

ALGERIA

Table 1	2021
Population, million	44.7
GDP, current US\$ billion	168.0
GDP per capita, current US\$	3761.1
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	111.3
Life expectancy at birth, years ^b	76.9
Total GHG Emissions (mtCO ₂ e)	221.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ WDI for School enrollment (2020); Life expectancy (2019).

Increasing oil and gas demand and prices led to a strong rebound in hydrocarbon production and exports in 2021, sharply reducing fiscal and external financing needs. The recovery in the non-hydrocarbon segments of the economy remains incomplete, however, while inflation is rising. Looking beyond the current hydrocarbon windfall, accelerating the implementation of the Government's structural reform agenda will be essential to accelerate the recovery, reduce Algeria's reliance on hydrocarbon exports and sustainably reduce macroeconomic imbalances, diversify the economy, and create private sector jobs.

Key conditions and challenges

The Algerian economy remains dominated by the oil and gas sector, which accounted for 19% of GDP, 94% of product exports and 40% of budget revenues between 2015 and 2020. Over the past 15 years, however, declining investments contributed to a decline in oil production and a stagnation in natural gas production, while rising domestic consumption has led to a steeper fall in export volumes.

Since 2015, the current account and overall budget deficits have averaged 13% and 11% of GDP, respectively, leading to a marked decline in international reserves, currency depreciation, import compression policies, as well as debt monetization. Real public spending also stagnated, contributing to a slowdown in non-hydrocarbon sectors, and average annual real GDP growth fell to 1.1% in 2017-2019, causing GDP per capita in PPP terms to return to its 2014 levels. Nonetheless, non-monetary poverty declined between 2013 and 2019, amid improvements in education, health, and material outcomes.

The COVID-19-induced recession exacerbated growth challenges and macroeconomic imbalances, reinforcing the impetus for reform. The Government notably took steps to attract foreign investment by issuing a new Hydrocarbon Law, as well as lifting restrictions on foreign ownership of domestic firms in several sectors.

Meanwhile, the September 2021 Government Action Plan has made the transition

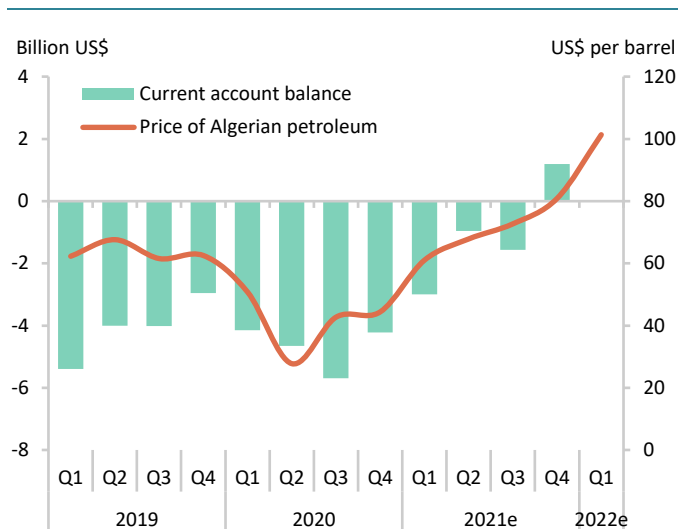
to a private sector-led growth and job creation model a developmental priority. Private firms are small, of low productivity, and largely informal, amid substantial State presence in productive sectors, a high regulatory burden, and limited access to credit and skills. The Plan argues for reinforcing macroeconomic stability, rationalizing spending, reducing imports and boosting non-hydrocarbon exports, and for significant improvements to the business environment, including through the reform of public banks and state-owned enterprises, as well as the adoption of a new Investment Law. The specific timeline for its implementation remains to be determined.

Recent developments

Led by the oil and gas sector, the economy expanded by 3.9% year-on-year during the first nine months of 2021, after contracting by 5.5% in 2020. The recovery in hydrocarbon output was driven by surging European gas demand and easing OPEC production quotas. Low rainfall contributed to a stagnation in agricultural output and services growth was subdued, but industrial and construction activity supported growth. As of September 2021, non-hydrocarbon GDP was still 3% below its pre-pandemic level. On the expenditure side, private consumption and investment returned to their pre-pandemic levels, while inventories are yet to recover.

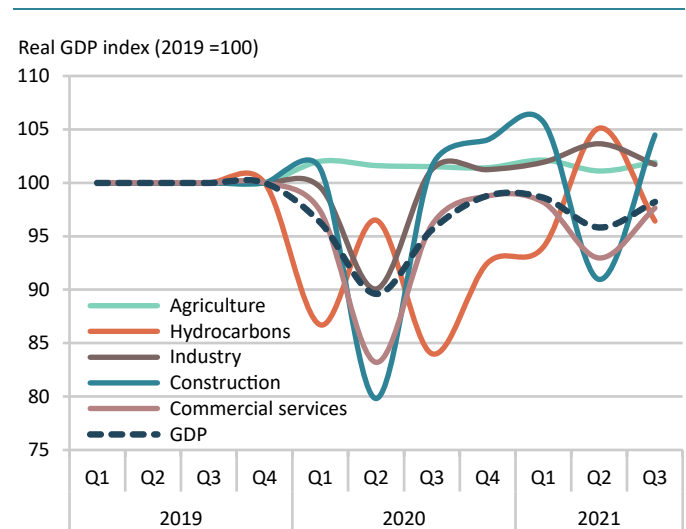
The estimated overall budget deficit narrowed from 12% in 2020 to 3.5% of GDP

FIGURE 1 Algeria / Crude oil prices and trade balance



Sources: Bank of Algeria and oilprice.com.

