

ALGERIA



ECONOMIC UPDATE

Winds Remain Favorable

Spring 2023



THE WORLD BANK

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Middle East & North Africa

Algeria Economic Update

Winds Remain Favorable

Spring 2023



Middle East and North Africa Region

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LIST OF ACRONYMS

ANEM	National employment agency	MENA	Middle East and North Africa
APN	National People's Assembly	Mtoe	Million tons of oil equivalent
BdA	Bank of Algeria	NEER	Nominal effective exchange rate
BTU	British thermal unit	OAIC	Algerian Cereals Interprofessional Office
CAS	Special Purpose Accounts (Comptes d'Affectation Spéciale)	OECD	Organization for Economic Cooperation and Development
CPI	Consumer price index	ONS	National Statistics Office
DZD	Algerian dinar	OPEC	Organization of Petroleum Exporting Countries
EIA	Energy Information Agency	Pp	Percentage points
EPT	Espace de programmation territoriale (administrative regions)	PPI	Producer price indices
EUR	Euro	PSR	Special refinancing program
FAO	Food and Agriculture Organization	REER	Real effective exchange rate
FDI	Foreign direct investment	SMMEEI	Steel, metal, mechanical, electrical and electronic industries
FRR	Revenue regulation fund	SOE	State Owned Enterprises
GDP	Gross domestic product	TTF	Title Transfer Facility
IMF	International Monetary Fund	USD	United States dollars
JODI	Joint Organization Data Initiative	WB	World Bank
Kb/d	Thousands of barrels per day		
LNG	Liquefied natural gas		
LPG	Liquefied Petroleum Gas		

ACKNOWLEDGMENTS

This Algeria Economic Update reports on the main recent economic developments and policies. It places them in a global and longer-term context and assesses the implications of these developments and policy changes for Algeria's economic prospects. The report is intended for a broad audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals working in/on Algeria. The report is divided into two chapters. Chapter 1 presents macroeconomic developments in Algeria over the year 2022 and the first quarter of 2023, while Chapter 2 describes the short- and medium-term outlook for the Algerian economy. **The deadline for data entry and forecast preparation is May 25, 2022.**

The Algeria Economic Update is the work of the Middle East and North Africa (MENA) section of the World Bank Group's Macroeconomics, Trade, and Investment (MTI) practice area. It was prepared by

Cyril Desponts and Amel Henider, under the supervision of Eric le Borgne and Abdoulaye Sy. The authors would like to thank Jesko Hentschel (Country Director for the Maghreb and Malta) and Kamel Braham (Resident Representative for Algeria) for their valuable comments during the review of this report. The World Bank team is particularly grateful to the Algerian Ministry of Finance and Ministry of Energy and Mining for their comments on the report prior to publication.

The findings, interpretations, and conclusions expressed in this report are those of the World Bank staff and do not necessarily reflect the views of the World Bank Board of Executive Directors or the countries it represents. For information about the World Bank and its activities in Algeria, including electronic copies of this publication, please visit <https://www.banquemondiale.org/fr/country/algeria>. For questions or comments on the content of this publication, please contact Cyril Desponts (cdesponts@worldbank.org) and Eric le Borgne (eleborgne@worldbank.org).

EXECUTIVE SUMMARY

The growth in non-hydrocarbon GDP accelerated in 2022, overcompensating for lower oil and gas production, and it surpassed its 2019 level. Agricultural output rebounded strongly in 2022, while rising private consumption benefited sectors serving households. Investment growth remained moderate, affecting the performance of industrial sectors. In the hydrocarbons sector, lower oil production also reduced the volumes available for export, while the milder European winter reduced demand for Algerian gas. GDP growth thus reached 3.2% in 2022, supported by the acceleration of non-hydrocarbon GDP (+3.8% y-o-y in H1-2022 and +4.5% in H2, versus +2.3% in 2021). In addition, night-lights data suggest continued, cross-regional growth in non-hydrocarbon activity in Q1-2023.

The sharp rise in gas prices has taken over from oil prices in H2-2022, allowing for a continued increase in export revenues and foreign exchange reserves. The fall in oil prices in H2-2022, which has also driven down fertilizer prices and thus the value of non-hydrocarbon exports, has been offset by the significant rise in gas export prices. As a result, exports increased again in H2-2022, reaching a 10-year high of USD 68.7 billion in 2022. At the same time, moderating import prices and a continued reduction in import volumes led to a moderate decline in imports. Therefore, the current account surplus increased in H2-2022, reaching 9.5 percent of GDP in 2022, allowing foreign exchange reserves to rise from 12.5 to 15.8 months of imports between end-2021 and end-2022, reaching USD 61.7 billion.

Inflation remained high in Q1-2023, led by the price of fresh agricultural products. Inflation rose to 9.8 percent y-o-y in Q1-2023, despite moderating prices of imported goods, at which time the authorities raised the reserve requirement ratio and strengthened price controls on some food products. In 2022, growth in the consumer price index had reached 9.3 percent, driven by rising food prices. Monetary policy had remained accommodative, as evidenced by the sustained increase in the money supply, but did not allow for a marked recovery in credit to the private sector. To contain imported inflation, the Bank of Algeria had supported the appreciation of the dinar in H2-2022.

The budget deficit narrowed in 2022, despite the surge in government spending absorbing most of the increase in hydrocarbon revenues. In addition to the strong increase in hydrocarbon revenues, there was a moderate recovery in tax revenues, supported by the acceleration in activity and inflation. As part of the measures to preserve purchasing power, however, spending rose sharply, driven by increases in civil service salaries, retirement pensions, as well as the cost of food subsidies and unemployment transfers. As a result, the overall budget deficit is expected to have fallen from 7.2% of GDP in 2021 to 2.9% in 2022, but the overall nonhydrocarbon deficit has deteriorated from 19% to 23.4% of GDP. At the same time, however, Treasury savings jumped to 8.1% of GDP, and public debt fell to 55.6% of GDP.

