

ALGERIA



ECONOMIC MONITOR

Navigating the
COVID-19 Pandemic,
Engaging Structural
Reforms

Fall 2020



WORLD BANK GROUP
Middle East and North Africa Region

Algeria Economic Monitor

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LIST OF ACRONYMS

AGEA	Association Générale des Entrepreneurs Algériens	GATMA	Groupe Algérien de Transport Maritime
ANE	Agence Nationale de l'Emploi	GDP	Gross Domestic Product
BADR	Banque d'Agriculture et du Développement Rural	IEA	International Energy Agency
BdA	Banque d'Algérie	kbpd	Thousands of barrels per day
BDL	Banque de Développement Local	mbpd	Millions of barrels per day
BEA	Banque Extérieure d'Algérie	MENA	Middle East and North Africa Region
CNAS	Caisse Nationale des Assurances Sociales	mtep	Million-ton equivalent of petroleum
CNR	Caisse Nationale des Retraites	NEER	Nominal Effective Exchange Rate
CNY	Chinese Yuan	NPL	Non-Performing Loans
CPA	Crédit Populaire d'Algérie	NSA	Nomenclature des Secteurs d'Activité
CPI	Consumer Price Index	ONS	Office National des Statistiques
DAPS	Droits additionnels provisoires de sauvegarde	OPEC	Organization of the Petroleum Exporting Countries
DZD	Algerian dinar	PAJE	Programme d'Appui Jeunesse Emploi
EMA	Entreprise Métro d'Alger	PMI	Purchasing Managers' Index
ETUSA	Entreprise de Transport Urbain et Suburbain d'Alger	ppts	Percentage points
EUR	Euro	REER	Real Effective Exchange Rate
FDI	Foreign Direct Investment	SMEs	Small- and Medium-sized Enterprises
FNI	Fond National d'Investissement	SNTF	Société Nationale des Transports Ferroviaires
FRR	Fond de Régulation des Recettes	SOEs	State-Owned Enterprises
		USD	U.S. dollar
		Y/Y	Year-over-year

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This Algeria Economic Monitor provides an update on key recent economic developments and policies. It places them in a longer-term and global context, and assesses the implications these developments and changes in policies have on the outlook for Algeria. This Monitor's coverage ranges from the macro-economy to financial markets to indicators of human welfare and development. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Algeria. The cut-off date for data is December 17, 2020.

The Algeria Economic Monitor is a product of the Middle East and North Africa (MENA) team in the Macroeconomics, Trade and Investment (MTI) Global practice in the World Bank Group. The report was led by Cyril Desponts (Economist, MTI) and Shahrzad Mobasher Fard (Consultant, MTI) under the general guidance of Eric Le Borgne (Practice Manager).

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EXECUTIVE SUMMARY

This report presents an overview of Algeria's recent macroeconomic developments and of its short-term economic outlook. The report is divided into two chapters. Chapter 1 presents the country's macroeconomic developments in 2019, which establishes the context for the unprecedented developments of 2020 related to the COVID-19 pandemic. Chapter 2 details the impact of the COVID-19 pandemic and concurrent crash in oil prices on various dimensions of Algeria's economic fabric. Finally, the conclusion presents the short-term outlook for the Algerian economy.

In 2019, Algeria's economic growth rate decelerated for a fifth consecutive year amid the protracted social mobilization and political transition, which weakened consumer and business confidence and spending. At the sectoral level, the structural decline of the hydrocarbon industry persisted, with the industry declining by 4.9 percent, while the non-hydrocarbon segment rose by a modest 2.4 percent in real terms. The unemployment rate remained unchanged at 11.4 percent in 2019, with 232,000 jobs created between April 2018 and May 2019. The national Consumer Price Index (CPI) remained well contained, rising by 2.3 percent in 2019, down from 3.5 percent in 2018. Algeria's overall fiscal balance worsened from -6.8 percent of GDP in 2018 to -9.6 percent of GDP in 2019 as a result of the fall in hydrocarbon revenues and increased public investment, pushing Algeria's debt-to-GDP ratio from

38.9 percent of GDP at end-2018 to 44.9 percent of GDP at end-2019. The current account deficit remained significant but relatively unchanged in 2019, with the fall in hydrocarbon exports being largely offset by a managed fall in goods imports (to preserve foreign exchange reserves) and the reduction in the services trade deficit. The Real Effective Exchange Rate (REER) slightly appreciated, leading to a loss of international competitiveness. Banking liquidity fell in 2019 amid the conclusion of the monetary financing program in March 2019, the financing of the 2019 budget deficit, and the gradual rise in the bank reserve requirement ratio to 10 percent in the summer of 2019.

Although second quarter national accounts data for 2020 are yet to be published, the economic momentum heading into Q2/2020 remained feeble, with economic activity contracting by 3.9 percent Y/Y in Q1/2020. Data on public industrial production in Q2/2020 point to a steepening of the overall contraction recorded in Q1/2020 following the introduction of COVID-19-related containment measures. Economic losses among SOEs have been substantial, particularly in the energy and transport sectors. While data on economic losses for the private sector are not available, several surveys reveal that private businesses saw their activities severely impacted by the COVID-19 pandemic, with notable repercussions on the labor market. The sectors most affected by the pandemic were those

comprised in transportation, tourism, restaurant, hotel, arts and crafts, energy, and retail and wholesale trade businesses. Employees working in small- and medium-sized enterprises (SMEs), along with self-employed and occasional workers, are expected to be the most adversely affected by the lack of activity. The *Agence Nationale de l'Emploi* (ANE) also reported a decline in the supply of labor.

In response to the COVID-19 pandemic, authorities took several measures to provide immediate relief to households and to businesses. As of May 2020, there were 322,000 beneficiaries of the *Allocation forfaitaire de solidarité*, which provided an allowance of 30,000 DZD per month to low-income job earners over the course of three months. In-kind support, consisting of food items and water, was also distributed to 600,000 households. Furthermore, the Ramadan solidarity grant was extended to 2.2 million households, with amounts raised from 6,000 DZD to 10,000 DZD. Other relief measures include the postponement of the declaration and payments of income taxes for individuals and enterprises, except for large enterprises, and the relaxation of contractual deadlines and penalties for companies that experience delays in completing public works. Banking measures included the lowering of the main policy rate by the Banque d'Algérie (BdA) from 3.5 percent to 3 percent and the lowering of the reserve requirement ratio from 10 percent to 3 percent.

The BdA also eased solvency, liquidity, and non-performing loan (NPL) ratio for banks, and allowed the extension of some loans without additional provisioning. The exchange rate was allowed to depreciate, easing the budget and external financing needs while supporting the Government's objective to curb the import bill.

The Algerian economy is projected to post a significant real GDP contraction in 2020 as a result of the twin shocks brought about by the COVID-19 pandemic: containment measures and the fall in hydrocarbon export receipts. There are several downside risks to the economic recovery. These risks consist of the possibility of a protracted sanitary crisis with the deployment of a vaccine being delayed or proving to be less effective, challenges in meeting the rising budget financing requirements (potentially augmented by the realization of large contingent liabilities arising from public banks and SOEs), as well as mounting inflation induced in part by higher import prices. Against this background, the Government of Algeria has announced far-reaching structural reforms to transition towards a private-led economic development model, while preserving support to the most vulnerable segments of the population. Its success will hinge on the decisiveness of the reform agenda, on the strength of the private sector response, and on the authorities' ability to concurrently restore macroeconomic equilibria.



RÉSUMÉ ANALYTIQUE

Ce rapport fournit un aperçu des récentes évolutions macroéconomiques en Algérie et des perspectives économiques à court terme du pays. Le rapport est divisé en deux chapitres. Le chapitre 1 présente les évolutions macroéconomiques du pays en 2019, brossant ainsi le contexte des évolutions sans précédent survenues en 2020 à la suite de la pandémie de COVID-19. Le chapitre 2 décrit l'impact de la pandémie de COVID-19 et de l'effondrement simultané des prix du pétrole sur différents aspects du tissu économique algérien. Enfin, la conclusion aborde les perspectives de l'économie algérienne.

En 2019, le rythme de la croissance de l'économie algérienne s'est ralenti pour une cinquième année consécutive dans un contexte de mobilisation sociale et de transition politique prolongées, qui a affaibli la confiance et les dépenses des consommateurs et des entreprises. Du point de vue sectoriel, le recul structurel du secteur des hydrocarbures s'est poursuivi, marquant un recul de 4,9 %, tandis que les secteurs hors hydrocarbures connaissaient une modeste augmentation de 2,4 % en termes réels. Le taux de chômage est resté stable à 11,4 % en 2019, avec la création de 232 000 emplois entre avril 2018 et mai 2019. L'indice national des prix à la consommation est resté sous contrôle, passant de 3,5 % en 2018 à 2,3 % en 2019. Le déficit budgétaire global de l'Algérie s'est détérioré, passant de 6,8 % du produit intérieur brut (PIB) en 2018 à

9,6 % du PIB en 2019, sous l'effet de la baisse des revenus des hydrocarbures et de l'augmentation des investissements publics, faisant passer le ratio dette/PIB de 38,9 % du PIB, fin 2018, à 44,9 % du PIB, fin 2019. Le déficit du compte courant est resté important, mais relativement stable en 2019, la baisse des exportations d'hydrocarbures étant largement compensée par une baisse voulue des importations de biens (visant à préserver les réserves de devises) et une réduction du déficit du commerce des services. Le taux de change effectif réel s'est quant à lui légèrement apprécié, résultant en une perte de compétitivité internationale. La liquidité bancaire a chuté en 2019 avec la clôture du programme de financement monétaire en mars 2019, le financement du déficit budgétaire de 2019 et l'augmentation progressive du taux de réserve obligatoire des banques jusqu'à 10 % durant l'été 2019.