FIGURE 2 Algeria / GDP components, production side



Source: National Statistical Office and World Bank staff estimates.

in 2021, driven by rising oil revenues, an incomplete recovery in spending and despite significant financing support to the national pension fund. Estimated oil revenues surpassed pre-pandemic levels to reach 15% of GDP in 2021, while tax revenues remained 1.7 percentage points of GDP below pre-crisis, owing to subdued firm profitability and imports. Budget spending only recovered moderately, absent a marked recovery in public investment. Public debt is estimated to have increased from 52 to 61% of GDP in 2021, with banks purchasing large amounts of Treasury securities as part of a state-owned enterprise debt buyback program supported by Central Bank financing.

Broad money grew by 14% in 2021 as hydrocarbon deposits increased and COVID-19 policies to ease liquidity conditions remained in place, but private sector credit grew only by 3%. Inflation accelerated markedly in 2021, led by a 10.1% increase in food prices despite significant food subsidies, exacerbating the situation of the vulnerable population. The household survey under implementation will allow for updating the 2011

poverty estimates and estimating inflation's impact on well-being.

Algeria's current account deficit shrank by 74% in 2021, amid a 70% increase in the value of hydrocarbon exports and a muted recovery in imports, and despite rising import prices. Accordingly, foreign exchange reserves stabilized, at around 11 months of imports of goods and services.

Outlook

GDP is expected to continue to rebound and return to its 2019 level in 2022, despite low rainfall and therefore weak agricultural production. Aided by a rebound in public and energy investment, investment growth is expected to outpace that in consumption, more muted due to a gradual labor market recovery and the effect of high inflation on real consumer income. Hydrocarbon production will increase as OPEC quotas are eased and demand for Algerian gas benefits from European diversification away from Russian supply, before resuming a gradual decline, offset by modest non-hydrocarbon economic growth.

In 2022, the fiscal position is expected to improve markedly amid surging energy prices, sustained depreciation, and a recovery in tax revenues, offsetting the moderate increase in public spending. The current account balance is expected to register a surplus, aided by high hydrocarbon prices and despite a moderate recovery in input and equipment imports, consistent with higher investment. Over the medium-term, budget and external deficits are expected to reappear and widen amid declining hydrocarbon export volumes and prices, and public debt to stabilize at around 50% of GDP.

The economic consequences of the Russian-Ukrainian war and associated sanctions could further elevate hydrocarbon prices and improve Algeria's fiscal and external balances despite rising food import prices. On the other hand, large macroeconomic imbalances could reappear if global hydrocarbon prices were to decline. Ultimately, sustaining growth and enhancing economic resilience will hinge on the pace of implementation of structural reforms and their ability to foster economic diversification, private sector-led growth and job creation.

TABLE 2 Algeria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.0	-5.1	3.9	3.2	1.3	1.4
Private Consumption	2.1	-3.0	2.1	2.0	2.0	2.2
Government Consumption	1.9	-0.3	-0.9	0.1	0.1	0.0
Gross Fixed Capital Investment	-3.6	-5.2	3.5	5.7	3.1	4.6
Exports, Goods and Services	-6.0	-11.4	11.1	4.3	-1.2	-2.0
Imports, Goods and Services	-6.9	-15.6	-3.9	3.0	1.9	2.4
Real GDP growth, at constant factor prices	1.0	-4.7	3.9	3.2	1.2	1.3
Agriculture	2.7	1.3	0.2	0.9	1.8	1.3
Industry	-1.6	-7.5	7.0	4.2	1.3	1.3
Services	3.4	-3.4	1.7	2.6	0.9	1.3
Inflation (Consumer Price Index)	2.0	2.4	7.2	7.1	7.0	7.0
Current Account Balance (% of GDP)	-9.9	-12.6	-2.8	4.7	-0.2	-4.0
Fiscal Balance (% of GDP)	-9.6	-12.0	-3.5	0.7	-0.8	-2.2
Debt (% of GDP)	45.6	52.1	61.2	51.8	50.5	49.9
Primary Balance (% of GDP)	-9.0	-11.0	-2.9	1.3	0.0	-1.2
GHG emissions growth (mtCO2e)	2.3	-2.4	1.4	3.1	2.0	1.7
Energy related GHG emissions (% of total)	64.4	64.2	64.4	65.1	65.4	65.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.