ALGERIA

Table 1	2023
Population, million	45.6
GDP, current US$ billion	252.3
GDP per capita, current US$	5531.4
National poverty rate[a]	5.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	4.0
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	108.3
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	286.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ WDI for School enrollment (2022); Life expectancy (2021).

Algeria's growth remained robust in 2023 and, although lower hydrocarbon prices narrowed the current account surplus from its 2022 peak, the rebuilding of official reserves continued. Lower hydrocarbon budget revenues put pressure on the fiscal deficit as the increase in public sector wages continued amid high inflation. With high imports and rigid public spending exposing Algeria to global oil market risk, diversifying the economy, enabling private sector investment, and strengthening the macroeconomic policy framework remain key development priorities.

Key conditions and challenges

The oil and natural gas sector accounted for 18 percent of GDP, 93 percent of product exports, and 41 percent of budget revenues between 2016 and 2022, which means that Algeria remains exposed to hydrocarbon price volatility. Double-digit fiscal and current account deficits persisted during the pre-COVID-19 years. As public debt increased rapidly, large scale monetization and rapid currency depreciation, coupled with import reduction policies posed further challenges to economic stability.

Economic output recovered to its pre-COVID-19 level in 2022 and rising gas demand from Europe combined with high hydrocarbon prices boosted the current account surplus and budget revenues to their highest level in a decade. Notwithstanding, unemployment and inflation are still relatively elevated, and poverty remains high for Algeria's level of development, despite improvements in education, health, and living standards during the pre-pandemic years.

The government aims to accelerate private investment and jobs through the 2019 Hydrocarbon Law, the 2022 Investment Law, banking sector reforms, large mining and infrastructure projects, as well as greater regional integration. Successful implementation of these reforms is important in a context in which public investment, previously the engine of Algeria's growth, is likely to be constrained by high and rigid spending on wages and subsidies.

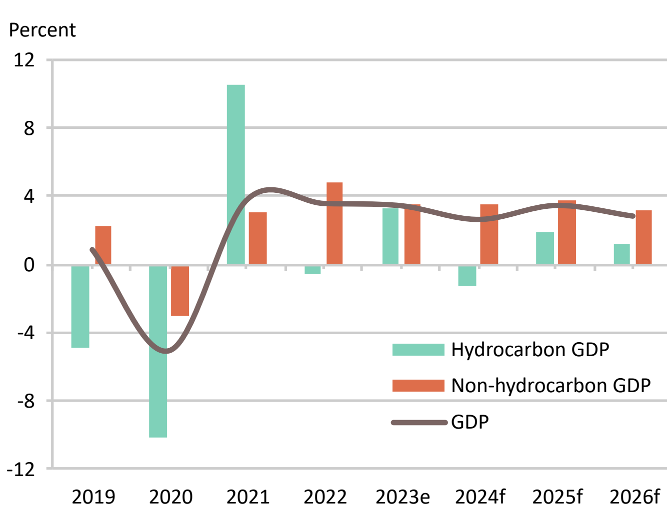
Recent developments

National accounts data have not been published since Q4-2022 but available administrative data and World Bank use of big data indicate robust hydrocarbon and non-hydrocarbon activity in 2023. Hydrocarbon output and exports continued to increase as growing natural gas production compensated for falling oil production amid OPEC quota cuts. Night-time lights data suggest that non-hydrocarbon growth has remained robust in 2023 while satellite image analysis indicates subdued agricultural output amid drought episodes. The strong increase in equipment and automobile imports suggest dynamic investment and consumption driven by higher public spending, large investment projects, and the selective relaxation of import controls.

With hydrocarbon prices moderating and imports increasing, external surpluses narrowed sharply in 2023. At end-November 2023 the trade surplus stood at 5 percent of GDP, down from 11.5 percent of GDP in 2022. Nevertheless, official reserves increased by US$8.0 billion during 2023 and reached US$69.7 billion, or an estimated 16.8 months of imports.

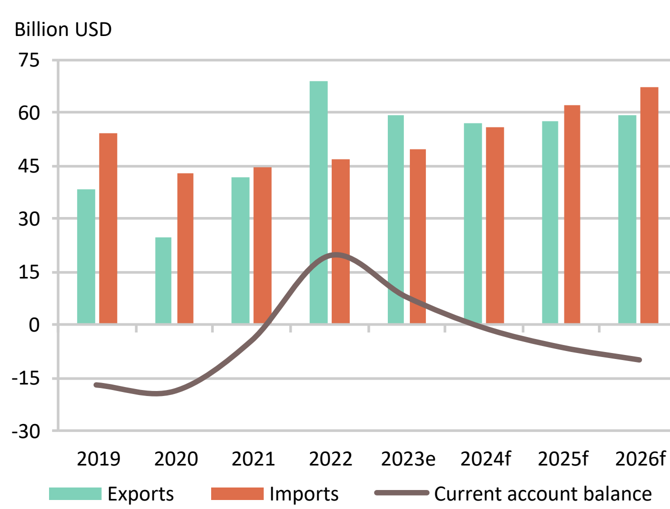
The budget deficit is estimated to have widened from 2.5 percent in 2022, the lowest level in a decade, to 6.5 percent in 2023, driven by falling hydrocarbon revenues, a second year of public sector wage increases, and an expansion of