Même si les données des comptes nationaux doivent encore être publiées pour le deuxième trimestre 2020, il est permis de dire qu'à l'approche du deuxième trimestre de 2020, l'élan économique est resté faible avec, au premier trimestre 2020, une contraction de 3,9 % de l'activité économique en glissement annuel. Pour le deuxième trimestre 2020, les données sur la production industrielle du secteur public indiquent une accentuation de la contraction globale enregistrée au trimestre précédent à la suite de l'introduction des mesures de confinement liées à la COVID-19. Les pertes économiques des entreprises

publiques ont été substantielles, en particulier dans les secteurs de l'énergie et des transports. Bien que les données sur les pertes économiques du secteur privé ne soient pas disponibles, plusieurs enquêtes révèlent néanmoins que les entreprises privées ont vu leurs activités gravement affectées par la pandémie de COVID-19 avec des répercussions notables sur le marché de l'emploi. Les secteurs les plus touchés par la pandémie ont été les transports, le tourisme, la restauration, l'hôtellerie, l'artisanat, l'énergie et le commerce de détail et de gros. En outre, les petites et moyennes entreprises, et les travailleurs indépendants et occasionnels auraient le plus souffert de l'arrêt des activités. L'Agence Nationale de l'Emploi fait également état d'une baisse de l'offre de main-d'œuvre.

En réponse à la pandémie de COVID-19, les autorités ont pris plusieurs mesures pour apporter une aide immédiate aux ménages et aux entreprises. En mai 2020, on dénombrait 322 000 bénéficiaires de l'Allocation forfaitaire de solidarité d'un montant mensuel de 30 000 dinars algériens versés pendant trois mois aux personnes à faible revenu. Un soutien en nature, sous forme de produits alimentaires et d'eau, a également été distribué à 600 000 ménages. En outre, l'allocation de solidarité du Ramadan, dont le montant est passé de 6 000 dinars à 10 000 dinars, a été étendue à 2,2 millions de ménages. Parmi les autres mesures d'aide, citons le report de la déclaration et du paiement des impôts sur le revenu pour les particuliers et les entreprises, à l'exception des grandes entreprises, et l'assouplissement des délais contractuels et des pénalités pour les entreprises enregistrant des retards dans l'achèvement des travaux publics. Parmi les mesures bancaires figurent

l'abaissement de 3,5 % à 3 % du principal taux directeur de la Banque d'Algérie et la diminution de 10 % à 3 % du taux de réserve obligatoire. La Banque d'Algérie a également assoupli les ratios de solvabilité, de liquidité et de prêts non performants des banques et a permis l'extension de certains prêts sans provisionnement supplémentaire. Une dépréciation du taux de change a permis d'alléger les besoins de financement budgétaire et extérieur, tout en soutenant l'objectif du Gouvernement de réduire la facture des importations.

L'économie algérienne devrait afficher une contraction importante du PIB réel en 2020, sous l'effet du double choc des mesures de confinement et de la chute des recettes des exportations d'hydrocarbures causé par la pandémie de COVID-19. Plusieurs risques à la baisse menacent la reprise économique : la possibilité d'une crise sanitaire prolongée si un vaccin se fait trop attendre ou s'avère peu efficace ; les difficultés à répondre aux besoins de financement croissants du budget, potentiellement accrus par la réalisation d'importants engagements conditionnels dus aux banques et entreprises publiques ; et l'inflation croissante entraînée en partie par la hausse des prix des importations. Dans ce contexte, le Gouvernement algérien a annoncé d'ambitieuses réformes structurelles visant à accélérer la transition vers un modèle de développement économique tiré par le secteur privé, tout en préservant le soutien aux tranches les plus vulnérables de la population. La réussite de cette entreprise reposera sur le caractère décisif de l'agenda des réformes, sur l'ampleur de la réponse du secteur privé, et sur la capacité des autorités à rétablir simultanément les équilibres macroéconomiques.

الملخص التنفيذي

مارس 2019، تمويل عجز موازنة في عام 2019 والارتفاع التدريجي في نسبة متطلبات الاحتياطي المصري إلى 10 في المئة في صيف 2019.

على الرغم من أن بيانات الحسابات القومية للربع الثاني لعام 2020 لم تُشَر بعد، إلا أن الزخم الاقتصادي المتجه إلى الربع الثاني من عام 2020 ظل ضعيفاً، مع تقلص النشاط الاقتصادي بنسبة 3.9 في المئة على أساس سنوي في الربع الأول من 2020. تشير البيانات عن الإنتاج الصناعي العام في الربع الثاني من عام 2020 إلى زيادة حدة الانكماش الإجمالي المسجل في الربع الأول من عام 2020 بعد إدخال تدابير الاحتواء المتعلقة ب كوفيد-19. كانت الخسائر الاقتصادية بين الشركات المملوكة للدولة كبيرة، لا سيما في قطاعي الطاقة والنقل. في حين أن البيانات المتعلقة بالخسائر الاقتصادية للقطاع الخاص غير متوفرة، كشفت عدة دراسات إستقصائية أن الشركات الخاصة شهدت تأثر أنشطتها بشدة بسبب جائحة كوفيد-19، مع تداعيات ملحوظة على سوق العمل. وكانت القطاعات الأكثر تضرراً من الوباء هي النقل، السياحة، المطاعم، الفنادق، الفنون والحرف اليدوية، الطاقة، البيع القطاعي و تجارة الجملة. كما أفادت وكالة الوطنية للتوظيف عن انخفاض في عرض العمالة.

استجابةً لوباء كوفيد-19، اتخذت السلطات عدة تدابير لتوفير الإغاثة الفورية للأسر والشركات. اعتباراً من مايو 2020، كان هناك 322.000 مستفيد من Allocation forfaitaire de solidarité، والذي قدم بدلاً قدره 30.000 دينار جزائري شهرياً لأصحاب الوظائف المنخفضة الدخل على مدار ثلاثة أشهر. كما تم توزيع الدعم العيني المكون من مواد غذائية ومياه على 600 ألف أسرة. علاوة على ذلك، تم تقديم منحة التضامن الرمضانية إلى 2.2 مليون أسرة، بمبالغ تم رفعها من 6000 دينار إلى 10000 دينار. وتشمل تدابير الإغاثة الأخرى تأجيل إعلان ودفع ضرائب الدخل للأفراد والمؤسسات، باستثناء الشركات الكبيرة، وتخفيف المواعيد النهائية التعاقدية والعقوبات على الشركات التي تعاني من تأخيرات في إنجاز الأشغال العامة. تضمنت الإجراءات المصرفية تخفيض

ي قدم هذا التقرير لمحة عامة عن التطورات الاقتصادية الأخيرة في الجزائر والتوقعات الاقتصادية على المدى القصير. التقرير مقسم إلى فصلين. يعرض الفصل الأول تطورات الاقتصاد في البلاد في عام 2019، والذي يحدد سياق التطورات غير المسبوقة لعام 2020 المتعلقة بجائحة كوفيد-19. يوضح الفصل الثاني بالتفصيل تأثير جائحة كوفيد-19 وتأثير الانهيار المتزامن في أسعار النفط على أبعاد مختلفة من النسيج الاقتصادي الجزائري. أخيراً، يعرض الاستنتاج المنظور قصير المدى للاقتصاد الجزائري.

في عام 2019، تباطأ معدل النمو الاقتصادي في الجزائر للعام الخامس على التوالي وسط التعبئة الاجتماعية المطولة والتحول السياسي، مما أضعف ثقة المستهلك، الشركات والإنفاق. على المستوى القطاعي، استمر التدهور الهيكلي لصناعة الهيدروكربونات، مع تراجع الصناعة بنسبة 4.9 في المئة، بينما ارتفع القطاع غير النفطي بنسبة متواضعة 2.4 في المئة بالقيمة الحقيقية. ظل معدل البطالة دون تغيير عند 11.4 في المئة في عام 2019، مع خلق 232 ألف وظيفة بين أبريل 2018 ومايو 2019. ظل مؤشر أسعار المستهلك الوطني تحت سيطرة، حيث ارتفع بنسبة 2.3 في المئة في عام 2019، بانخفاض 3.5 في المئة في عام 2018. تدهور العجز المالي من 6.8 في المئة من الناتج المحلي الإجمالي في عام 2018 إلى 9.6 في المئة من الناتج المحلي الإجمالي في عام 2019 نتيجة لانخفاض عائدات الهيدروكربونات وزيادة الاستثمار العام، مما أدى إلى إرتفاع نسبة الدين في الجزائر من 38.9 في المئة من الناتج المحلي الإجمالي في نهاية عام 2018 إلى 44.9 في المئة من الناتج المحلي الإجمالي في نهاية عام 2019. ظل عجز الحساب الجاري كبيراً ولكنه لم يتغير نسبياً في عام 2019، حيث تم تعويض الانخفاض في صادرات الهيدروكربونات إلى حد كبير من خلال انخفاض واردات السلع (للحفاظ على احتياطات النقد الأجنبي) وانخفاض عجز تجارة الخدمات. شهد سعر الصرف الفعلي الحقيقي ارتفاعاً طفيفاً، مما أدى إلى فقدان القدرة التنافسية الدولية. وتراجعت السيولة المصرفية في عام 2019 وسط انتهاء برنامج التمويل النقدي في

تتكون هذه المخاطر من احتمال حدوث أزمة صحية مطولة مع تأخير نشر اللقاح أو إثبات أنه أقل فعالية، وتحديات في تلبية متطلبات تمويل الميزانية المتزايدة ، والتي من المحتمل أن تزيد من خلال تحقيق المطلوبات المحتملة الكبيرة الناتجة عن البنوك العامة والشركات المملوكة للدولة، فضلا عن التضخم المتزايد الناجم جزئيا عن ارتفاع أسعار الواردات. في ظل هذه الخلفية، أعلنت الحكومة الجزائرية عن إصلاحات هيكلية بعيدة المدى للانتقال نحو نموذج التنمية الاقتصادية التي يقودها القطاع الخاص، مع الحفاظ على الدعم للفئات الأكثر ضعفاً من السكان. وسيعتمد نجاحها على مدى حسم برامج الإصلاح، وعلى قوة استجابة القطاع الخاص، وعلى قدرة السلطات على استعادة التوازن الاقتصادي بشكل متزامن.

سعر الفائدة الرئيسي من قبل بنك الجزائر من 3.5 في المئة إلى 3 في المئة وخفض معدل الاحتياطي من 10 في المئة إلى 6 في المئة. كما خفض بنك الجزائر الملاءة المالية، ونسبة السيولة والقروض المتعثرة للبنوك، وسمح بتمديد بعض القروض دون مخصصات إضافية. تم السماح لسعر الصرف بالانخفاض، مما أدى إلى تخفيف الميزانية واحتياجات التمويل الخارجي، مع دعم هدف الحكومة للحد من فاتورة الاستيراد.