The nonhydrocarbon sector is expected to support growth in 2023, but the decline in

oil prices would weigh on trade and fiscal balances. GDP growth would be driven by consumption and the recovery of investment, despite the further reduction in oil production quotas, the impact of poor rainfall on agricultural production, and the moderate recovery of imports. Inflation, particularly in agriculture, is expected to remain high, despite the decline in import prices. The decline in hydrocarbon export revenues would reduce the current account surplus, and the budget deficit would return to its 2021 level but would be partially pre-funded by savings accumulated in 2022. In 2024, the relaxation of quotas and the rebound in agricultural production would support higher GDP growth, while fiscal and external balances would stabilize, as would the public debt to GDP ratio.

The macroeconomic outlook remains highly sensitive to the price of oil and gas, reminding of the economic diversification imperative. The sustained improvement in the trade bal-

ance and the accumulation of foreign exchange reserves has strengthened the resilience of Algeria's external balances to external shocks. However, the sustained increase in public spending has widened the non-hydrocarbon budget deficit, and thus increased the sensitivity of fiscal balances to oil and gas prices. A drop in prices would put the burden of financing a higher deficit on the banking sector, affecting the financing of the economy. These risks underscore the need for a prudent spending policy, improved spending efficiency, and the importance of revenue diversification. In addition, continued implementation of reforms to enable the private sector to become the engine of sustainable growth, diversify the economy and exports, and improve the macroeconomic framework in a sustainable manner, remains essential to the growth and stability of the Algerian economy. Lastly, climate shocks constitute a growing risk for the Algerian economy and that of the region.



RÉSUMÉ ANALYTIQUE

La croissance du PIB hors-hydrocarbures s'est accélérée en 2022, surcompensant la baisse de la production pétrolière et gazière, et lui permettant de dépasser son niveau de 2019. La production agricole a fortement rebondi en 2022, tandis que la hausse de la consommation privée a profité aux secteurs desservant les ménages. La croissance de l'investissement est demeurée modérée, affectant la performance des secteurs industriels. Dans le secteur des hydrocarbures, la baisse de la production de pétrole a réduit les volumes disponibles à l'exportation, tandis que l'hiver plus doux a réduit la demande pour le gaz algérien. La croissance du PIB a ainsi atteint 3,2% en 2022, soutenue par l'accélération du PIB hors-hydrocarbures (+3,8% en g.a. au S1-2022 et +4,5% au S2, contre +2,3% en 2021). En outre, les données d'éclairage nocturne suggèrent une croissance continue et transrégionale de l'activité hors-hydrocarbures au T1-2023.

La hausse marquée des prix du gaz a pris le relais de ceux du pétrole au S2-2022, permettant une augmentation continue des recettes d'exportations et des réserves de changes. La chute des prix du pétrole au S2-2022, qui a entraîné ceux des engrais et donc la valeur des exportations hors-hydrocarbures, a été contrebalancée par la hausse importante des prix d'exportation du gaz. Les exportations ont ainsi encore augmenté au S2-2022, atteignant en 2022 leur niveau le plus élevé depuis 10 ans, soit USD 68,7 milliards. En parallèle, la modération des prix à l'import et la poursuite de la réduction

des volumes importés a permis une baisse modérée des importations. Ainsi, le surplus du compte courant a augmenté au S2-2022, atteignant 9,5% du PIB en 2022, permettant aux réserves de change de passer de 12,5 à 15,8 mois d'importations entre la fin-2021 et la fin-2022, pour atteindre USD 61,7 milliards.

L'inflation est demeurée élevée au T1-2023, emmenée par le prix des produits agricoles frais. L'inflation a grimpé à 9,8% en g.a. au T1-2023, malgré la modération des prix des produits importés, et les autorités ont alors relevé le taux de réserves obligatoires, et renforcé les mécanismes de contrôle des prix de certains produits alimentaires. En 2022, la croissance de l'indice des prix à la consommation avait atteint 9,3%, portée par la hausse des prix de produits alimentaires. La politique monétaire était demeurée accommodante, comme le montre la hausse soutenue de la masse monétaire, sans pour autant permettre une reprise marquée du crédit au secteur privé. Afin de contenir l'inflation importée, la Banque d'Algérie avait alors soutenu l'appréciation du dinar au S2-2022.

Le déficit budgétaire a diminué en 2022, le bond des dépenses publiques absorbant la majorité de la hausse des recettes des hydrocarbures. À la forte hausse des recettes des hydrocarbures s'est ajoutée la reprise modérée des recettes fiscales, soutenue par l'accélération de l'activité et l'inflation. Dans le cadre des mesures de préservation du pouvoir d'achat les dépenses ont toutefois nettement augmenté, emmenées par

l'augmentation des salaires dans la fonction publique, des pensions de retraite, du coût des subventions alimentaires et celui de l'assurance-chômage. Ainsi, le déficit global du Trésor devrait être passé de 7,2% du PIB en 2021 à 2,9% en 2022, mais le déficit global hors-hydrocarbures s'être détérioré, passant de 19% à 23,4% du PIB. En parallèle, l'épargne publique a cependant bondi à 8,1% du PIB, et la dette publique baissé à 55,6% du PIB.

Le secteur hors-hydrocarbures devrait soutenir la croissance en 2023, mais la baisse des prix du pétrole pèserait sur les équilibres commercial et budgétaire. La croissance du PIB serait tirée par la consommation et la reprise de l'investissement, malgré la nouvelle baisse des quotas de production de pétrole, l'impact de la faible pluviométrie sur la production agricole, et la reprise modérée des importations. L'inflation, notamment agricole, demeurerait élevée, malgré la baisse des prix à l'import. La baisse des recettes d'exportation des hydrocarbures réduirait le surplus du compte courant, et le déficit budgétaire retrouverait son niveau de 2021, mais serait cependant en partie pré-financé par l'épargne accumulée en 2022. En 2024, le relâchement des quotas et le rebond de la production agricole permettrait une accélération de la croissance, tandis que les équilibres budgétaires et

extérieurs se stabiliseraient, tout comme le ratio de dette publique sur PIB.

