ALGERIA

Table 1	2020
Population, million	44.1
GDP, current US$ billion	144.9
GDP per capita, current US$	3286.7
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]	107.3
Life expectancy at birth, years[b]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011).
(b) WDI for School enrollment (2019); Life expectancy (2018).

The Algerian economy contracted sharply in 2020 due to measures to contain the pandemic and a significant fall in hydrocarbon production, contributing to a major deterioration of the twin deficits. Swift lockdown measures have helped contain the pandemic, while the vaccination campaign was launched in January. To support the recovery, authorities have announced a longstanding economic reform effort to transition to a private sector-led economic model, reduce severe macroeconomic imbalances and protect the livelihoods of Algerians.

Key conditions and challenges

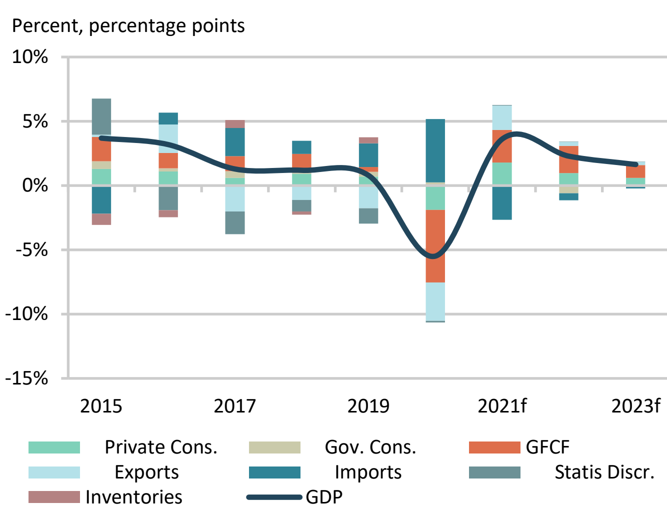
Algeria's economic performance is declining due to stagnating hydrocarbon production and a winded public sector-led model. Average annual real GDP growth reached 3.3 percent between 2010 and 2016, before falling to 1.1 percent after 2017, leading to negative GDP per capita growth. The hydrocarbon sector shrank by 2.1 percent yearly since 2010 due to declining investments, with the rise in domestic consumption leading to a 2.8 percent yearly fall 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 the 2014 oil shock. Real public spending has since stagnated, and the pace of growth of nonhydrocarbon sectors has slowed down. The transition to a private sector-led growth model is proving challenging, with private firms remaining small, of low productivity, largely informal and confronted with significant challenges such as a high regulatory burden, limited access to credit, a labor market skills gap and the omnipresence of state-owned enterprises.

Amid the COVID-19 pandemic and concurrent crash in oil demand and prices, the Algerian economy is facing significant stress. The impact of lockdown measures has been broad-based, with the services and construction sectors, as well as sectors which are labor-intensive and concentrated in the informal segment, being particularly affected. Algeria's borders have been closed for a year, and trade flows have declined sharply. Meanwhile, the abrupt fall in oil prices in February 2020 and decline in hydrocarbon exports have taken a heavy toll on fiscal and external revenues. In March 2021, lockdown measures remain in place, but the vaccination campaign has started, with modest vaccine deliveries in January. The government has adopted the Socio-Economic Recovery Plan in 2020, which lays out a structural reform agenda to foster the transition towards a sustainable, private-led growth model. While numerous reforms have been announced, there remains high uncertainty surrounding their implementation.

Recent developments

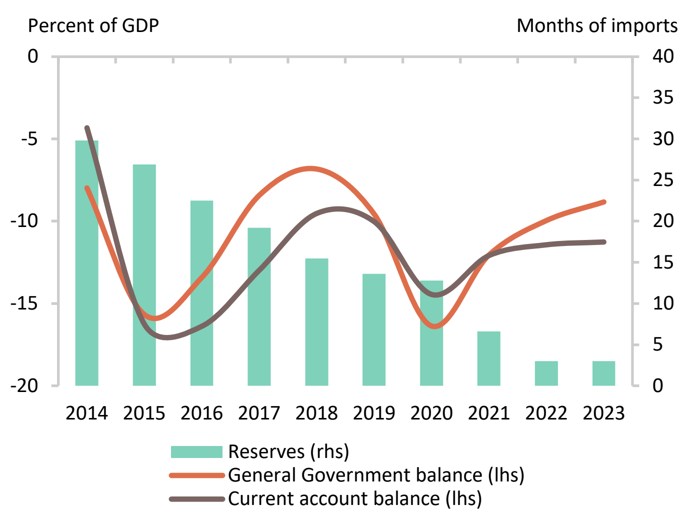
Amid COVID-19 containment measures and a contraction in hydrocarbon output, real GDP is expected to have contracted by 5.5 percent in 2020. The hydrocarbon sector is expected to have declined by 8.5 percent, led by a sharp fall in crude oil production, to below Algeria's OPEC production quota. Although complete national accounts data beyond Q1-2020 remain unavailable, non-hydrocarbon GDP is expected to have fallen by 4.4 percent in 2020. After moderate declines in Q1, the contraction in production, consumption and investment worsened in Q2. The sectors related to services were significantly