من المتوقع أن يسجل الاقتصاد الجزائري انكماشاً حقيقياً كبيراً في إجمالي الناتج المحلي في عام 2020 نتيجة للصدمات المزدوجة لتدابير الاحتواء وانخفاض عائدات تصدير الهيدروكربونات الناجم عن وباء كوفيد 19-. هناك العديد من المخاطر السلبية على الانتعاش الاقتصادي.



DEVELOPMENTS IN 2019

Growth and Labor Market

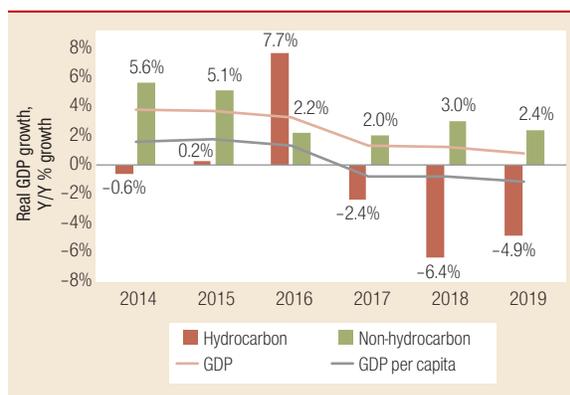
The growth rate of the Algerian economy slowed down for a fifth consecutive year in 2019 amid the protracted social mobilization and political transition. With weaker consumer and business confidence and spending, Algeria's real Gross Domestic Product (GDP) growth moderated from 1.2 percent in 2018 to 0.8 percent in 2019. Consumption spending, which accounts for 54 percent of Algeria's real GDP, rose by 2.0 percent in 2019 (down from 2.7 percent in 2018), driven by slowdowns in both private consumption (2.1 percent in 2019 vs. 2.8 percent in 2018) and in public consumption (1.9 percent in 2019 vs. 2.3 percent in 2018). Investment, which comprises 36 percent of Algeria's real GDP, rose by 1.0 percent in 2019, down from 3.1 percent in 2018, with growth in public investment being mostly offset by the decline in private investment. Private investment was down in part due to the continued freeze in public tenders, arrears to the private sector and lower business confidence amid judicial enquiries involving business leaders. Meanwhile, net exports remained relatively unchanged, with exports and imports of

goods and services contracting by 6.1 percent and 6.9 percent in 2019, respectively (Figures 1 and 3).

At the sectoral level, the structural decline of the hydrocarbon industry persisted, with growth in the non-hydrocarbon segment contributing modestly to economic growth. The hydrocarbon industry, which represents 25 percent of Algeria's economy, contracted by 4.9 percent in 2019, while the non-hydrocarbon segment of the economy expanded by 2.4 percent. The contraction in the hydrocarbon industry came as a result of years of underinvestment in the exploration and exploitation of oil and gas. The authorities are attempting to address this issue through a new Hydrocarbon Law, introduced in December 2019, with more favorable terms offered to attract Foreign Direct Investment (FDI) from international oil companies.¹ The services, agricultural, and construction sectors posted more modest contributions to economic growth compared to 2018. The services sector's lower contribution was

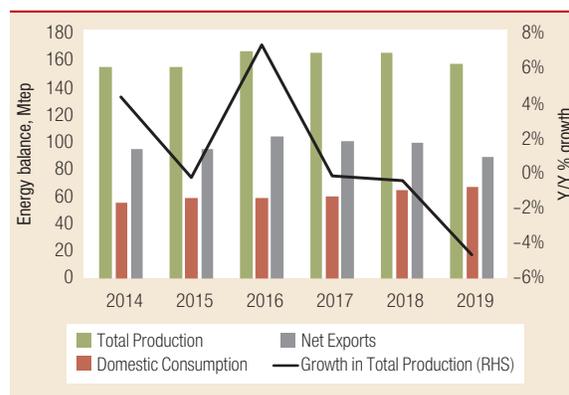
¹ Hydrocarbon production declined from 200 to 157 billion-ton equivalent of petroleum between 2007 and 2019.

FIGURE 1 • GDP Growth Decelerated for a Fifth Consecutive Year...



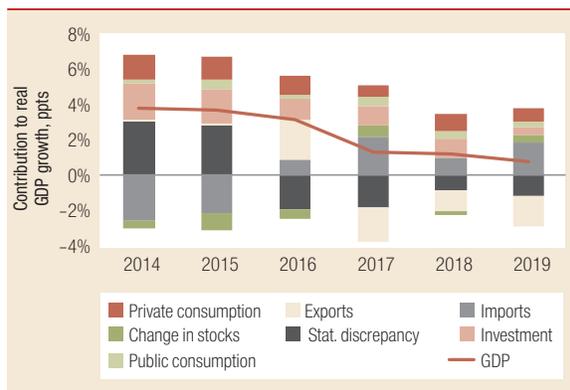
Source: Office National des Statistiques (ONS).

FIGURE 2 • ...Dragged by a Sharp Decline in Oil Production



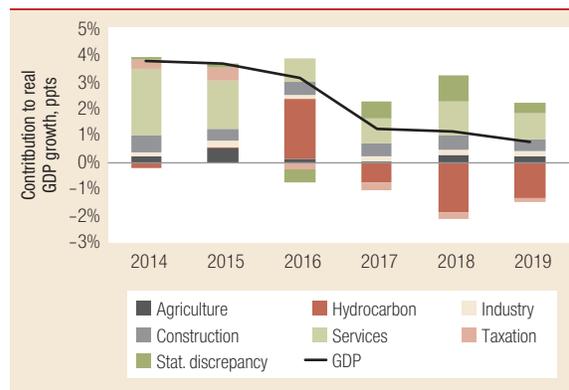
Source: Ministry of Energy.

FIGURE 3 • Consumption and Investment Growth Slowed Down...



Source: ONS.

FIGURE 4 • ...with the Services Sector Supporting Growth



Source: ONS.

largely led by lower activity within the transportation and communications industry, and from hotels, cafes, and restaurants. The agricultural sector's growth slowdown to 2.7 percent in 2019, from 3.5 percent in 2018, was largely explained by lower yields in the third quarter compared to a record yield during the same reference period in 2018. The growth rate of the construction sector diminished to 3.9 percent in 2019, compared to 5.3 percent in 2018, in line with the slowdown in investment² (Figures 2 and 4).

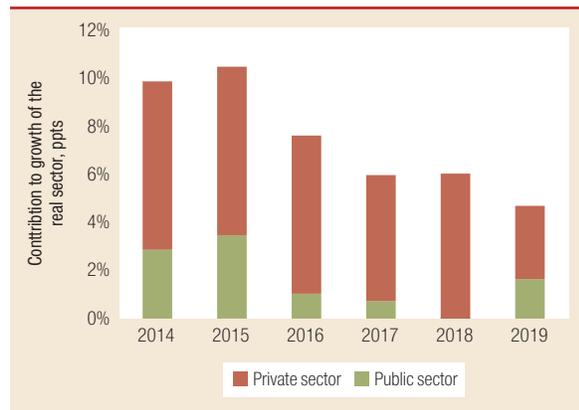
While the private sector continued to be the main engine of economic growth in 2019, the public sector generated more jobs. In 2019, the private sector's contribution to total value-added in the real sector,³ excluding hydrocarbon, amounted

to 64 percent, but it was responsible for the creation of 37 percent of the 280,000 net jobs created between September 2018 and May 2019. The most notable contributions to total value-added in the non-hydrocarbon real sector from the private segment

² The association of contractors (Association Générale des Entrepreneurs Algériens [AGEA]) characterized 2019 as a "lost year" and reported that in the context of weak public demand, over 20,000 construction firms suspended activities and over 150,000 workers were temporarily laid off.

³ The real sector is defined by the ONS as the sum of the 19 Nomenclature des Secteurs d'Activité (NSA) sectors, therefore excluding finance, insurance, real estate sectors, as well as public services.

FIGURE 5 • The Private Sector Remained the Main Contributor to Non-Hydrocarbon Activity...



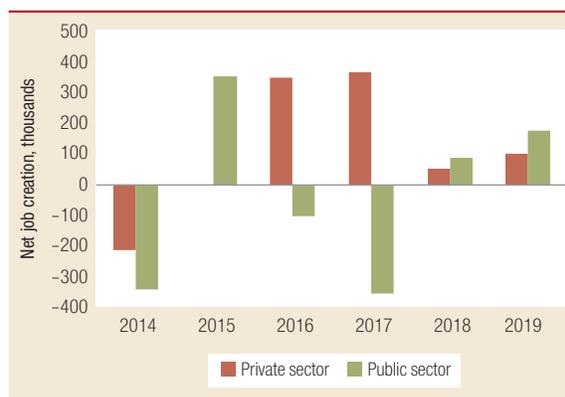
Source: ONS.

Note: The real sector is defined by the ONS as the sum of the 19 NSA sectors, and excludes the financial and real estate sectors, as well as public services.

of the economy stemmed from agriculture (+1.2 ppts), construction (+0.8 ppts), and transportation and communications (+0.7 ppts). Private investment comprised 64 percent of total investments. While the net registration of small- and medium-sized enterprises (SMEs) increased by 7.2 percent in H1/2019 against the same reference period in 2018, registered employment grew by 4.8 percent over this timeframe.⁴ FDI's potential role for accessing capital, transferring knowledge, and accessing international markets also remained limited, with inward FDI averaging 0.6 percent of GDP yearly over the 2017–2019 period. The 2020 Budget Law aimed to address this low FDI level by including a provision to lift the 51/49 rule on foreign ownership for non-strategic sectors (Figures 5 and 6).

Net job creation exceeded the rise in the number of individuals entering the labor force, leading to a fall in the number of unemployed. Between September 2018 and May 2019, 280,000 jobs were created (with the employment rate rising from 36.8 percent in September 2018 to 37.4 percent in May 2019) which, combined with an increase in the labor force participation of 267,000 individuals (with the labor participation rate rising from 41.7 percent in September 2018 to 42.2 percent in May 2019), led to a decline in the number of unemployed by 13,000 (with the unemployment rate falling from 11.7 percent in

FIGURE 6 • ...although the Public Sector Created More Jobs



Source: ONS.

Note: The change in job creation for 2019 corresponds to the September 2018 to May 2019 period in light of data limitations. In previous years, this has been calculated on an annual basis from the month of September of a given year to September of the following year.