Les perspectives macroéconomiques demeurent hautement sensibles au prix du pétrole et du gaz, rappelant l'impératif de diversification économique. L'amélioration soutenue de la balance commerciale et l'accumulation de réserves de change a renforcé la résilience des équilibres extérieurs de l'Algérie face aux chocs externes. Cependant, l'augmentation durable des dépenses publiques a creusé le déficit budgétaire hors-hydrocarbures, et ainsi augmenté la sensibilité des équilibres budgétaires aux prix du pétrole et du gaz. Une baisse des prix ferait porter le poids du financement d'un déficit plus élevé sur le secteur bancaire, affectant le financement de l'économie. Ces risques soulignent la nécessité d'une politique de dépense prudente, d'une amélioration de son efficacité, et l'importance de la diversification des recettes. En outre, la poursuite de la mise en œuvre de réformes devant permettre au secteur privé de devenir le moteur d'une croissance soutenable, de diversifier l'économie et les exportations, et d'améliorer durablement le cadre macroéconomique, demeure essentielle à l'essor et à la stabilité de l'économie algérienne. Enfin, les aléas climatiques représentent un risque croissant pour l'économie algérienne et celles de la région.

ملخص تنفيذي

نمو مؤشر أسعار الإستهلاك 9.3%، ويرجع ذلك إلى ارتفاع أسعار المنتجات الغذائية. بقيت السياسة النقدية ميسرة، كما يتضح من الارتفاع المستمر في العرض النقدي، دون أن يساهم ذلك بشكل كبير في النشاط الائتماني للقطاع الخاص. من أجل ضبط التضخم المستورد، قام بنك الجزائر بدعم تقوية الدينار في النصف الثاني من عام 2022.

من المتوقع أن ينخفض العجز المالي في عام 2022، حيث استوعب ارتفاع النفقات العامة معظم الزيادة في الإيرادات الهيدروكربونية. رافق الزيادة الكبيرة في الإيرادات الهيدروكربونية نمواً معتدلاً في الإيرادات الضريبية بسبب تعافي النشاط الاقتصادي وارتفاع التضخم. ومع ذلك، زادت النفقات بشكل كبير نتيجة زيادة رواتب الموظفين في القطاع العام ومعاشات المتقاعدين وتكاليف الدعم الغذائي وتكاليف التأمين البطالة. وبالتالي، تراجع العجز الكلي للخزينة من 7.2% من الناتج المحلي الإجمالي في عام 2021 إلى 2.9% في عام 2022، ولكن تدهور العجز الكلي غير الهيدروكربوني ليصل إلى 23.4% من الناتج المحلي الإجمالي في عام 2022 مقابل 19% في عام 2021. في الوقت نفسه، قفز الادخار العام إلى 8.1% من الناتج المحلي الإجمالي، وانخفضت الديون العامة إلى 55.6% من الناتج المحلي الإجمالي.

من المتوقع أن تدعم القطاعات غير الهيدروكربونية النمو في عام 2023، ولكن انخفاض أسعار النفط سيؤثر على حساب المالية العامة والميزان التجاري. من المتوقع أن يكون الإستهلاك وتعافي الاستثمار أهم محركات النمو الاقتصادي هذا العام، على الرغم من انخفاض حصص الإنتاج النفطي، وتأثير نقص الأمطار على الإنتاج الزراعي، واستئناف الواردات بشكل معتدل. كما سيبقى التضخم، بما في ذلك التضخم الزراعي، مرتفعاً، على الرغم من انخفاض أسعار الواردات. سيؤدي الانخفاض في عائدات الصادرات الهيدروكربونية إلى تقليل فائض الحساب الجاري، وسيعود عجز الميزانية إلى مستواه في عام 2021 ولكن سيتم تمويله جزئياً من خلال الوفورات المتراكمة في عام 2022. في عام 2024، ومع تحرير حصص الانتاج وانتعاش الإنتاج الزراعي، يُتوقع أن ينمو الاقتصاد بشكل أعلى، بينما من المتوقع أن تستقر نسبة الدين العام من الناتج المحلي الإجمالي وحسابات المالية العامة والميزان التجاري.

تظل آفاق الاقتصاد الكلي حساسة للغاية لأسعار النفط والغاز، وتذكرنا بحتمية التنويع الاقتصادي. التحسن المستمر في الميزان التجاري وتراكم

تسارع نمو الناتج المحلي الإجمالي غير الهيدروكربوني في عام 2022، مما أدى إلى زيادة التعويض عن الانخفاض في إنتاج النفط والغاز، والسماح له بتجاوز مستواه في عام 2019. فقد انتعش الإنتاج الزراعي بقوة في عام 2022، بينما إستفادت القطاعات التي تخدم الأسر بسبب ارتفاع الإستهلاك الخاص، في حين بقي نمو الاستثمار معتدلاً، مما أثر على أداء القطاعات الصناعية. أما في قطاع الهيدروكربونات، أدى انخفاض الإنتاج إلى تقليل الكميات المتاحة للتصدير، وبسبب اعتدال فصل الشتاء انخفض الطلب على الغاز الجزائري. بناءً على ما تقدم، بلغ نمو الناتج المحلي الإجمالي 3.2% في عام 2022 مدعوماً بتسارع الناتج المحلي الإجمالي غير الهيدروكربوني (3.8% على أساس سنوي في النصف الأول من 2022 و4.5% في النصف الثاني، مقابل 2.3% في عام 2021). علاوة على ذلك، تشير بيانات الإضاءة الليلية إلى استمرار نمو الأنشطة غير الهيدروكربوني عبر الإقليم في الربع الأول من عام 2023.

