ALGERIA

Table 1	2017
Population, million	41.1
GDP, current US$ billion	173.2
GDP per capita, current US$	4218
National poverty line[a]	5.5
International poverty rate ($1.9)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	29.2
Gini coefficient[b]	27.6
School enrollment, primary (% gross)[c]	116.2
Life expectancy at birth, years[c]	75.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011 PPPs.
(b) Most recent value (2011).
(c) Most recent WDI value (2015)

A slight decline in hydrocarbon production, which was not offset by higher than expected public spending, underpinned the growth slowdown in 2017. Additionally, structural challenges constrain growth for the non-hydrocarbon sector and inflation continues to rise. Substantial twin deficits remain, depleting official reserves. In the medium term, both growth and the twin deficits are expected to decline, as the government implements fiscal consolidation. However, in the short term, the exclusive use of seignorage to finance the fiscal deficit will need careful management.

Recent developments

Algeria's economic growth decelerated in 2017 due to a slight decline in hydrocarbon production and the continued modest non-hydrocarbon growth. Real GDP growth in 2017 is estimated at 2.1 percent, a slowdown from 3.3 percent in 2016. This slowdown was mainly driven by weak growth in hydrocarbon production, which is estimated to have decreased by 1.4 percent in 2017; a sharp contrast from the dynamic start in the first quarter of the year. Meanwhile, growth in the non-hydrocarbon sector remains modest, despite the slight upturn from 2.3 in 2016 to 2.5 percent in 2017. This upturn is mainly attributed to the reversal of fiscal consolidation in the second half of 2017. Inflation remained high (5.5 percent in 2017) down from 6.4 percent in 2016.

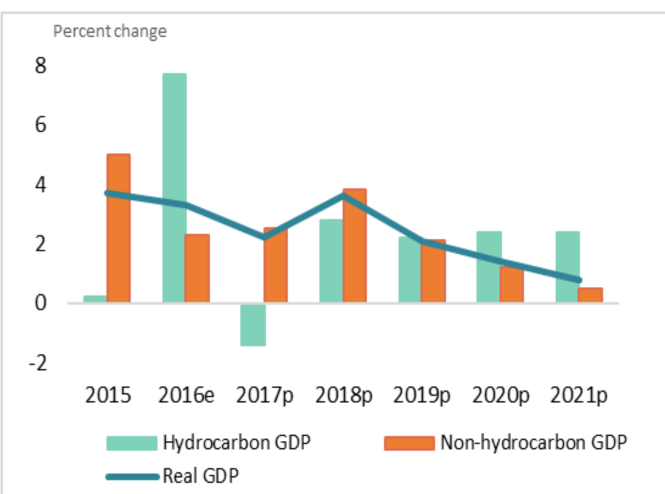
Substantial fiscal deficits as well as double -digit external current account deficits remain, depleting fiscal savings and reserves. Public spending decreased by less than expected due to difficulties in pursuing the 2017 budget target. In fact, a new government, appointed in May 2017, put an end to fiscal consolidation and reverted to the previous, high levels of public spending, specifically in housing. As a result, fiscal deficit is estimated at 8.2 percent in 2017. Regarding the external current accounts, preliminary data indicates that imports increased slightly, by 2.7 percent (0.5 in real terms) in 2017, signaling that the imposition of licenses failed to curb the volume of imports. Meanwhile exports have increased significantly, by 16.5 percent (0.7 in real terms). As a result of continued deficits and limited capital inflows, the country's international reserves declined sharply. Nonetheless, external debt remains very low. Overall, the current account balance (-14.7 percent of GDP) is indicative of the lack of adjustment of imports to the large reduction in export revenues since 2014.

The unemployment rate increased by almost 1.5 percentage points, reflecting the sluggish non-hydrocarbon growth. It stood at 11.7 percent in September 2017, an increase from 10.5 percent in September 2016. Unemployment is particularly high among educated, youth, and women, some of which likely reflects a preference to wait for formal sector employment. The rise in unemployment undermines poverty reduction. 10 percent of the population is considered vulnerable to fall back into poverty and important regional disparities persist with some regions featuring double (Sahara) or triple (Steppe) the national rate. The most recent official calculations (2011) placed the national poverty rate at 5.5 percent, with a mere 0.5 percent of the population living in extreme poverty. Official calculations are based on a poverty line estimated to be 3.57 (3.18) USD/day in 2011 PPP in urban (rural) areas, which could be perceived as low for an upper middle country