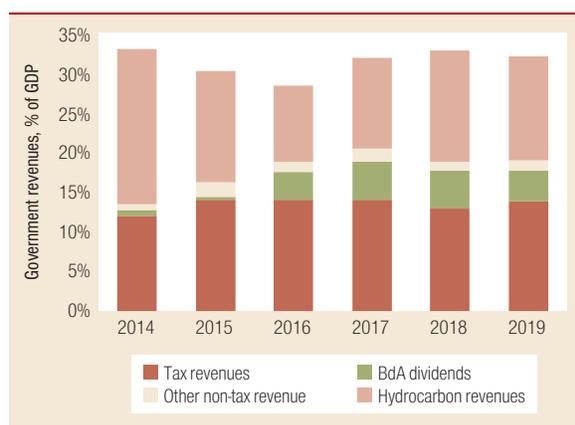
September 2018 to 11.4 percent in May 2019). Labor market outcomes differed across male and female populations, however, with the male unemployment rate declining from 9.9 percent to 9.1 percent, while the female unemployment rate rose from 19.4 percent to 20.4 percent, within the context of a male and a female labor market participation rate of 66.8 percent and 17.3 percent, respectively, in May 2019. Labor market conditions have marginally deteriorated in recent years, with the unemployment rate rising from 10.6 percent in September 2014 to 11.4 percent in May 2019.

Public Finances

Algeria's central government overall fiscal balance deteriorated from -6.8 percent of GDP in 2018 to -9.6 percent of GDP in 2019 as a result of the fall in hydrocarbon revenues and increased public investment. Government revenues declined by 1.2 percent of GDP due to lower hydrocarbon revenues, while non-hydrocarbon revenues remained stable with the increase in tax

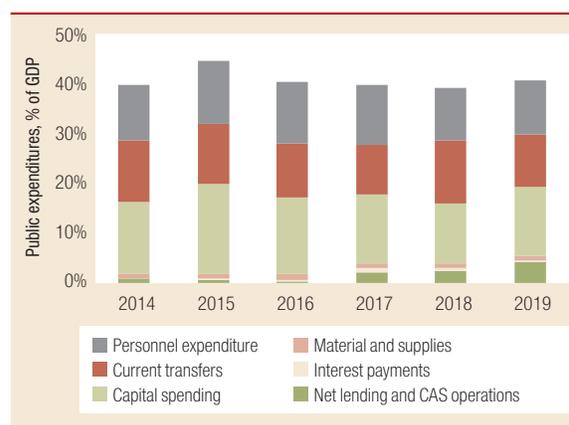
⁴ Ministère de l'Industrie et des Mines, November 2019. Based on *Caisse Nationale des Assurances Sociales* (CNAS) registration.

FIGURE 7 • Lower BdA Dividends Subtracted from the Budget...



Source: Ministry of Finance.

FIGURE 8 • ...while Capital Spending Increased Markedly



Source: Ministry of Finance.

revenues being offset by the decline in dividends from the Banque d'Algérie (BdA).⁵ The increase in tax revenues was mainly related to the increase of income tax revenues in the context of rising public employment, the rise in petroleum tax rates and the increase in customs duties following the imposition of significant import safeguard duties.⁶ Meanwhile, government expenditures rose by 1.6 percent of GDP, with current expenditure growth of 1.4 percent relative to 2018⁷ and capital expenditure growth of 17.7 percent.⁸ Treasury interventions surged (+66.9 percent, to 863 billion DZD), in the context of increased public support to SOEs. Meanwhile, a transfer from the national investment fund (*Fond national d'investissement*, or FNI) to the *Caisse Nationale des Retraites* (CNR), in an amount equivalent to 3.3 percent of GDP, was drawn from earmarked monetary financing, significantly raising spending through Special Accounts.⁹

Algeria's debt-to-GDP ratio is estimated to have risen from 38.9 percent of GDP in 2018 to 44.9 percent in 2019, with the financing met by a drawdown from Sonatrach and monetary financing. As of end-2019, over 70 percent of Algeria's public debt was held by the BdA within the context of a large monetary financing program initiated in 2017 and worth 32.1 percent of 2019 GDP.¹⁰ This long-term debt carries an annual interest rate of 0.5 percent. Meanwhile, external debt amounts to only 0.8 percent of GDP. In recent years, the country's domestic

short-term debt has also been gradually replaced by one- and two-year bonds, with yields however gradually increasing from 2 percent to 5 percent between 2016 and 2019. The financing of the 2019 deficit, equivalent to 9.6 percent of GDP, was derived from liquidity drawdowns from SOEs in the amount of 807 billion DZD, with Sonatrach contributing most of it (708 billion DZD¹¹), and the remainder stemming from the monetary financing by the BdA (1 trillion DZD). (Figures 9 and 10).

⁵ BdA dividends are drawn from gains made by exchanging the current account surplus between 2000 and 2014 and selling foreign exchange reserves at a more preferable exchange rate in subsequent years.

⁶ The DAPS (Droits additionnels provisoires de sauvegarde) imposed tariffs of up to 200 percent on selected products.

⁷ When excluding the 2.5 percent of GDP transfer to the national pension fund in 2018 (*Caisse Nationale des Retraites* [CNR]).

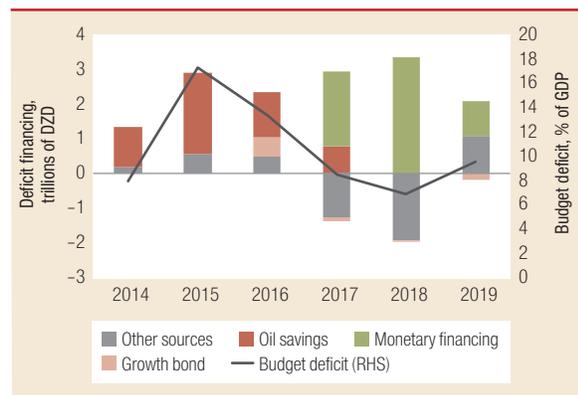
⁸ Although the entirety of the investment might not have been spent by sectoral ministries.

⁹ The 2018 transfer to the CNR amounted to 2.5 percent of GDP.

¹⁰ Out of the total amount of 6,556 billion DZD, 38 percent would serve to finance the deficit, 28 percent to settle the Treasury's debt to Sonatrach and Sonelgaz and settle the 2015 Growth Bond, 27 percent to the National Investment Fund, and 8 percent for the CNR to refinance its debt to the CNAS.

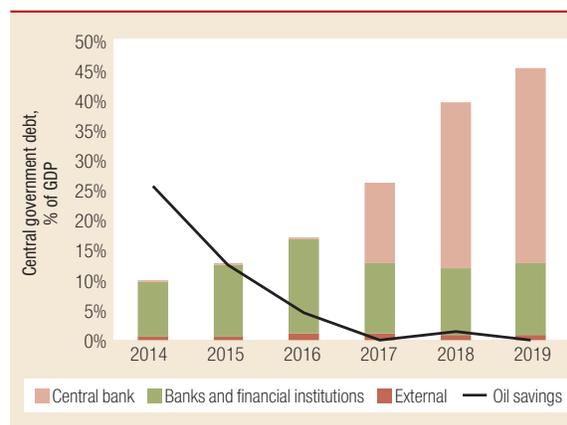
¹¹ Sonatrach 2019.

FIGURE 9 • In the Past Three Years, Financing Needs Have Been Met by Monetary Financing...



Source: Ministry of Finance; World Bank calculations.
 Note: Other sources of financing are negative in 2017 and 2018 mainly because monetary financing was used to reimburse State debts to SOEs.

FIGURE 10 • ...Consequently, Public Debt Is Now Mostly Held by the BdA



Source: BdA and IMF.
 Note: Gross public debt is computed as the sum of claims from the central bank, banking and financial institutions, and multilateral and bilateral creditors.

Monetary and Banking Developments

Banking liquidity fell in 2019 amid the conclusion of the monetary financing program, the financing of the 2019 budget deficit and the gradual rise in banks' reserve requirement ratio. The BdA's quantitative easing program started in September 2017 and ended in March 2019, with 4,726 billion DZD injected into the economy (23 percent of 2019 GDP) out of a total of 6,556 billion DZD.¹² This, combined with the drawdown in SOE liquidity to finance the budget deficit and the increase in bank reserve requirement ratios from 4 percent in January 2018 to 10 percent in the summer of 2019, resulted in a fall in banking deposits included in broad money (M2).

Bank lending to SOEs increased by 14.4 percent in 2019 against an increase of 4.2 percent for the private sector, suggesting a crowding out of private investment. Although the private sector generates 64 percent of total value-added in the real sector, lending to the private sector represented 48.0 percent of total bank lending, while lending to SOEs represented 50.1 percent of total bank lending. The ratio of non-performing loans rose from 9.2 percent in 2014 to 13 percent in 2018, with the bank provision rate falling from 65.2 percent to

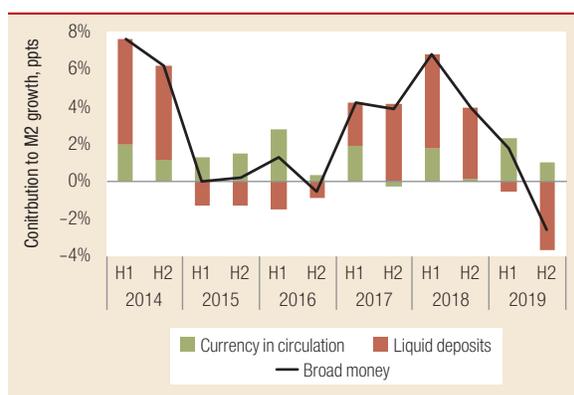
50.2 percent over the same period. Stress tests realized in 2019 suggest that while market risks remain contained, the exposure of the six public banks, which account for 85 percent of credit to the economy, to their three main customers is substantial.

The national Consumer Price Index (CPI) rose by 2.3 percent in 2019, down from 3.5 percent in 2018. The national CPI, which has been on a declining trend since peaking in the summer of 2016 following the large 2015 currency devaluation, edged up modestly against the stability of the exchange rate, the weaker public and private demand growth, the moderation in administered prices, and the monetary tightening by the BdA.¹³ The value of the Algerian dinar against the U.S. dollar (USD), in which Algeria's exports are predominantly invoiced, depreciated modestly from 116.6 DZD/USD in 2018 to 119.4 DZD/USD in 2019. On the other hand, the value of the Algerian dinar against

¹² The sterilization program intended to curb inflationary pressures absorbed 37 percent of the total monetary financing.