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.

impacted, as were industrial and construction activities, in line with the fall in investments. The economic contraction is expected to have extended to the second semester, with lockdown measures still in place. Despite the lack of recent estimates, poverty is expected to have risen in 2020 due to falling growth and employment, although inflationary pressures have remained contained.

Due to volume and price effects, exports fell by 37 percent in 2020, despite a moderate exchange rate depreciation. During the first eleven months of 2020, imports have declined by 18 percent y-o-y, with a pronounced contraction in machinery and equipment imports. The current account deficit is expected to have increased to 14.4 percent of GDP, and international reserves fell by 24 percent, to around 12.8 months of imports.

On the fiscal front, tax revenues have declined in H1-2020 compared to H1-2019, compounding the sharp fall in hydrocarbon budget revenues. Public spending remained unchanged, as the increase in current expenditure counterbalanced the fall in investment. Off-budget Treasury interventions, however, had already reached 4 percent of GDP by midyear, in the context of increased support to public banks and SOEs. To finance an overall budget deficit expected at 16.4 percent of GDP, significant liquidity was drawn from SOEs, contributing to a fall in banking liquidity despite a significant easing of prudential ratio. Such liabilities are excluded from official public debt, which therefore recorded a moderate increase, and remains on very favorable terms.

Outlook

A slow pace of economic recovery is expected for 2021 and 2022, amid large uncertainties as to the duration of the sanitary and economic crises. To date, the pace of the vaccination campaign suggests that partial containment measures could remain in place until 2022. Falling employment and firm revenues, and low consumer and business confidence, could limit private consumption and investment. The planned increase in public investment will support growth, although project costs will increase, in line with import prices. Hydrocarbon production and exports are expected to recover, supported by higher global demand and oil prices, but the partial recovery in imports will limit the reduction in the current account deficit. The overall budget deficit should remain elevated in 2021 and 2022 despite a recovery in hydrocarbon revenues, as public spending and realized contingent liabilities from public banks exposed to struggling SOEs increase. Further exchange rate depreciation and monetary financing are expected, to address high financing requirements. Imported inflationary pressures will mount and, combined with economic activity and employment remaining below the economic potential, poverty reduction will remain elusive.

Uncertainties surrounding the pace of the global and domestic recovery and domestic reform implementation, remain high. The spread of new variants of COVID-19 could limit the effectiveness of the vaccination campaign, and delay the global and domestic economic recovery, thereby leading to depressed external demand for international travel and Algerian exports. Lower-than-expected hydrocarbon prices would increase the twin deficits, while meeting the large budget financing requirements may adversely impact banking liquidity and undermine recovery efforts. With foreign exchange reserves expected to cover three months of imports by end-2022, the risk of a disorderly exchange rate adjustment has increased. Amid a volatile economic environment and recovered oil prices, insufficient progress in implementing decisive economic reforms to foster private sector activity would hinder the recovery.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.8	-5.5	3.6	2.3	1.6
Private Consumption	2.8	2.1	-5.5	5.2	2.8	1.7
Government Consumption	2.3	1.9	1.3	-0.2	-2.9	-0.5
Gross Fixed Capital Investment	3.1	1.0	-15.9	8.0	6.4	2.9
Exports, Goods and Services	-3.7	-6.1	-11.1	7.4	1.2	1.0
Imports, Goods and Services	-3.6	-6.9	-19.7	12.3	2.4	0.5
Real GDP growth, at constant factor prices	1.5	1.0	-5.5	3.6	2.3	1.7
Agriculture	3.5	2.7	1.6	1.6	1.5	1.4
Industry	-2.6	-1.7	-7.3	5.1	1.9	1.7
Services	5.6	3.3	-5.3	2.7	2.9	1.7
Inflation (Consumer Price Index)	3.5	2.3	2.1	3.9	4.1	4.0
Current Account Balance (% of GDP)	-9.5	-10.0	-14.4	-12.1	-11.4	-11.3
Fiscal Balance (% of GDP)	-6.8	-9.6	-16.4	-12.1	-10.0	-8.8
Debt (% of GDP)	37.6	45.6	51.4	56.1	60.5	65.3
Primary Balance (% of GDP)	-6.3	-9.0	-15.7	-11.6	-9.4	-8.3

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