ALGERIA

Table 1	2022
Population, million	45.7
GDP, current US$ billion	195.0
GDP per capita, current US$	4265.6
National poverty rate[a]	5.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	4.0
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	111.3
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	281.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ WDI for School enrollment (2020); Life expectancy (2021).

Despite continued nonhydrocarbon dynamism, Algeria's GDP growth moderated in early 2023, while high inflation persisted. Recent swings in oil and gas prices highlight the challenges that hydrocarbon dependence poses for macroeconomic stability. Amid declining oil and gas export prices, the current account surplus is shrinking after peaking in 2022, and the fiscal deficit is expected to widen. Priority reforms include strengthening the macroeconomic policy framework, opening more space for the private sector, and improving public service delivery.

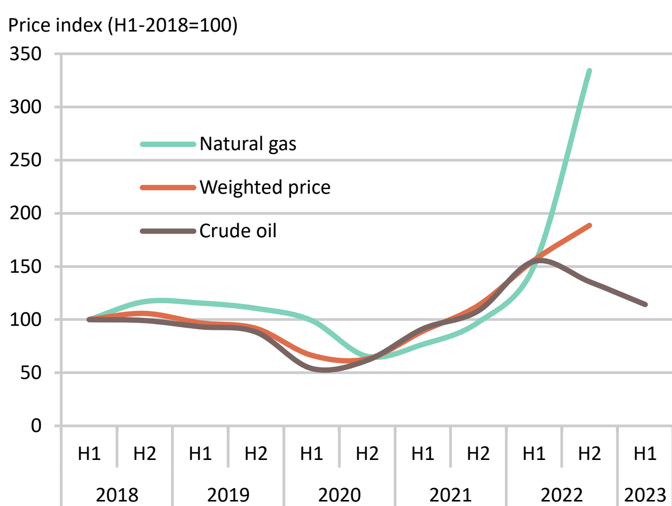
Key conditions and challenges

Algeria's economy is dependent on oil and gas which account for a fifth of GDP, four-fifths of exports, and two-fifths of budget revenues. Double-digit fiscal and current account deficits persisted before the pandemic, eroding foreign exchange reserves, and causing fast debt accumulation and large-scale monetization while leading to currency depreciation and import reduction policies.
The Russian Federation's invasion of Ukraine and Europe's efforts to shift away from Russian gas supply have raised oil and gas export prices, generated record trade surpluses for Algeria, and reduced the budget deficit despite a steep rise in current spending. It also presented opportunities for reviving foreign energy investment in Algeria, after years of declining export capacity amidst stagnating production and rising domestic consumption. However, more private investment outside the hydrocarbon sector is needed to foster faster, inclusive, and sustainable growth.
The Algerian economy recovered to pre-COVID-19 levels in 2022, but growth had been slowing down before the pandemic, reaching 1.2 percent in 2017-2019, causing GDP per capita to contract to its 2014 level and unemployment to remain elevated, especially among youth. Non-monetary poverty declined between 2013 and 2019, amid improvements in education, health, and living standards, but it remains elevated for Algeria's level of income, while spatial inequalities persist.
The COVID-induced recession was compounded by a surge in inflation working against poverty reduction, to which the authorities responded through a rise in public spending on wages and social transfers. The September 2021 Government Action Plan (GAP) set as developmental priorities the transition to a private sector-led growth and job creation model and a stronger macroeconomic framework. Efforts to encourage foreign and domestic investment have since accelerated, including through the 2022 Investment Law. Continued reform implementation, notably to improve the business environment, will be key to fostering growth in the nonhydrocarbon private sector.

Recent developments

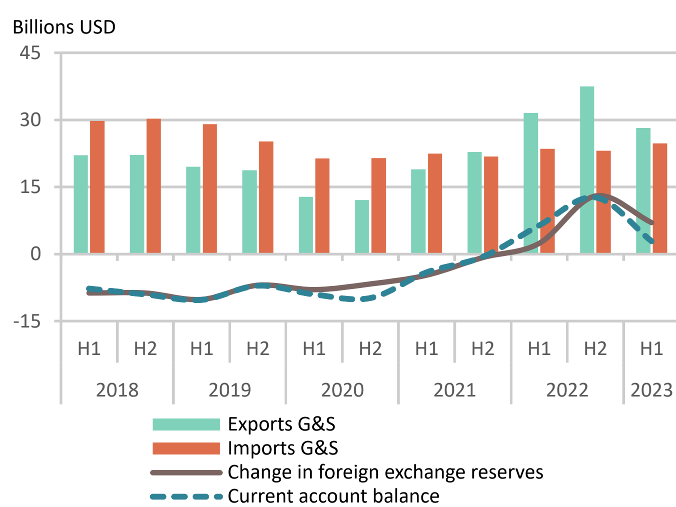
GDP growth slowed moderately in Q1-2023 (+3.0 percent y-o-y), dragged by low hydrocarbon GDP growth amidst the reduction in crude oil production quotas and despite natural gas output growth. On the other hand, dynamic nonhydrocarbon GDP growth in 2022 extended in Q1-2023 (+4.0 percent y-o-y), with accelerating public consumption growth making up for slower private consumption, and strong investment growth stimulating the construction and industrial sectors. Agriculture output slowed down markedly, however, amid a severe drought episode.
The current account surplus shrank from a record US$11.8 billion in H2-2022 to

FIGURE 1 Algeria / Hydrocarbon export prices



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 Algeria / Current account, exports, imports and changes in international reserves



Sources: Algerian authorities and World Bank staff estimates.