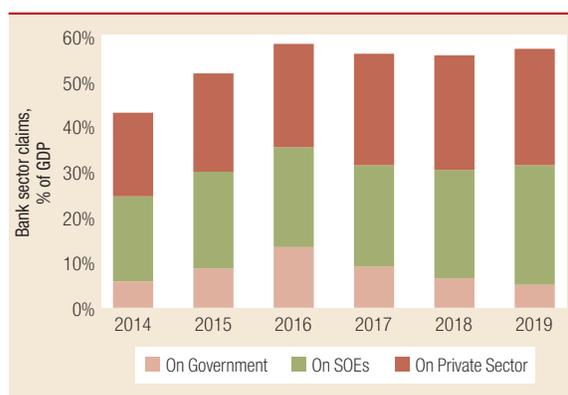
¹³ IMF (2017) shows that the Algerian CPI is highly persistent in the short-run and reacts most to growth in the money supply and the exchange rate, although with a four-quarter lag.

FIGURE 11 • Liquidity Fell Following the Conclusion of Monetary Financing...



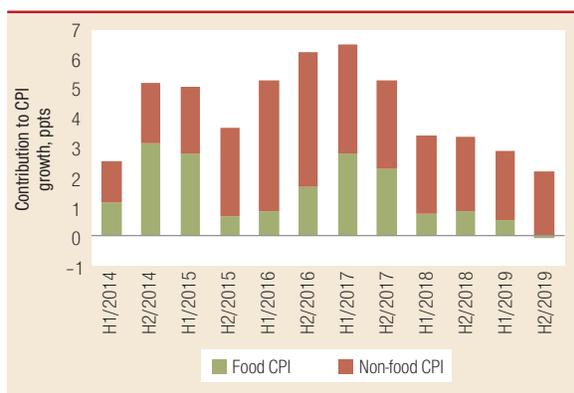
Source: BdA.

FIGURE 12 • ...and Most New Credit Was Channeled to SOEs



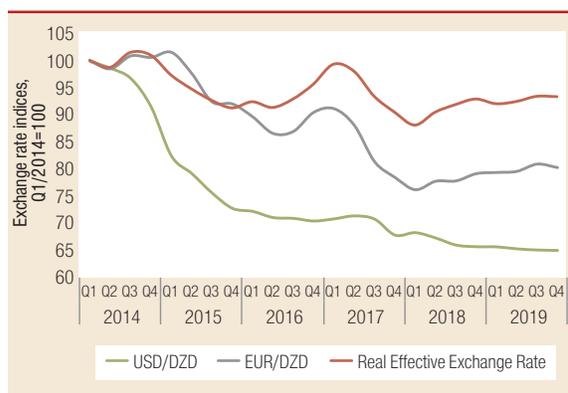
Source: BdA.

FIGURE 13 • In 2019, Inflation Moderated as Food Prices Stagnated...



Source: ONS.

FIGURE 14 • ...while the Real Effective Exchange Rate Slightly Appreciated



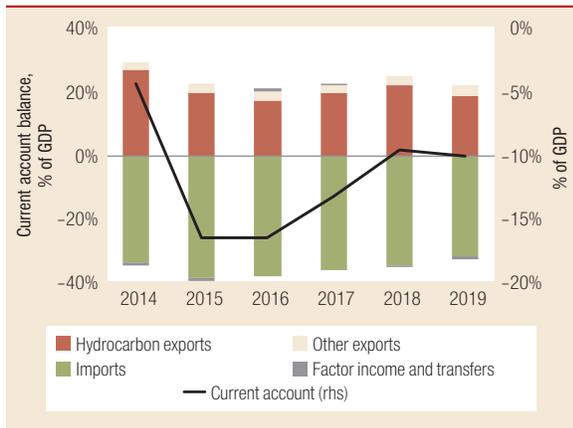
Source: BdA and IMF.

the Euro and Yuan, against which almost all of Algeria's imports are traded, appreciated modestly from 137.5 DZD/EUR in 2018 to 133 DZD/EUR in 2019 and from 17.6 DZD/CNY in 2018 to 17.3 DZD/CNY in 2019. As a result, the Real Effective Exchange Rate (REER) slightly appreciated, leading to a loss of international competitiveness. This was entirely led by the depreciation of the Nominal Effective Exchange Rate (NEER), while price differentials based on the CPI remained relatively unchanged. The value of the local currency also remained relatively unchanged in the parallel market, trading at a 50 percent discount against the USD and the Euro compared to the official foreign exchange market. (Figures 13 and 14).

External Accounts

The current account deficit remained relatively unchanged in 2019 with the fall in hydrocarbon exports being largely offset by the fall in goods imports and the reduction in the services trade deficit. The current account deficit was equivalent to 10.0 percent of GDP in 2019, down from 9.5 percent of GDP in 2018. The trade balance in goods recorded a deficit of 5.6 percent of GDP in 2019, up from 4.3 percent of GDP in 2018, while the services trade deficit improved from 3.7 percent of GDP in 2019, down from 4.7 percent of GDP in 2018. The decline in exports of goods from 23.4 percent of GDP in 2018 to 20.5

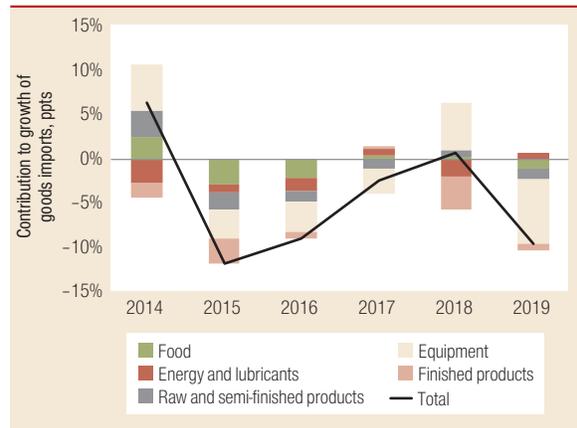
FIGURE 15 • The Import Compression Effort Continued...



Source: BdA.

percent of GDP in 2019 was only partially offset by the decline in imports of goods from 27.7 percent of GDP in 2018 to 26.1 percent of GDP in 2019. This comes despite the introduction of additional import restrictions and the nominal depreciation of the Algerian dinar, which led to a contraction in imports of equipment, raw and finished products, and food products. The current account deficit led to a further

FIGURE 16 • ...Led by a Sharp Decline in the Value of Equipment Imports



Source: Ministry of Finance.

depletion of international reserves, which dropped to US\$61.5 billion at end-2019 according to the IMF,¹⁴ covering 13.6 months of imports of goods and services, down from US\$78.6 billion a year earlier. (Figures 15 and 16).

¹⁴ Excluding Special Drawing Rights.



NAVIGATING THE COVID-19 PANDEMIC

Introduction

The global economy is navigating an uncertain path of recovery following a deep and synchronous recession caused by lockdowns to contain the COVID-19 pandemic. The first wave of the COVID-19 pandemic hit almost all of the world's economies during the second quarter of 2020, with G20 countries' real GDP level estimated to have contracted by 9.1 percent Y/Y, and China constituting the only G20 country recording growth in the quarter (+11.8 percent Y/Y) following the contraction it posted in the previous quarter. The swift and aggressive response of central banks across the world to keep financing conditions loose helped provide the space needed for governments to ramp up spending to respond to the health and economic needs of the population. The recovery remains uneven, however, with activity within the goods sector improving, while the services sector, particularly international travel, remaining feeble. The second wave of infections in the fall, which has daily new cases exceeding 500,000 globally, with over 7,500 deaths being recorded daily, has led to renewed lockdowns. The global composite Purchasing Managers' Index (PMI)¹⁵ has

consequently fallen by 0.3 ppts to 52.1 in September following four consecutive months of increase. The economic recovery will largely be determined by the timing of the commercialization and the effectiveness of the COVID-19 vaccine, with significant downside risks related to economic and financial conditions.

Within the Middle East and North Africa (MENA) region, economies have been exposed to the twin shocks of recession-induced lockdown measures as well as the abrupt fall in foreign revenues. Iraq, Algeria, Iran, and Libya experienced a major fall in oil revenues, while Morocco, Tunisia, Lebanon, and Jordan experienced a contraction in international tourism receipts and remittances. Given the limited availability of fiscal buffers across the MENA countries, much of the measures to date have consisted in eliminating unessential public spending and reallocating these funds to health care

¹⁵ The composite PMI is an indicator of economic health for manufacturing and service sectors that provides information about current business conditions. A PMI above 50 represents an expansion when compared with the previous month. A PMI reading under 50 represents a contraction, and a reading at 50 indicates no change.

expenditures, and measures to provide economic relief to households and firms.

To limit the spread of the virus in Algeria, the Government imposed stringent containment measures on individuals and on businesses early on in the pandemic. These measures included, notably, the cancellation of flights and the imposition of quarantines on repatriated Algerians, the closure of schools, universities, restaurants, and shops. The State also ordered the cancellation of all public and private events, including demonstrations and religious activities, and the shutdown of public transportation services. Furthermore, half of civil servants and workers within the economic public sector were placed on mandatory leave with full compensation. Finally, since the spring, the Government has imposed curfews with varying degrees of stringency in the wilayas (i.e., governorates). It also limited exports of strategic goods, such as food along with medical and hygiene items in a bid to raise the preparedness of the country.

The COVID-19 pandemic hit Algeria as a new Government, tasked with leading political and economic reforms and rebalancing state finances, was formed. Abdelmadjid Tebboune, who was elected President in December 2019, appointed Abdelaziz Djerrad as Prime Minister who formed a new Government in January 2020. The first COVID-19 case, which was recorded in Algeria on February 25, happened days after the publication of the Government's Action Plan, which envisaged reforms to accelerate the transition to private sector led growth, while preserving Algeria's social model. The twin shocks of the COVID-19 pandemic and concurrent fall in oil prices, however, forced the State to undertake a number of measures to mitigate the impact of the COVID-19 pandemic on households and firms. The pandemic also rendered urgent the acceleration of structural reforms to restore long-term macro-fiscal equilibria and foster private sector development. The Supplementary Budget Law enacted on June 4, 2020, included provisions to address the health impact of the COVID-19 pandemic. In October 2020, the Minister of Finance revealed that 65,531 billion DZD (0.3 percent of 2019 GDP) had been allocated across different sectors in response to the COVID-19 pandemic.¹⁶

In August 2020, President Tebboune chaired the National Conference on the Economic and Social Recovery Plan which is expected to lead to an economic diversification strategy.