Outlook

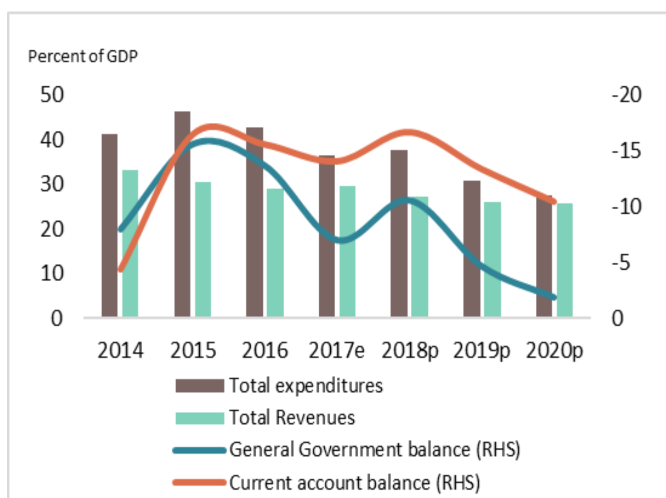
Growth is expected to recover sharply in 2018 as fiscal expansion takes hold. As

FIGURE 1 Algeria / Real GDP growth



Sources: World Bank Staff estimates and projections.

FIGURE 2 Algeria / Algeria's twin deficits



Sources: World Bank Staff estimates and projections.

new public investments announced in the 2018 budget are carried out, headline growth and inflation will increase. As a result, GDP growth is expected to stand at 3.5 percent, inflation at 7.5 percent for 2018. Yet, GDP growth will struggle to surpass the 2 percent threshold for 2019-20 (Figure 1), constituting anemic growth for a middle-income country with a large youth bulge. While continued strong production from new oil wells will provide a growth boost, non-hydrocarbon growth would bear the brunt of fiscal consolidation that the government says could recommence in mid-2019. However, the temptation to again postpone such consolidation will be strong, even amid a trajectory to a financial crisis triggered by the use of seignorage to finance fiscal deficit.

The twin deficits will further deteriorate in 2018, and the intended reliance on monetary financing is a major concern. In the current fiscal framework (2018-2020), adopted in the 2018 Budget Law, public spending will remain very high, and will not be offset by a potential increase of government revenues due to an expected upturn in oil price and production. While the fiscal deficit will increase in 2018 (11.4 percent of GDP), it is expected to decline rapidly in 2019-2020 (Figure 2). However, the persistence of fiscal deficit is expected to entail substantial monetary creation, as the government has so far refused to finance its deficit with external borrowing. The current account deficit is projected to decline slightly to 10.2 percent in 2020. This level of current account deficit is considered manageable, given the level of reserves (17 months of imports at end 2017). However, by 2020 this reserves level could stand at only 5 months of imports, drawing close to the emerging market 3 months threshold. The government is aware that potential reforms to the subsidy system need to be evaluated for poverty and vulnerability impacts.

Risks and challenges

The economy is confronted with the challenges of social discontent, and the management of the newly adopted, non-conventional, monetary policy. Firstly, mounting social discontent regarding the government's spending freeze, tax hikes and high youth unemployment levels constitutes a substantial risk to the outlook discussed above. Some of these social discontents have been at play since the beginning of the year, as highlighted by doctors' strikes in Algiers and other major cities. The adoption of non-conventional monetary policy has reduced public finance constraints in the short run but sends the wrong signals about the intended reorientation of the economy to be less dependent on hydrocarbons and the role of the state – as outlined in the forthcoming Vision 2035 report.

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

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	3.7	3.3	2.1	3.5	2.0	1.3
Private Consumption	3.9	3.3	3.6	3.7	2.5	1.5
Government Consumption	3.1	1.3	0.9	1.2	-4.5	-2.5
Gross Fixed Capital Investment	5.7	3.5	0.5	10.5	-6.9	-5.6
Exports, Goods and Services	0.6	7.9	0.7	1.8	2.3	2.2
Imports, Goods and Services	6.4	-3.0	0.5	6.5	-8.2	-6.0
Real GDP growth, at constant factor prices	3.7	3.4	1.9	3.4	2.0	1.4
Agriculture	6.0	1.8	2.5	2.5	2.7	2.3
Industry	1.8	6.2	3.4	4.2	1.8	1.0
Services	4.3	2.3	0.9	3.1	2.0	1.4
Inflation (Consumer Price Index)	4.8	6.4	5.5	7.5	8.1	9.0
Current Account Balance (% of GDP)	-16.5	-15.6	-14.7	-16.1	-12.7	-10.2
Fiscal Balance (% of GDP)	-17.5	-15.7	-8.2	-11.4	-5.2	-1.9
Debt (% of GDP)	19.1	32.5	26.9	39.4	42.1	41.3
Primary Balance (% of GDP)	-16.8	-14.9	-6.9	-10.3	-3.6	-0.2

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