FIGURE 1 Algeria / Annual GDP growth



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 Algeria / Current account, exports, and imports



Sources: Algerian authorities and World Bank staff estimates.

public employment. Partially offsetting these effects, tax revenues increased from the growing public wage bill and the effect of non-hydrocarbon dynamism on corporate income, consumption, and imports, while dividends from the national oil company Sonatrach surged to reach 2.9 percent of GDP. The deficit is expected to have been mostly financed by hydrocarbon savings accumulated in 2021 and 2022. Consequently, public debt decreased from 48.1 percent to 46.8 percent of GDP in 2023 and remains nearly all domestically held at long-term maturities and low interest rates.

Inflation remained elevated at 9.3 percent over 2023 but began to moderate in Q4. Fueled by fresh produce prices, inflation hurts vulnerable Algerians the most as food accounts for over half of the spending for the bottom 40 percent of the population. The government responded via increases in public sector wages, unemployment transfers, and food subsidies, as well as by pursuing a stable currency. Although broad money growth slowed in H2-2023, monetary policy remained accommodative with interest rates unchanged at 3 percent since May 2020, which means that real policy rates are significantly negative.

Outlook

GDP growth is expected to moderate in 2024 amid declining oil production in line with OPEC quota cuts. Non-hydrocarbon growth would stabilize driven by strong public spending and its impacts on household consumption, industrial output, and services. Lead crop growth indicators suggest that agricultural production would remain subdued in 2024. Growth would accelerate in 2025 as agricultural output recovers and crude oil production tracks recovering OPEC quotas, and then slows slightly in 2026 with stabilizing hydrocarbon output.

The current account would return to a modest deficit, driven by declining global oil prices, quota cuts, and rebounding equipment-led imports. The budget deficit would widen further in 2024 as hydrocarbon receipts decline and the government implements the third tranche of public sector wage increases. The government's medium-term budget framework indicates slow fiscal consolidation in 2025 and 2026, including subdued public investment growth. Public debt would increase above 60 percent of GDP by 2026 as hydrocarbon savings would only partially finance deficits.

The fluctuation of hydrocarbon prices amid geopolitical uncertainties remains the most important risk to Algeria's fiscal and external balances pointing to the importance of accelerating private sector investment in non-hydrocarbon sectors to support diversification and increase the economy's resilience. Structural reforms to foster productivity growth would also support lower consumer prices and higher job creation, key to reducing youth unemployment and raising Algeria's standards of living. Lastly, two years of weak agricultural output underscore vulnerability to climate change, with shocks having become more frequent in recent years.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.8	3.6	3.5	2.7	3.5	2.9
Private consumption	1.6	3.5	4.7	3.4	3.2	2.5
Government consumption	1.2	2.8	4.2	3.0	1.1	1.2
Gross fixed capital investment	0.4	2.6	8.3	6.3	5.8	5.3
Exports, goods and services	11.5	0.2	3.9	-2.6	2.6	0.9
Imports, goods and services	-4.5	-0.2	16.1	5.8	4.3	3.6
Real GDP growth, at constant factor prices	4.3	3.8	3.5	2.7	3.5	2.9
Agriculture	-1.1	5.0	-1.1	0.5	3.1	2.6
Industry	6.3	4.0	3.4	1.8	3.3	2.5
Services	3.9	3.5	4.3	3.6	3.6	3.1
Inflation (consumer price index)	7.2	9.3	9.3	7.5	6.4	6.1
Current account balance (% of GDP)	-2.4	8.6	3.1	-0.3	-2.2	-3.3
Fiscal balance (% of GDP)	-6.3	-2.5	-6.5	-9.2	-9.3	-8.5
Revenues (% of GDP)	26.2	29.6	30.2	27.8	26.6	25.6
Debt (% of GDP)	55.2	48.1	46.8	51.2	57.0	61.4
Primary balance (% of GDP)	-5.7	-1.3	-5.2	-8.0	-8.0	-7.0
GHG emissions growth (mtCO2e)	2.8	2.4	2.1	1.7	2.4	2.1
Energy related GHG emissions (% of total)	52.6	53.7	54.6	55.3	56.2	57.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.