شهدت أسعار الغاز ارتفاعاً ملحوظاً في النصف الثاني من عام 2022 بعد ارتفاع أسعار النفط، مما ساهم في زيادة مستمرة في عائدات الصادرات واحتياطات العملة الأجنبية. أدى انخفاض أسعار النفط في النصف الثاني من عام 2022 إلى انخفاض أسعار الأسمدة، وبالتالي إلى انخفاض قيمة الصادرات غير الهيدروكربونية، وجاء الارتفاع الكبير في أسعار صادرات الغاز إلى تخفيف وطأة انخفاض أسعار النفط. لذلك، زادت الصادرات مرة أخرى في النصف الثاني من عام 2022، لتصل في عام 2022 إلى أعلى مستوى لها منذ 10 سنوات بقيمة 68.7 مليار دولار. في الوقت نفسه، ساهم اعتدال أسعار الواردات واستمرار تقلص حجم الواردات إلى تخفيض قيمة الواردات بشكل معتدل. وبالتالي، زاد الفائض في الميزان التجاري في النصف الثاني من عام 2022، ليصل إلى 9.5% من الناتج المحلي الإجمالي، مما سمح لاحتياطات العملة الأجنبية بالارتفاع من 12.5 إلى 15.8 شهر من الواردات بين نهاية عام 2021 ونهاية عام 2022، لتصل إلى 61.7 مليار دولار.

ظل التضخم مرتفعاً في الربع الأول من عام 2023، بسبب ارتفاع أسعار المنتجات الزراعية الطازجة. ارتفع التضخم إلى 9.8% على أساس سنوي في الربع الأول من عام 2023، على الرغم من اعتدال أسعار المنتجات المستوردة، ورفعت السلطات معدل الاحتياطات الإلزامية وأحكمت آليات مراقبة الأسعار على بعض المنتجات الغذائية. في عام 2022، بلغ

ضرورة وجود سياسة إنفاق حذرة وتحسين فعاليتها، وأهمية تنويع مصادر الإيرادات للميزانية. بالإضافة إلى ذلك، يبقى تنفيذ الإصلاحات التي تهدف إلى جعل القطاع الخاص محركاً للنمو المستدام، وتنويع الاقتصاد والصادرات، وتحسين الإطار الاقتصادي الكلي بشكل دائم، أمراً حاسماً لتعزيز واستقرار الاقتصاد الجزائري. أخيراً، تمثل الأخطار المناخية خطراً متزايداً على الاقتصاد الجزائري والمنطقة بأكملها.

الاحتياطات النقدية عززت من مناعة الحساب الجاري في مواجهة الصدمات الخارجية. لكن الزيادة المستدامة في الإنفاق الحكومي سيزيد من نسبة عجز الميزانية من الناتج المحلي الإجمالي غير الهيدروكربوني، وبالتالي زيادة حساسية المالية العامة لتذبذبات أسعار النفط والغاز، وفي حال تراجعت أسعار النفط سيضع ذلك أعباء تمويل العجز على قطاع البنوك، الأمر الذي سيؤثر على تمويل الاقتصاد. تؤكد هذه المخاطر على



RECENT ECONOMIC DEVELOPMENTS

Non-hydrocarbon activity accelerated in 2022, surpassing its 2019 levels

Real non-hydrocarbon GDP growth accelerated in 2022, supported by private consumption. GDP growth reached 3.2% in 2022 despite a moderate contraction in hydrocarbon value added (-0.6%), led by the non-hydrocarbon segment of the economy (+4.3%). Non-hydrocarbon GDP growth indeed accelerated from 2.3% in 2021 to +3.8% in H1-2022 and +4.5% in H2. Growth was driven by private consumption (+2.9% in 2022),¹ supported by increased public spending, and despite the effect of rising prices on household purchasing power. The recovery in investment accelerated in Q4-2022 (+6.1% y-o-y, after +1.1% y-o-y in the first nine months of 2022), despite the under-execution in 2022 of public investment planned by the Supplementary Finance Law for 2022.² Real non-hydrocarbon GDP thus exceeded its pre-pandemic level in 2022 (+1.9% relative to its 2019 level), and the absence of a concomitant upturn in imports (-19.4% relative to their 2019 level) suggests a partial reorientation of demand towards domestic production.³ On

the other hand, nightlights data suggest a continued, cross-regional recovery in non-hydrocarbon activity in Q1-2023.⁴ (Figure 1 and 2, and Box 1).

Agricultural production rebounded strongly, while rising private consumption benefited sectors serving households. After contracting by 1.9% in

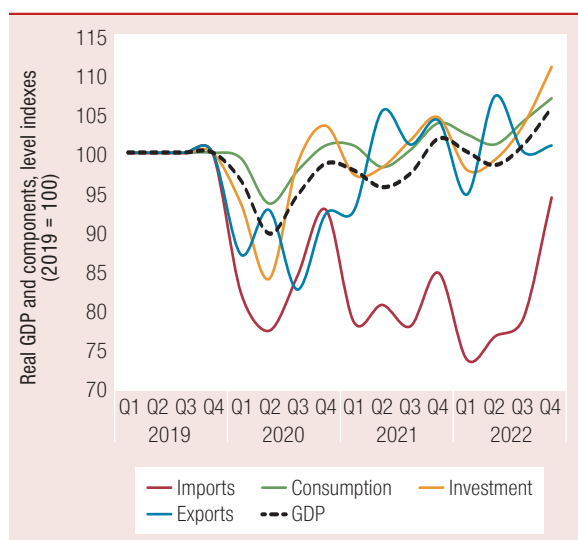
¹ After average growth of 2.2% between 2017 and 2019, a fall by 3% in 2020, and a rebound of 3.7% in 2021. Private consumption accounts for around 44% of Algerian GDP.

² The SFL20222 provided for a doubling of public investment. According to the ONS, 37% of total investment is accounted for by public investment, on which state-owned companies are largely dependent (see Box 1).

³ Efforts to reduce imports must be carefully calibrated, however, as they run the risk of reducing access to the inputs and equipment needed for production and investment, as well as to finished products available in insufficient quantities domestically.

⁴ Nightlights data, adjusted for the impact of oil and gas activity, are robust leading indicators of economic activity (World Bank, 2023a). These data explain 75% of the level of non-hydrocarbon GDP at constant prices in a bivariate linear regression model, and 89% of this level when the quarter, trend and COVID effect are taken into account.