US$2.9 billion in H1-2023, as falling oil and gas export prices and volumes led to a US$8.9 billion decline in exports and strong investment growth raised equipment imports. Reserve accumulation therefore continued, reaching US$68.8 billion at end-June 2023, or about 17.2 months of imports of goods and services.

After declining from 7.2 to 2.9 percent of GDP in 2022, the overall budget deficit is expected to have risen again in H1-2023, dragged by the decline in hydrocarbon export revenues and rising public sector wages, and despite an increase in tax revenues supported by rising wages, prices, investment, and imports. After declining to 55.6 percent of GDP at end-2022, public debt increased by 4.3 percent in nominal terms in H1-2023, financed by regular Treasury issuances. It remained overwhelmingly domestically held, at long-term maturities and negative real interest rates.

Inflation remained elevated, reaching 9.7 percent y-o-y in H1-2023 up from 9.3 percent in 2022, fueled by fresh agricultural products, hurting vulnerable Algerians disproportionately as food accounts for over half of the spending for the bottom 40 percent of the population. To try to curb inflationary pressures, the Bank of Algeria supported an appreciation of the dinar in H2-2022 (+6 percent relative to the US dollar) and increased the reserve requirement rate in April 2023 from 2 to 3 percent, its pre-pandemic level.

Outlook

Growth is expected to decelerate in 2023, with lower hydrocarbon output amidst rising domestic consumption and a decline in exports. Nonhydrocarbon GDP would slow down moderately, as private consumption tapers and rising investment is met through increasing imports. Agricultural output would contract, in contrast to more dynamic construction, industrial, and service activity. GDP growth would accelerate in 2024 and 2025, as agricultural output recovers and crude oil production tracks recovering OPEC quotas.

The current account is expected to come close to balance in 2023, as higher imports compound the steep decline in hydrocarbon export prices. Export and import levels would stabilize in 2024-25, as would the level of foreign exchange reserves. Lower hydrocarbon revenues amidst higher budget spending would cause the overall budget deficit to expand in 2023 before a slowdown in public spending reduces it moderately by 2025. The debt-to-GDP ratio would increase slightly, with Treasury savings accumulated in 2022 partially financing fiscal deficits. Inflation is expected to decline gradually, fueled by rising money supply and public spending but dampened by the delayed effects of the dinar's appreciation and tapering food prices.

The fragility of the global outlook and developments in Russia's war on Ukraine could have significant consequences for volatile oil prices, OPEC quotas, hydrocarbon exports and, as a result, the trajectory of Algeria's external and budget balances. Financing budget deficits through the domestic banking sector and maintaining import reduction policies could also weigh on growth and inflation, as would new episodes of disappointing rainfall and agricultural output. On the other hand, successful efforts in attracting large investments, notably in Algeria's hydrocarbon and mining sectors, amidst Europe's efforts to diversify its energy supply, could support higher growth.

Ultimately, structural reforms that improve the business environment, foster private sector-led diversification, improve the efficiency of public spending, and raise human capital will be key to decreasing the country's dependence on hydrocarbons and fostering sustainable economic growth and job creation.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.1	3.4	3.2	2.1	2.5	2.5
Private consumption	-3.0	3.7	2.9	2.6	2.4	2.2
Government consumption	-0.1	1.2	2.2	2.2	2.0	1.9
Gross fixed capital investment	-5.2	5.8	2.4	4.3	3.7	3.2
Exports, goods and services	-11.3	13.4	-0.1	-2.3	-0.8	-0.3
Imports, goods and services	-16.0	-4.1	0.0	3.9	1.3	0.5
Real GDP growth, at constant factor prices	-4.5	4.0	3.3	2.1	2.5	2.5
Agriculture	1.7	-1.9	5.8	-3.0	3.1	2.0
Industry	-6.8	7.7	1.5	2.1	2.0	2.3
Services	-4.3	2.7	4.2	3.7	2.9	2.9
Inflation (consumer price index)	2.4	7.2	9.3	9.3	8.6	7.9
Current account balance (% of GDP)	-12.5	-2.8	9.4	1.9	0.3	-0.8
Fiscal balance (% of GDP)	-11.9	-7.2	-2.9	-6.8	-6.8	-6.4
Revenues (% of GDP)	30.5	29.9	34.2	32.4	30.8	29.9
Debt (% of GDP)	51.8	62.9	55.6	56.9	57.0	57.8
Primary balance (% of GDP)	-11.0	-6.5	-1.4	-5.3	-5.4	-4.9
GHG emissions growth (mtCO2e)	-2.7	-0.9	3.4	1.7	1.8	2.1
Energy related GHG emissions (% of total)	49.8	49.2	50.3	50.7	50.9	51.2

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