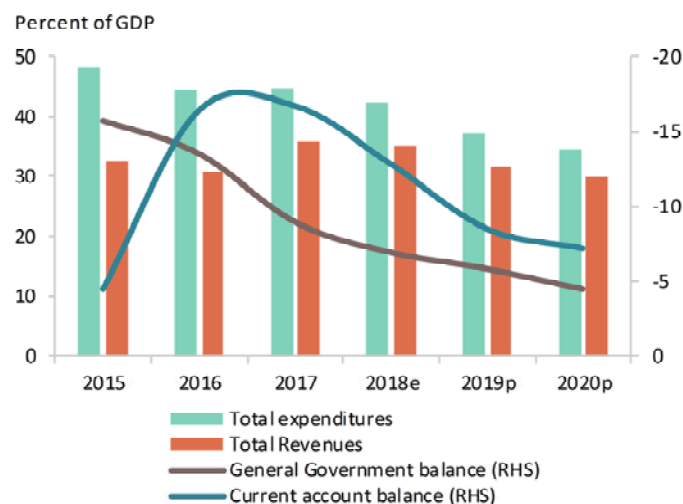
The unemployment rate remains relatively high at 11.1 percent (April 2018) having dropped from 12.3 percent a year before and from 11.7 percent in September 2017, due in part to the uptick in economic growth and in the number of employed, and to a decrease in the number of people looking for a job. Unemployment is high amongst women (19.5 percent) and youth aged 16-24 (26.4 percent). Worryingly, about 25 percent of the unemployed are tertiary educated, a share higher than in September 2015 (23.4 percent). In the same period, the share of public sector employment went down from 42 percent to 38.6 percent, hinting sluggishness in the private sector to create jobs for this group. The most recent official poverty statistics are from 2010/11 and show that 5.8 percent of the population was poor. This poverty estimate uses a poverty line equivalent to less than US\$3.6 /day in 2011 PPP; this poverty threshold is far below US\$5.5 USD/day, the typical reference line used

**FIGURE 1** Algeria / Real GDP growth



Sources: World Bank Staff estimates and projections.

**FIGURE 2** Algeria / Algeria's twin deficits



Sources: World Bank Staff estimates and projections.

for international comparisons of poverty in upper middle income countries like Algeria. There is regional variation in poverty with the Sahara (Steppe) region having a poverty rate that was two (three) times the national poverty rate.

## Outlook

In 2019 and 2020, a slight increase in hydrocarbon production will be offset by a slowdown in non-hydrocarbon sector which most likely would bear the brunt of the programmed fiscal consolidation. This policy effort could recommence as early as in mid-2019, although the timing will depend on the availability of fiscal space and pressure on reserves over the next year. In the current medium-term fiscal framework (2019-2020), government spending will remain high, but is expected to be partly offset by an increase in government revenues due to an expected upturn in oil price and production. Hence, the fiscal deficit is expected to decline slightly in 2019 (5.8 percent of GDP) and 2020 (4.5 percent of GDP), as shown in Figure 2. This tradeoff between fiscal restraint and expanding revenues will result in a tapering growth path, from 2.3 percent in 2019 to 1.8 percent in 2020 (Figure 1). The twin deficits will further decline in 2019 and 2020, assuming that the expected structural reforms, such as subsidies and the business environment, are implement-

ed. Persistent fiscal deficits are expected to require significant monetary finance, the government's preferred alternative to external borrowing. Thus, inflationary pressure will remain. The current account deficit is projected to decline significantly to 7.2 percent in 2019 and 5.9 percent in 2020; levels considered manageable, given the expected level of reserves (16 months of imports projected at the end of 2018).

Lack of data precludes the forecasting of poverty for the recent period. Nonetheless, poverty (or vulnerability) reduction has been likely limited in recent years and is expected to progress slowly in the medium run. Restrictions in the labor market and business environment prevent the private sector from being an engine for job creation. Cash transfer programs are an option to protect the poor from the impact of planned reforms.

## Risks and challenges

The key challenge for the economy is fortifying itself against the volatility of crude oil and gas prices, both in smoothing the impact of volatility on the budget, and in diversifying sources of growth. Algeria's response to current global trends will involve ambitious reforms, some of which have been specified by the government in the decree accompanying the use of unconventional deficit finance. To design mitigation measures that effectively reach

and protect the poor and vulnerable from potential negative impacts of the reforms, an efficient system needs to be designed based on the most recent structure of consumption and income distribution in the country. This will require strengthening the country's statistical capacity for up-to-date monitoring and analytics of living conditions and a comprehensive assessment of the impact of reforms on poverty and welfare. Finally, the economy remains vulnerable to hydrocarbon price volatility; any reversal of global oil and gas prices will complicate the planned reduction of the twin deficits.

**TABLE 2** Algeria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2015	2016	2017	2018 e	2019 f	2020 f
<b>Real GDP growth, at constant market prices</b>	3.7	3.3	1.6	2.5	2.3	1.8
Private Consumption	3.9	3.3	3.6	2.8	2.5	1.5
Government Consumption	3.1	0.9	0.5	16.3	-7.3	-4.5
Gross Fixed Capital Investment	-11.8	5.9	16.1	-0.9	3.9	2.3
Exports, Goods and Services	0.6	7.9	-1.6	-4.1	1.6	1.7
Imports, Goods and Services	-7.7	-2.3	-2.4	0.2	-1.8	-1.8
<b>Real GDP growth, at constant factor prices</b>	3.7	3.4	1.5	2.4	2.2	1.7
Agriculture	6.0	1.8	1.2	2.8	2.8	1.8
Industry	1.8	6.2	0.6	1.1	2.4	2.0
Services	4.3	2.3	2.0	3.0	1.9	1.6
<b>Inflation (Consumer Price Index)</b>	4.8	6.4	5.5	6.5	6.7	6.0
<b>Current Account Balance (% of GDP)</b>	-16.4	-16.7	-12.8	-8.5	-7.2	-5.9
<b>Fiscal Balance (% of GDP)</b>	-15.8	-13.6	-9.0	-6.9	-5.8	-4.5
<b>Debt (% of GDP)</b>	18.0	29.3	23.9	31.3	34.9	37.0
<b>Primary Balance (% of GDP)</b>	-15.0	-12.9	-7.9	-6.0	-4.5	-2.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.