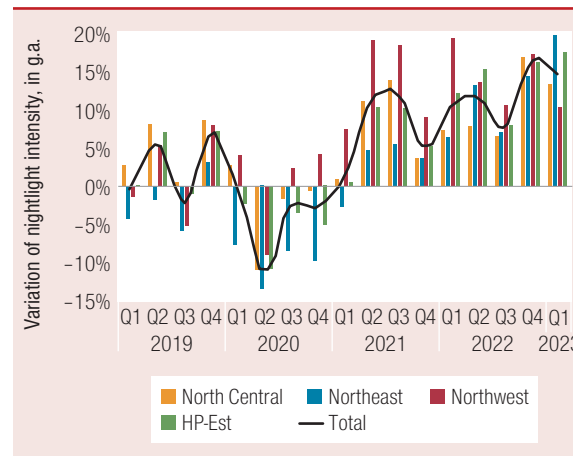
FIGURE 1 • Private consumption growth supported activity in 2022...



Source: Office National des Statistiques (ONS) and World Bank estimates.
 Note: The change in inventories is not presented for better readability. The data above compares the quarterly level of activity to that of the same quarter in 2019.

2021, agricultural production surged in 2022 (+5.8%), driven by a better harvest in central and near-coastal regions.⁵ In addition, rising private consumption has boosted sectors serving households, such as agri-food, clothing, trade and hotels, cafés, and restaurants. Conversely, a more modest rise in investment is helping to explain the moderate growth in activity in the construction, building materials and iron, steel, mechanical,

FIGURE 2 • ...and nightlights data suggest continued non-hydrocarbon activity growth in Q1-2023



Source: NASA and World Bank estimates.
 Note: Nightlights data, adjusted for the impact of oil and gas activity, are robust leading indicators of economic activity (World Bank, 2023a). HP = Hauts-Plateaux. The regions correspond to the Espaces de Programmation Territoriale (EPT).

BOX 1: UNDERSTANDING THE DIFFUSION OF DEMAND SHOCKS IN THE ALGERIAN ECONOMY

Understanding the links between demand shocks and the performance of productive sectors is essential to anticipate and respond to these shocks. To this end, input-output tables (IOTs) make it possible to establish, for each sector, the share of its demand that depends on investment or final consumption, which will be directly affected by a demand shock. It also makes it possible to establish the share of sectoral demand that depends on the demand for the inputs of the sectors affected by the shock (second-round effects). Data on the intensity of imports, the presence of SOEs, or labor intensity, allow us to anticipate the propagation of these shocks in the Algerian economy.

Thus, a positive household consumption shock will have positive effects on the transport and communication, clothing and leather, agriculture and food sectors. According to the IOTs, 85%, 83% and 73% of demand for the sectors' products comes from households (directly and indirectly) and would benefit from this increase. The change in demand for the various sectors will be modulated by the priorities of households with respect to their consumption and those of businesses with respect to their inputs. This increase in consumption could lead to an increase in production (and employment), or an increase in prices (and wages), depending on the availability of products (locally or through imports) and workers. It will have an important effect on employment, mainly through the transport and communication sector (29% of the national wage bill excluding administration), and on the private sector, which is more present in these sectors.

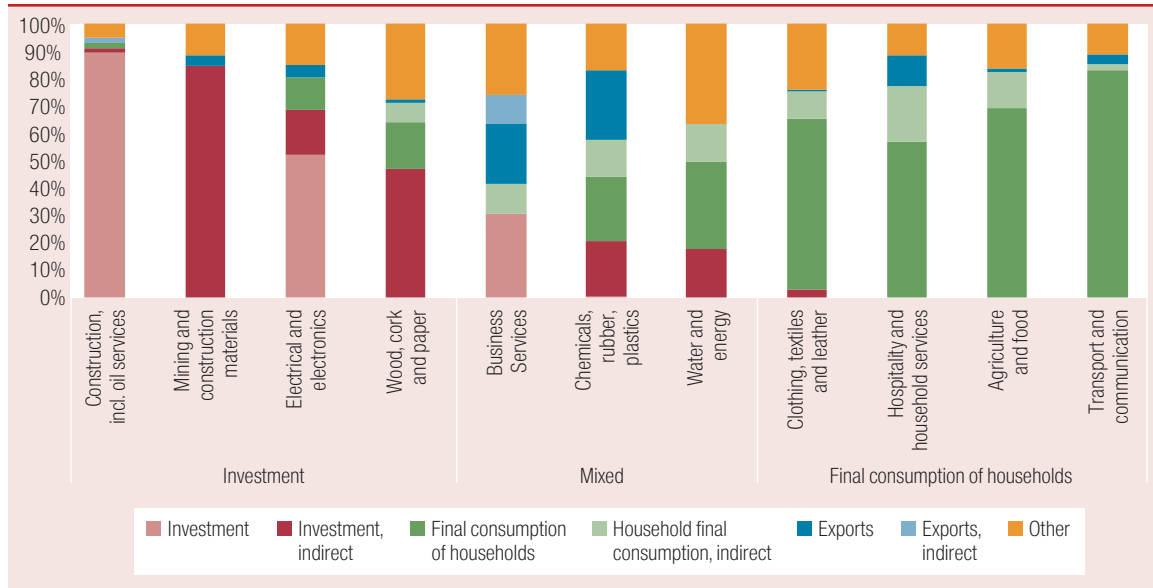
On the other hand, a negative investment shock will affect the construction, mining and construction materials, and ISMMEE sectors, particularly affecting SOEs, and will reduce demand for imported goods. 91% and 69% of demand in the construction and ISMMEE sectors, respectively, is dependent on investment, while 85% of demand in the mining and construction materials sector is dependent on the construction sector (second round effect). In these sectors, a decline in output (and employment) and prices (or wages) is expected. The shock will affect employment,

(continued on next page)

BOX 1: UNDERSTANDING THE DIFFUSION OF DEMAND SHOCKS IN THE ALGERIAN ECONOMY *(continued)*

mainly through the construction sector (29% of the wage bill excluding government) and will be stronger in the public sector, where more than half of output comes from the four main sectors affected. As the import intensity is higher in these sectors, imports are also expected to decrease.

