

# ALGERIA



# ECONOMIC MONITOR

Restoring the  
Algerian Economy  
after the Pandemic

Fall 2021



**WORLD BANK GROUP**  
Middle East and North Africa Region



# EXECUTIVE SUMMARY

**A**lgeria is enjoying temporarily breathing space, as hydrocarbon prices reach new highs and the COVID-19 pandemic eases.

The new Government, appointed after the June 2021 legislative elections, presented an updated Government Action Plan to Parliament in September. This comes amid favorable global and sanitary developments. After peaking during the summer, the number of daily COVID-19 cases plummeted in the Fall, while the vaccination campaign accelerated. Meanwhile, global oil and gas prices are reaching levels unseen since before the 2014 oil crisis, allowing for a gradual recovery in crude oil production quotas, and a surge in natural gas production and exports.

**Surging hydrocarbon exports revenues are contributing to a marked decline in external financing needs and to the short-term stabilization in growing domestic financing needs.** Aided by continued exchange rate depreciation, sustained import compression policies and a terms of trade improvement, the current account deficit is shrinking, and international reserves are stabilizing. Overall budget deficits remain elevated, but higher oil revenues in the budget are offsetting the decline in tax revenues and financing the increase in current expenditures, the rebound in public investment, as well the cost of supporting the national pension fund. The Treasury has also put in place a massive SOE debt buyback scheme, worth USD 15.3 billion and financed through domestic bond issuances, to alleviate financial pressures stemming from the COVID-19 crisis on State-Owned Enterprises (SOE) and public

banks. As a result, bond issuances and public debt surged after 9 months in 2021.

**Meanwhile, the economic recovery in non-hydrocarbon sectors lost steam, remaining largely incomplete, while inflationary risks are materializing.** After a strong recovery during the second half of 2020, led by a rebound in investment and in construction activity, GDP contracted during the first and the second quarters of 2021, tracking the weakening in construction and services activity. Therefore, during the first half of 2021, GDP and nonhydrocarbon GDP remained 3.1 percent and 3.9 percent below their pre-pandemic level, respectively. Despite accommodative monetary policy and recovering bank liquidity, private credit growth also remained subdued, suggesting that firms and banks remain prudent, and that their balance sheets have yet to recover. On the other hand, consumer price inflation accelerated markedly in 2021, disproportionately affecting vulnerable households.

**Absent decisive implementation of the reform agenda, the economic outlook points to a fragile recovery, and to deteriorating fiscal and external balances in the medium-term.** We expect real GDP growth to reach 4.1 percent in 2021, and to decline gradually in the medium-term, amid progressive implementation of the announced structural reform agenda to kickstart investment and growth in the nonhydrocarbon segment of the economy. Higher hydrocarbon output will support (non-inclusive) growth, however, amid gradually recovering crude oil production quotas and sustained natural gas production which, given the sector's high capital intensity,

will do little for job creation. The budget and current account deficits are expected to gradually deteriorate, amid the projected decline in oil revenues. Inflation will remain elevated over the forecast period, further deteriorating household purchasing power. Algeria's intact dependence on hydrocarbon revenues, the spread of new COVID-19 variants and the pace of the announced reform effort remain the key sources of risks to the outlook.

### Special Focus 1: Recent Non-monetary Poverty Trends in Algeria

**The Multidimensional Poverty Index declined in Algeria between 2013 and 2019** (latest available data), showing improvements across all key dimensions of this unique indicator of Algerians' well-being: education, health, and living conditions outcomes. The survey used in this study was collected, however, before the COVID pandemic. While Algeria fares comparatively well within the MENA region, and despite noticeable improvements, large gaps remain, and multidimensional poverty varies substantially by region and between rural and urban areas. Northern regions face lower levels of deprivation compared to the rest of the country, while the Central Highlands region faces higher levels. Nonetheless, poorer regions improved faster between 2013 and 2019, showing convergence

with wealthier areas. Meanwhile, health and education have become increasingly important dimensions of deprivation, pointing to policy priorities for further Algerian human development.

### Special Focus 2: Algeria's Climate and Disaster Risk Resilience

**Algeria is exposed to a wide range of natural hazards, particularly in urban areas** which are experiencing rapid population growth and concentrate a significant share of economic activity: floods, earthquakes, droughts, forest fires, coastal and soil erosion, etc. Flooding is the most frequent hazard affecting the country, but the greater economic losses have been caused by earthquakes. Algeria has a modern Disaster Risk Management (DRM) legal framework, with a clear emergency response decision-making framework, and recognises the importance of protecting strategic infrastructures and essential sectors. Serious risk reduction efforts have been carried out by the Algerian Government, nevertheless these are mainly focusing on emergency management and reconstruction (especially in terms of expenditure), at the expense of prevention. Furthermore, information sharing is not systematic, causing discrepancies particularly in the prevention of disasters, and the enforcement of DRM legislation can be improved.





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