The Conference, structured around 11 workshops facilitated by sectoral Ministers, brought together the Government, public institutions, trade and labor unions, and economists. This Conference will lead to the development of a Socio-Economic Recovery Plan which will lay out the steps toward transitioning away from the hydrocarbon-led model and to be articulated into three time horizons, namely end-2020, end-2021 and end-2024.

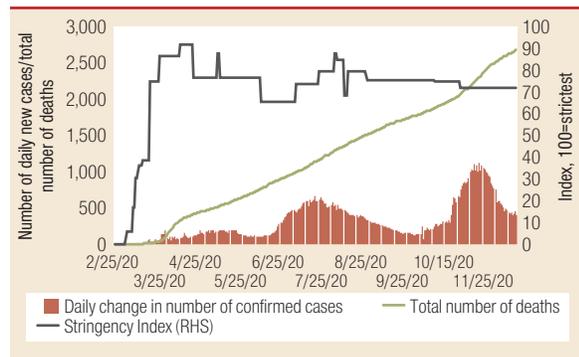
Algeria's Twin Shocks

The COVID-19 pandemic took the Algerian economy by storm. The first case of COVID-19 in Algeria was reported on February 25, 2020. On March 2, 2020, two new cases of COVID-19 were confirmed, with daily cases being reported thereafter and the first death being reported on March 12, 2020. During the first wave of the pandemic, confirmed daily new cases peaked at 675 on July 24, 2020. Following the flattening of the curve in August and in September, cases began to rise again in October. As of December 22nd, 2020, there was a total of 96,069 confirmed cases and 2,687 deaths (Figure 17). Given the limited number of testing kits available, however, the number of confirmed cases have likely materially underestimated the true number of cases.

The Government adopted a swift policy response to the pandemic. The Government's allocations to the healthcare sector amounted to DZD 3.7 billion (US\$ 473.6 million) for medical supplies, 16.5 billion DZD (US\$128.9 million) for bonus payments to healthcare workers, and 8.9 billion DZD (US\$69.5 million) for the sector's development. Significant imports of health products and equipment took place,

¹⁶ Since the start of the pandemic, the Government allocated 12,643 billion DZD to the health care sector, 24,702 billion DZD to vulnerable households, 24,390 billion DZD to agents of the State, and 3,317 billion DZD to the repatriation of Algerians stranded abroad.

FIGURE 17 • Despite a Swift Policy Response, a Second Wave of COVID-19 Infections Is Underway

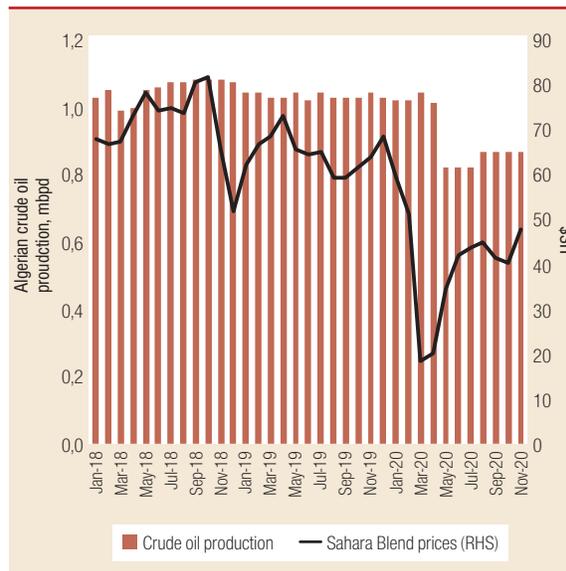


Source: Johns Hopkins University for the reported number of cases and Oxford COVID-19 Government Response Tracker for the Stringency Index.
 Note: The Stringency Index measures the extent of the government's response to contain the COVID-19 pandemic over time on a scale of 0 to 100 (100=strictest). It is a composite measure based on a simple average across nine response indicators: school closures, workplace closures, cancellation of public events, restrictions on gathering size, public transport closures, stay at home requirements, restrictions on internal movement, restrictions on international travel, and public information campaign. The underlying data reflect the strictest response at the sub-national level.

with import procedures being simplified to facilitate trade. Local hospitals were established, and SOEs were asked to contribute, with Getex, which operates in the textile industry, mandated to produce masks; Sidal, which operates in the pharmaceutical industry, requested to produce hand sanitizers; and ENIE, which manufactures electronic products, mandated to produce ventilators. In-kind support (food, water) was also distributed to 600,000 impacted families. The Government's efforts were complemented by China's gifting of surgical masks, test kits, and artificial breathing apparatus, and the deployment of its medical teams to Algeria to help with the pandemic.

Concurrently, international oil prices declined steeply at the end of February as the COVID-19 pandemic gripped the world. Sahara Blend prices fell from US\$50.9 per barrel in February 2020 to US\$17.9 per barrel in March 2020 as oil demand from China—which represents 14 percent of total world demand¹⁷—fell sharply, leading to a supply overhang, and as OPEC+ members failed to reach an agreement on production cuts. At the OPEC+ extraordinary meeting held in April 2020, member countries agreed to cut production until end-2020.

FIGURE 18 • Hydrocarbon Revenues Are Being Hit by the Simultaneous Decline in Prices and in Production Quotas



Source: International Energy Agency (IEA) for crude oil production and OPEC for Sahara Blend prices.

Algeria committed to reduce its oil production by 200 kbpd. As a result, Algeria's oil production between January and November 2020 declined by 11.9 percent relative to the same reference period last year.¹⁸ (Figure 18).

Economic and Employment Losses

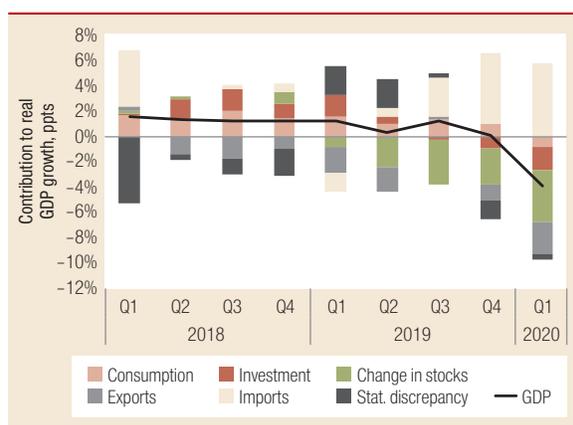
Although second quarter data are yet to be published,¹⁹ the economic momentum heading into Q2/2020 remained feeble, with economic activity contracting by 3.9 percent Y/Y in Q1/2020. Consumption spending grew by 1.2 percent in Q1/2020 (against 2.4 percent in Q1/2019), led by a 0.8 percent rise in private consumption and a contraction in public consumption by 2.0 percent. Investment spending posted a steep Y/Y contraction of 5.0 percent in Q1/2020. Exports declined by 11.8

¹⁷ According to the IEA, China's oil demand was 13.7 mmbpd in 2019 while world demand stood at 99.8 mmbpd.

¹⁸ IEA, April 2020.

¹⁹ On the ONS website, as of December 17, 2020.

FIGURE 19 • Investment and Consumption Both Declined in the First Quarter...

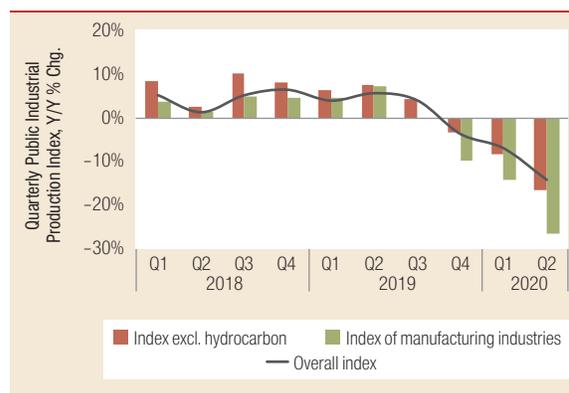


Source: ONS.

percent Y/Y in Q1/2020 led by a 14.5 percent volume decline in hydrocarbon exports. Imports contracted by 16.3 percent due to the tightening of import restrictions and the fall in demand for machinery and equipment. On the production side, all sectors of the economy recorded a moderation or a contraction in Q1/2020, with notable Y/Y declines experienced in the hydrocarbon industry (13.4 percent), transportation and communication (4.8 percent), retail and wholesale trade (1.5 percent), hotels, cafes, and restaurants (2.7 percent), services to households (1.8 percent), and public administration (2.9 percent). These sectors are expected to be the most adversely impacted by COVID-19 through containment measures and the rise in precautionary savings amid the period of economic uncertainty, and lower international tourism receipts and remittances. (Figure 19).

For Q2/2020, data on public industrial production point to a steepening of the overall contraction recorded in Q1/2020 following the imposition of containment measures. The decline in public industrial production widened from -6.8 percent between Q1/2019 and Q1/2020 to -14.1 percent between Q2/2019 and Q2/2020 following the introduction of lockdowns to contain the pandemic, leading half of the SOE workforce to temporarily leave their jobs with paid leave and activity within the construction sector to grind to a halt. The public economic activities most adversely affected

FIGURE 20 • ...while Public Industrial Production Data Suggest a Sharper Contraction in the Second Quarter



Source: ONS.

by the impact of the COVID-19 pandemic were the hydrocarbon industry (Y/Y contraction of 8.5 percent in Q2/2020 against 3.1 percent in Q1/2020); steel, metallic, mechanical, electrical and electronics industries (Y/Y contraction of 54.0 percent in Q2/2020 against 38.3 percent in Q1/2020); construction material, ceramic and glass industries (Y/Y contraction of 24.7 percent in Q2/2020 against 11.4 percent in Q1/2020); and textile industries (Y/Y contraction of 26.6 percent against 14.6 percent). For the first-half of 2020 (H1/2020), public industrial production fell by 10.4 percent Y/Y, with declines recorded in public manufacturing activity (20.2 percent) and the public hydrocarbon sector (5.8 percent). (Figure 20).