FIGURE 3 • Origin of demand for goods and services, by sector (2021)



Source: ONS and World Bank estimates.

electrical and electronics industries (ISMMEE). Given the strong presence of state-owned enterprises (SOEs) in investment-dependent sectors, their output suffered, particularly SOEs active in the ISMMEE (-21.4% y-o-y over 9m-2022) and construction materials (-6.7%) sectors. On the other hand, the acceleration in investment in Q4 generated a jump in imports.⁶ (Box 1).

Oil and gas production and export slowed significantly in H2-2022

OPEC's production quota cuts in October 2022 led to a decrease in oil production, reducing the volumes available for export at the end of the year. As a possible slowdown in global growth threatened global hydrocarbon prices, OPEC decided to lower its production and Algeria's crude oil production quota was reduced from 1055 kb/d in October 2022 to 1007 kb/d in November and then to 959 kb/d from May 2023.⁷ Thus, after eight consecutive quarters of increases and

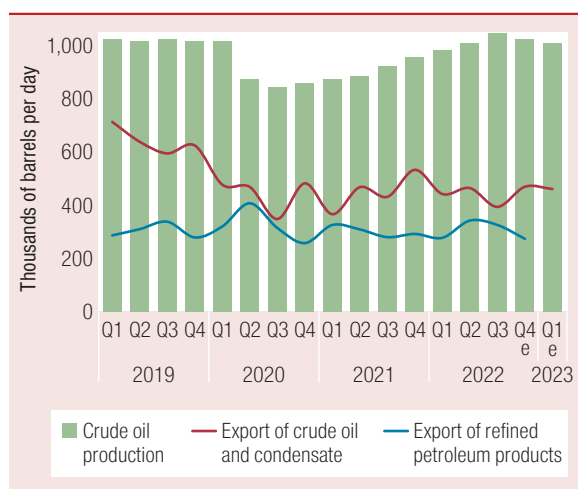
a return to 2019 production levels, average production declined by 1.9% quarter-on-quarter (q-o-q) in Q4-2022, and by 1.6% q-o-q in Q1-2023. In 2022, however, production increased by 12% relative to 2021 (reaching 1020 kb/d on average), due to the continued increase in quotas over the first 10 months of the year. This increase in average production in 2022 has allowed for an increase in crude oil exports (+9.5% in 2022) and a larger increase in refinery production.⁸ However, refined oil and liquefied petroleum gas exports increased by only 3% and 3.5%, respectively, suggesting that the ad-

⁶ No labor market data is presented here, as publication of data from the Agence Nationale de l'Emploi (ANEM) was halted in June 2022, and the latest usual labor market statistics (e.g., unemployment rate, participation rate) date back from H1-2019.

⁷ That is, the December 2021 level, but still higher than the May 2020 low (816 kb/d).

⁸ The increase in crude oil production in 2022 (+11.9%) being higher than that of exports. Indeed, 40% of Algerian crude oil production is exported, while the rest is sent to refineries. (Sonatrach, 2022).

FIGURE 4 • OPEC quota cuts have limited production...



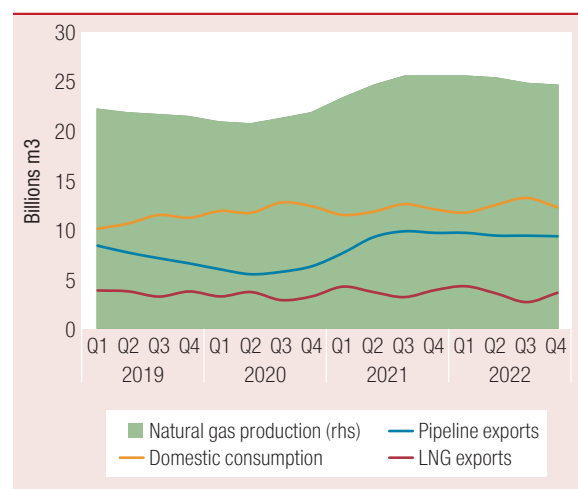
Source: Bank of Algeria (BoA) for refined petroleum product exports up until Q3-2022, Organization of Petroleum Exporting Countries (OPEC) for crude oil production, World Bank estimates for exports in Q4-2022 and Q1-2023.

ditional production was absorbed by increased domestic consumption.⁹ (Figure 4).

Gas production and exports slowed but remained high in H2-2022, despite higher export prices. The upward revision of natural gas delivery prices with Italy and Spain has reduced the attractiveness of Algerian gas, which has nevertheless remained significantly more attractive than the global price of liquefied natural gas. This may have slowed down gas storage¹⁰ and, together with the effect of a milder European winter on the demand for Algerian gas, caused natural gas production to continue declining in H2-2022 (-5.9% y-o-y, compared to -1.1% in H1-2022).¹¹ On a full-year basis, production decreased by 3.4% compared to 2021 but remained 11.9% above the 2018–2020 average, as the European strategy to reduce its energy dependence on Russia contributed to sustained demand for Algerian gas. Pipeline and liquefied natural gas exports followed production (-5.5% and -6.9% y-o-y in H2-2022, respectively), suggesting a decline of similar magnitude in domestic consumption.¹² However, pipeline gas exports to Spain fell 36% y-o-y in Q3-2022, while exports to Italy jumped 41% y-o-y, notably reflecting a strong export premium to Italy.¹³ (Figure 5).

Hydrocarbon exports continued to increase in Q3 and Q4-2022, supported by the continued rise in the price of gas sold to Europe. After peaking

FIGURE 5 • ...while gas production and exports have slowed



Source: Joint Organisation Data Initiative (JODI), World Bank estimates.
Note: Data are presented as a rolling four-quarter average to eliminate the effect of seasonality. Local consumption is estimated as the difference between gross production and pipeline and liquefied natural gas exports, as Algeria does not import natural gas.

at US\$123 per barrel in June 2022, the price of Algerian crude oil fell to US\$80 in December despite lower production quotas, before stabilizing at US\$82 in Q1-2023. This decline was nevertheless cushioned by the sharp rise in the price of gas exported to Europe through pipelines, from US\$ 335 per thousand cubic meters in H1-2022 to US\$ 703 in H2-2022,¹⁴ driven by the increase in the price of sales to Italy in Q3 and then to Spain. Thus, and despite the slight concomitant decline in export volumes, the oil price correction did not generate a decline in hydrocarbon export revenues, which rose from US\$ 14.9 billion in Q2-2022 to US\$ 16.2 billion in Q3 and around US\$ 16.8 billion in Q4.¹⁵ (Figure 6).

⁹ Around 85% of domestic consumption of refined products is accounted for by road transport.

¹⁰ Which is suggested by the inverse relationship between gas prices and export volumes (World Bank, 2022).

¹¹ JODI data for natural gas production and exports.

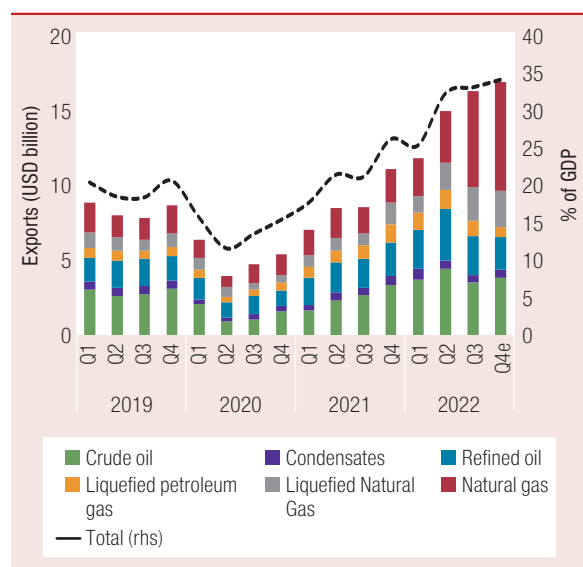
¹² Of around 6%, the decrease in exports being proportional to that of production. More than half of Algerian natural gas is exported by pipeline (37%) or in the form of LNG (16%), and domestic consumption is mainly used to supply thermal power plants (20%), for residential use (11%) and industrial use (9%).

¹³ In Q3-2022, the Italian purchase price (€79.5 MWh) increased by 93% q-o-q while the Spanish purchase price remained stable (€43 MWh, +3.6% q-o-q), reflecting a faster contractual adjustment of Italian prices to spot gas price (European Commission, January 2023).

¹⁴ Against US\$ 197 in 2021.

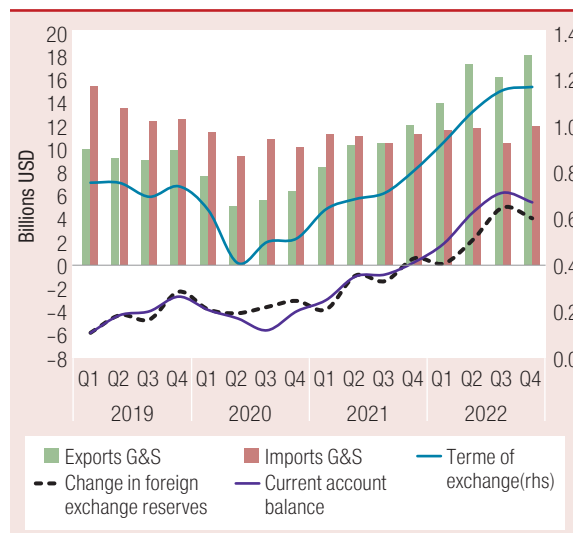
¹⁵ World Bank estimates. This represents a 10-year high.

FIGURE 6 • Natural gas prices have supported hydrocarbon export revenues in H2-2022...



Source: BoA and World Bank estimates for Q4-2022.

FIGURE 7 • ...which, together with the lack of import recovery, has preserved the current account surplus



Source: International Monetary Fund (IMF).

Higher gas prices and lower imports supported the current account in H2-2022

The current account surplus thus increased in H2-2022, as did foreign exchange reserves.

Driven by natural gas exports, the current account surplus peaked in Q3-2022 (US\$6.3 billion), before declining in Q4 (US\$5.5 billion), as stable exports of goods and services contrasted with a moderate recovery in imports of goods and services in Q4. As a result, the current account surplus reached US\$18.3 billion in 2022, or 9.5 percent of GDP, and Algeria's foreign exchange reserves continued to increase, reaching US\$61.7 billion at end-2022 (+US\$15.7 billion over the year), or 15.8 months of imports of goods and services, compared to 12.5 months at end-2021. In addition, Algeria's terms of trade¹⁶ improved significantly in 2022, driven in H1 by the sharp rise in oil prices, and their decline in H2 being offset by higher gas prices, lower import prices, and the Bank of Algeria's decision to undertake a controlled appreciation of the dinar (see below). (Figure 7).

The decline in oil exports in H2-2022 was accompanied by a decline in fertilizer and iron prices, which are correlated with oil prices. Product exports increased to US\$ 65.1 billion in 2022, from US\$

38.6 billion in 2021 (+75.5%), mainly driven by higher hydrocarbon prices and exports (+68%). At the same time, non-hydrocarbon exports also jumped from US\$ 5 billion in 2021 to US\$ 6.6 billion in 2022, despite the decline in export volumes (-3.5% in 2022). However, exports of non-hydrocarbon products were in 2021 dominated by fertilizers (mainly nitrogen fertilizers and ammonia), and the upturn in 2022 seems to have been driven by the rise in the price of fertilizers and steel products¹⁷ on international markets, increasing the value of non-hydrocarbon exports (+41%). (Figures 8 and 9).

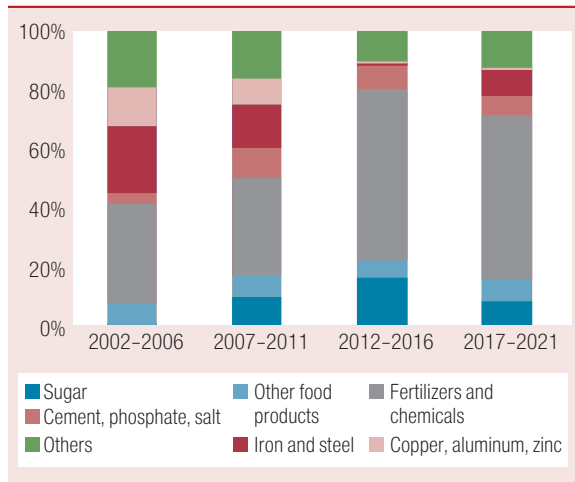
Imports declined in H2-2022, despite the recovery in equipment imports in Q4.