Algeria's SOEs have incurred significant revenue losses as a result of the COVID-19 pandemic, particularly within the transport and energy sectors. The shutdown of international, regional, and within-city travel resulted in major losses for SOEs operating within the transport sector. Air Algérie's deficit has been projected at US\$271 million through the end of 2020 (excluding the possibility that it is asked to reimburse clients for unused tickets) and Tassili Airlines's losses are estimated at 800 million DZD per month.²⁰ The ferries (*Groupe Algérien de Transport Maritime*, GATMA) and the train services provider (*Société Nationale des Transports*

²⁰ El Watan, July 2020.

Ferroviaires, SNTF) have each incurred a 50 percent loss in their revenues, and the public urban and suburban transportation system (*Entreprise de Transport Urbain et Suburbain d'Alger*, ETUSA) has incurred a 30 percent loss of its revenues. *Entreprise Métro d'Alger* (EMA) recorded revenue losses of US\$7 million from March 22 to July 16 across the six wilayas.²¹ The loss in international and domestic travel has consequently led to revenue losses for the private hotels and travel and tourism agencies, estimated at 27 billion DZD per month.²² For SOEs operating within the energy sector, the Government reported a deficit of US\$10 billion at Sonatrach, US\$324 million at Naftal, and US\$142 million at Sonelgaz between January and September 2020.²³ In response to the major deficits incurred by SOEs in the energy sector, the Ministry of Energy announced in July an audit of Sonatrach,²⁴ which was followed by a statement of budget cuts for Sonatrach and Sonelgaz of 182 billion DZD in current expenditures (equivalent to 17 percent of their budget envelopes) and 150 billion DZD in capital expenditures in October.²⁵ A major restructuring of Sonatrach and Sonelgaz, through employee attrition and the modernization of business processes, are expected in response to these budget cuts. Similarly, Air Algérie's management is considering implementing salary cuts of up to 40 percent starting in 2021.²⁶

Preliminary data released by the Ministry of Labor reveal significant repercussions on the labor market. According to a Survey conducted by the Ministry of Labor, around 334,000 Algerians have experienced a fall in the number of hours worked, 53,000 have become either temporarily or permanently unemployed, and 180,000 have experienced delays in salary payments.²⁷ The Survey also revealed that the sectors most affected by the pandemic were comprised of transportation, tourism, restaurant, hotel, arts and crafts, energy, and retail and wholesale trade businesses. Workers operating in the arts and crafts, for example, experienced a fall in their activity ranging between 80 percent and 100 percent, with an estimated economic loss of 36.2 billion DZD. The ANE also reported a fall in the supply of labor, with the number of jobseekers falling from 67,672 in January 2020 to 8,579 in April 2020.

A survey conducted by the Cercle d'Action et de Réflexion pour l'Entreprise (Care) in July 2020 reveals the financial distress confronting the private sector.²⁸ Some 17 percent of businesses stated that 100 percent of their business turnover was being impacted by the consequences of the COVID-19 pandemic. More than 56 percent of business owners surveyed indicated their inability to meet their tax obligations, and 61 percent of them stated that they required urgent financing to meet financial commitments, such as the payment of employee salaries or their leaves of absence.

A recent survey conducted by Ecotechnics suggests that numerous businesses have been shut down, most particularly SMEs, and that significant job losses have been incurred within the private sector.²⁹ Close to 60 percent of the SMEs surveyed reported having shut down their operations since mid-March, while 63 percent of self-employed individuals (primarily engaged in commerce and in arts and crafts) have ceased their activities. More than 70 percent of seasonal workers were found to have stopped working following the introduction of containment measures. Job losses within the public sector remained contained and the majority of workers on leave of absence were remunerated. On the other hand, the sanitary crisis is estimated to have caused substantial employment losses within the private sector, and most workers on leave of absence would be left without remuneration.

The Government authorities took several measures to provide immediate relief to the population. According to the *Direction Générale des Impôts*, 45.5 percent of all 11 million workers have monthly incomes of less 30,000 DZD, or less than US\$233 per month, suggesting they are in a vulnerable employment situation. An *Allocation forfaitaire de*

²¹ Le Maghreb, August 2020.

²² Algérie Eco, July 2020..

²³ Algérie Eco, October 2020.

²⁴ Algérie Presse Service, July 2020.

²⁵ Algérie Eco, October 2020..

²⁶ Algérie Eco, November 2020.

²⁷ Algérie Eco, August 2020.

²⁸ Care, July 2020.

²⁹ Liberté, November 2020.

solidarité provided an allowance of 30,000 DZD per month to low-income job earners over the course of three months. As of May 2020, there were 322,000 beneficiaries according to the Ministère de l'Intérieur, des Collectivités Locales et de l'Aménagement du Territoire. In-kind support consisting of food items and water was also distributed to 600,000 households. Furthermore, the Ramadan solidarity grant was extended to 2.2 million households, with amounts raised from 6,000 DZD to 10,000 DZD.

Several measures were also taken to relieve the financial commitments of individuals and firms, and to increase liquidity. This included the postponement of the declaration and payments of income taxes for individuals and enterprises, except for large enterprises, and the relaxation of contractual deadlines and penalties for companies which experience delays in completing public works. Banking measures included the lowering of the main policy rate by the BdA from 3.5 percent to 3.25 percent on March 15, and to 3 percent on April 30 and the lowering of the reserve requirement ratio from 10 percent to 8 percent on March 15, to 6 percent in April and 3 percent in September. The BdA also eased solvency, liquidity, and the NPL ratio for banks, and allowed the extension of some loans without additional provisioning.

When compared against other hydrocarbon-dominated economies, Algeria's additional spending or foregone revenues related to the COVID-19 pandemic are moderate. According to the IMF Fiscal Monitor of October 2020, Algeria incurred additional spending or foregone revenues of US\$564 million (0.4 percent of GDP) as a result of the COVID-19 pandemic, of which US\$235 million additional spending (42 percent of additional spending or foregone revenues) were incurred by the health sector. This level of additional spending or foregone revenues remains much higher than Iraq (0.2 percent of GDP), but lower than Nigeria (1.5 percent of GDP) and Angola (0.5 percent of GDP).

External Sector

In response to the fall in hydrocarbon export earnings, authorities implemented measures to limit the expansion of the current account

deficit. The authorities set an objective to cut the import bill by at least US\$10 billion, or 6 percent of GDP, notably through a local currency devaluation. Since the beginning of the year, the Algerian dinar has consequently lost value against the USD (-6.3 percent), the Euro (-9.2 percent) and the Yuan (-6.8 percent), leading to increased import prices. Other compression policies to have been introduced include the extension of import restrictions on vehicles that are older than three years. The Government is also taking measures to reduce the country's reliance on imports of services, with President Tebboune ordering sectoral ministries to award contracts to domestic firms.³⁰ The transfer of the Algiers metro management from the French RATP Group to an Algerian firm owned exclusively by the Metro of Algiers Company (EMA) to ensure full autonomy in the management and the operations and the maintenance of the local metro is a case in point.³¹ (Figures 21 and 22).

The current account balance remained unchanged, at US\$9 billion, in the first-half of 2020 compared to the same reference period last year, despite large variations in its components. Exports shrunk by 39 percent in H1/2020 compared to H1/2019, largely led by hydrocarbon exports falling to US\$10 billion in H1/2020, from US\$17 billion in H1/2019. Meanwhile, imports declined from US\$23.3 billion in H1/2019 to US\$18.1 billion in H1/2020 (22 percent) due to low domestic demand, import compression policies and the dinar's devaluation. Remittances and international tourism receipts are expected to have fallen. The authorities estimate that US\$2–3 billion remittances are circulating through the banking system every year,³² with the World Bank projecting remittances to have contracted by 8 percent in 2020.³³ Losses in international tourism

³⁰ Algérie Presse Service, June 2020.

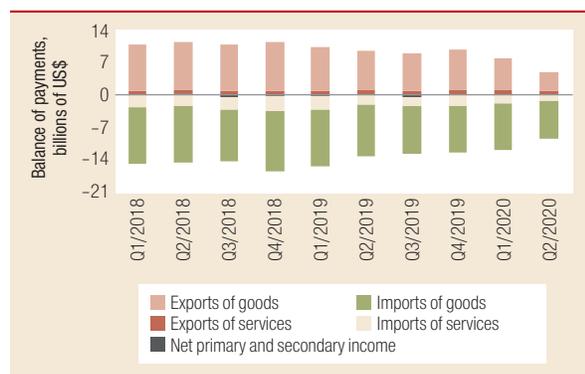
³¹ Algérie Eco, August 2020.

³² Unofficial estimates suggest that 7 million Algerians live abroad, of which 5 million reside in France, 150,000 in Spain and 60,000 in the United Kingdom.

³³ World Bank, October 2020.

³⁴ According to an Algerian deputy, and assuming average tourism receipts per person of 1,000 Euros (US\$1,117). Agence Anadolu, September 2020.

FIGURE 21 • International Trade Collapsed in 2020...



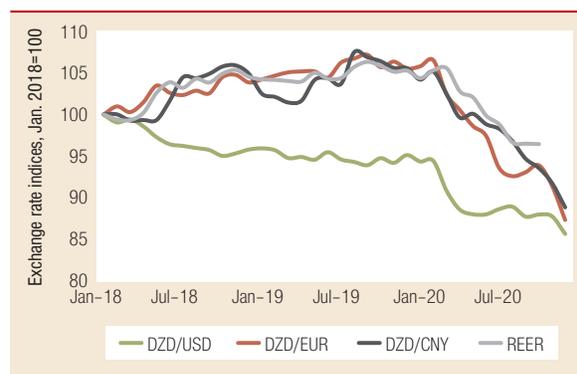
Source: BdA.

receipts are estimated at 800 million Euros (US\$930 million) over the course of the summer.³⁴ According to the IMF, after 10 months in 2020, international reserves declined by US\$13 billion, to reach US\$48.5 billion at end-October 2020.

Public Finance

The pandemic has led to a significant decline in budget revenues and is expected to lead to increased health and social protection expenditures. According to World Bank projections, hydrocarbon revenues will decline from 13.1 percent of GDP in 2019 to 9.5 percent of GDP in 2020, in line with the contraction in hydrocarbon production and prices. Over the first nine months of 2020, there has been a decline in production by 10.1 percent, and in Sahara Blend prices by 39.4 percent. Direct and indirect tax revenues are also expected to have fallen, in line with economic activity, and the incidence of tax evasion could increase given the economic challenges confronting individuals and businesses. On the other hand, the local currency devaluation against the USD will cushion the fall in hydrocarbon revenues. Revenue financing from transfers of dividends from the BdA was budgeted at 783 million DZD as part of the 2020 Budget Law. Meanwhile, the Government has reduced its estimates of 2020 current and capital expenditures by 5.7 percent through the 2020 Supplementary Finance Law introduced in June 2020. Nonetheless, authorities

FIGURE 22 • ...while the Authorities Allowed the Dinar to Depreciate



Source: IMF and Investing.com.

project that the overall budget deficit will increase significantly in 2020, to 15.5 percent of GDP.

Banking and Liquidity

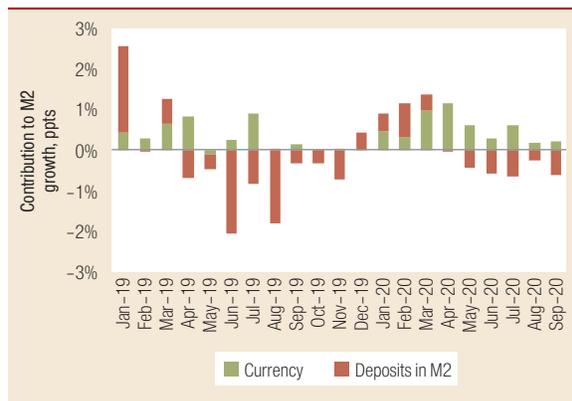
Notwithstanding the policy response, liquidity in public banks has significantly fallen in the first-half of 2020. The fall in public bank liquidity is attributed to the COVID-19 pandemic and the fall in hydrocarbon revenues, leading to a fall in deposits in commercial banks and the BdA.³⁵ The six public Algerian banks have increased their financing from the BdA by 404 billion DZD, representing an increase of 36 percent, through open market operations.³⁶ Among the six public banks—which hold roughly 90 percent of the country's total deposits—four are in a great need of liquidity³⁷ while private banks are confronted with an excess of liquidity. The monetary base held at the BdA has consequently fallen from 1,100 billion DZD in December 2019 to 840 billion DZD in July 2020, representing a fall of 24 percent. The tightening of liquidity conditions has led retail depositors to simultaneously seek to withdraw their savings, and put pressure on Algérie Poste, where 35 percent

³⁵ Algérie Eco, August 2020.

³⁶ Jeune Afrique, September 2020.

³⁷ Namely, the *Banque Extérieure d'Algérie* (BEA), the *Banque de l'Agriculture et du Développement Rural* (BADR), the *Banque de Développement Local* (BDL) and the *Crédit Populaire d'Algérie* (CPA).

FIGURE 23 • Currency in Circulation Increased as Bank Liquidity Declined

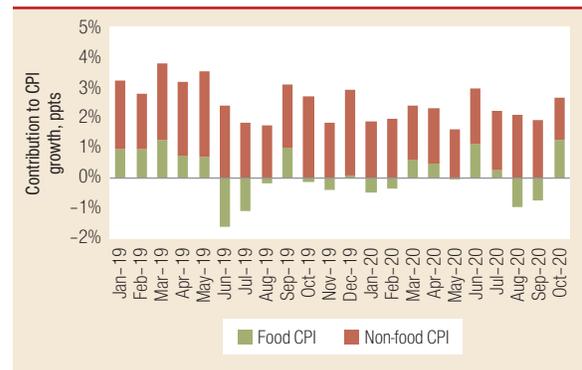


Source: BdA.

of Algerians hold an account. As a result, Algérie Poste had to impose a ceiling on daily withdrawals. (Figure 23).

Inflationary pressures on the economy remain contained for now, with diverging trends between the food and non-food national CPI basket. The CPI advanced at an annual rate of 2.0 percent over the first ten months of 2020 relative to the same reference period last year. This is despite the quantitative easing program initiated from

FIGURE 24 • Inflationary Pressures Have Eased with Non-food Inflation Leading the Advances



Source: ONS.

September 2017 to March 2019 which injected 4,726 billion DZD in the economy. The food and non-food CPI baskets displayed divergent trends, however. The former advanced by 0.3 percent over the first ten months of 2020 relative to the same reference period last year, in the context of controlled prices for basic food products and efforts by public authorities to limit price increases in fresh products. The latter advanced by 3.3 percent over the same time horizon. (Figure 24).



CONCLUSION

Algeria is expected to post a significant economic contraction in 2020 as a result of the twin shocks caused by the COVID-19 pandemic.

Private consumption and investment will have fallen within the context of the slowdown in economic activity due to lockdowns, employment losses, and the expected increase in precautionary savings. The extensive informal segment of the economy is expected to suffer the brunt of job losses given that it offers no employment protection and that it remains concentrated within the sectors most affected by the pandemic such as wholesale and retail trade, construction, and services. Inflation, however, is expected to remain contained pending the recovery in aggregate demand. External and fiscal deficits are projected to rise, with the fall in hydrocarbon revenues being only partially offset by the fall in imports and in public investment, as well as the devaluation of the local currency.

A partial economic recovery in 2021 and 2022 is conditioned on a significant reduction of macroeconomic imbalances and a substantive recovery in aggregate domestic demand, and in hydrocarbon production and exports. The main levers of economic growth will consist of private consumption and investment, as well as exports, given limited space to increase public spending.

Amid high uncertainty, the balance of risks is tilted to the downside with the possibility of future waves of COVID-19 infections presenting headwinds to the economic recovery. Lower hydrocarbon prices could also increase fiscal and external financing requirements, and induce additional adjustments in foreign exchange markets. A depreciation of the US dollar against the Euro and the Chinese Yuan could also affect Algeria's terms-of-trade.

In the meantime, the sustained drop in hydrocarbon prices will complicate the economic recovery. It has once again exposed the Algerian economy's vulnerabilities to external shocks, given that the hydrocarbon sector comprises 25 percent of real GDP, 94 percent of product exports, and 40 percent of overall budget revenues. The Government anticipates that overall budget financing requirements will reach 15.5 percent of GDP in 2020 and 17.6 percent of GDP in 2021, and that foreign exchange reserves will decrease to US\$44 billion in 2020 (-28 percent). Managing high overall budget and external financing requirements, while ensuring domestic liquidity to finance a recovery, and monetary stability to protect purchasing power, will constitute a challenge. Given the IMF's estimate of a break-even oil price of US\$106.3, attaining fiscal sustainability will warrant decisive action.

Going forward, Algeria's ability to transition to a diversified, private sector-led model will be key. Fostering the development of the private sector, which remains largely within the informal segment of the economy, will require increasing its access to credit, to land and to skills, as well as to public services

and programs, thereby improving its profitability and ability to compete internationally and with SOEs. Its development will need to be at the cornerstone of the economic recovery and Algeria's transformation strategy in order to support economic growth and generate quality jobs for Algerian youth.

ANNEX 1: TABLE OF ECONOMIC INDICATORS

	2017	2018	Preliminary 2019	Forecast 2020	Forecast 2021	Forecast 2022
Economic growth and prices						
Real GDP (percentage change)	1.3	1.2	0.8	-6.5	3.8	2.1
Non-oil real GDP (percentage change)	2.0	3.0	2.4	-6.0	3.6	1.4
GDP per capita (US\$)	4,077	4,120	3,942	3,232	3,323	3,534
GDP (in trillions of DZD)	18.9	20.5	20.4	18.3	19.4	21.0
Non-oil GDP (in trillions of DZD)	15.2	15.9	16.4	15.4	16.0	16.2
GDP (in billions of US\$)	170.1	175.4	171.2	143.0	149.6	161.8
Crude oil production (mbpd)	1,059	1,041	1,025	885	955	1,025
Crude oil exports (mbpd)	557.3	472.0	488.0	363.8	388.5	413.4
Algeria's oil export prices (US\$ per barrel)	54.0	70.5	64.2	40.4	42.0	48.0
Consumer price inflation (percentage change, period average)	5.9	3.5	2.3	2.1	3.8	4.2
In percent of GDP						
Public Finance^a						
Government revenue and grants	32.0	33.4	32.2	29.6	30.7	30.8
Government hydrocarbon revenue	11.5	14.1	13.1	9.5	10.2	11.3
Government non-hydrocarbon revenue	20.5	19.3	19.1	20.1	20.5	19.5
Expenditures	40.5	40.2	41.8	45.4	43.6	40.4
Current expenditures	24.8	26	23.9	26.4	25	23.2
Wages and salaries	11.7	10.6	11	12.1	11.4	10.6
Purchase of goods and services	1.0	1.1	0.7	0.7	0.6	0.6
Interest payment	0.9	0.5	0.5	0.6	0.7	0.7
Current transfers	11.1	13.8	11.6	13	12.3	11.3
Capital expenditures	13.8	11.8	13.9	13.6	13.5	12.5
Special Accounts and Net Lending	1.9	2.4	4.0	5.4	5.1	4.7
Primary overall budget balance	-7.5	-6.3	-9.0	-15.1	-12.2	-8.8
Overall budget balance	-8.4	-6.8	-9.6	-15.8	-12.9	-9.6
In percent of GDP, unless otherwise indicated						
Public Debt^b						
Total central government debt	25.9	38.9	44.9	66.1	75.3	79.1
External government debt	1.0	0.9	0.8	0.8	0.7	0.6
External government debt (billions of US\$)	1.7	1.5	1.4	1.3	1.2	1.1
In percent of GDP, unless otherwise indicated						
External sector						
Current account	-13.0	-9.5	-10.0	-13.4	-15.7	-14.6
Trade balance in goods and services	-13.2	-8.9	-9.3	-12.7	-15.0	-13.9
Exports of goods and services	22.1	25.3	22.4	16.2	17.9	19.6
Imports of goods and services	35.3	34.2	31.7	28.9	32.9	33.5
Foreign exchange reserves (in months of imports) ^c	19.2	15.5	13.6	13.6	5.7	3.0
Exchange rate (Algerian dinar per US\$; period average)	111.0	116.6	119.4	128.1	132	132

^a Oil revenues transferred to the FRR but withdrawn that same year are included in budget revenues, and so are dividends from Sonatrach. In 2018, a transfer worth 2.5 percent of GDP to the national pension fund (CNR) was reclassified from capital expenditures to current transfers.

^b Total government debt is computed as the sum of liabilities to the central bank, banks and financial institutions, bilateral and multilateral creditors. External Government debt is obtained by adding up bilateral and multilateral debt (BdA).

^c Excluding Special Drawing Rights (IMF)

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