Imports of goods and services increased to US\$ 47 billion in 2022, from US\$ 43.3 in 2021 (+8.5%) despite a decline in import volumes, which was overcompensated by the sharp rise in import prices. In fact, in 2022, the volume of imported products fell by 3.1%, driven by the fall in imports of machinery and transport equipment (-18.8% y-o-y) in a context of weak growth in domestic investment, and that of

¹⁶ The ratio between the average export price and the average import price, an indicator of Algerian purchasing power abroad.

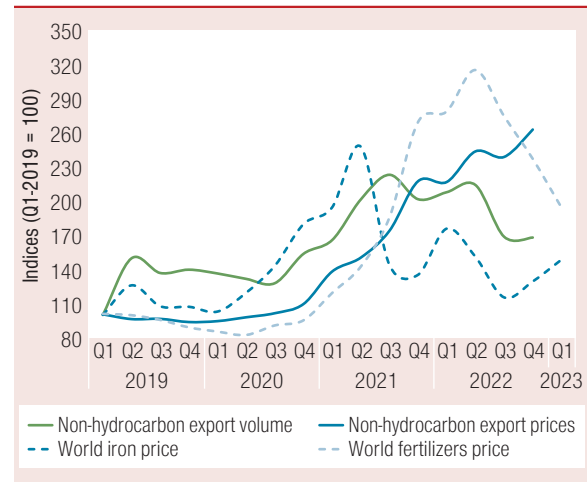
¹⁷ In 2021, these represented around 70% of Algeria's non-hydrocarbon exports. The World Bank's synthetic fertilizer price index shows a 58% increase in 2022.

FIGURE 8 • Non-hydrocarbon exports are concentrated in fertilizers...



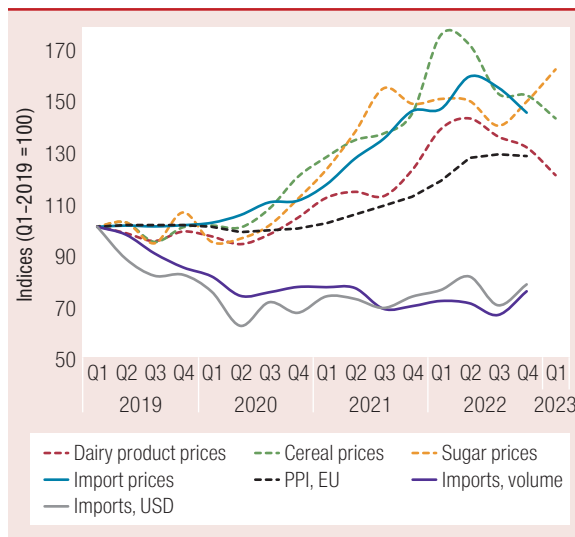
Source: Trademap and World Bank estimates. Data for Algeria are obtained from the import data of its trading partners.

FIGURE 9 • ...whose prices are correlated with oil prices



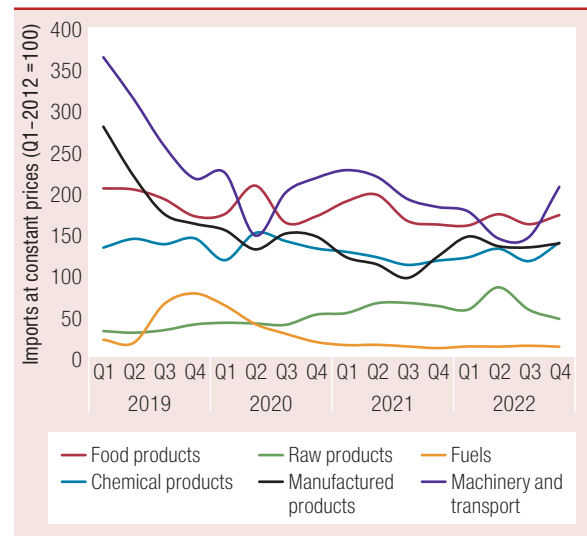
Source: ONS and World Bank estimates for non-hydrocarbon export prices and volumes, World Bank Commodity Markets Outlook for the composite fertilizer and iron price index. HH = non-hydrocarbon. The continued increase in non-hydrocarbon export prices in Q4, driven by higher food and chemical products prices, could be explained by a change in the composition of non-hydrocarbon exports in 2022.

FIGURE 10 • Import prices fell in H2-2022...



Source: ONS, Organization for Economic Cooperation and Development (OECD) & Food and Agriculture Organization (FAO). Note: PPI = Producer Price Index for the public market sector.

FIGURE 11 • ...while import volumes picked up in Q4, driven by equipment



Source: ONS and World Bank calculations.

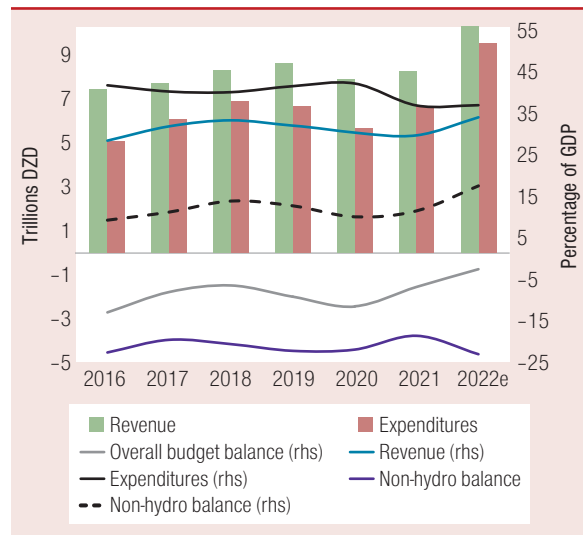
food products (-6.7%) against the backdrop of the rebound in Algerian agricultural production. This decline in import volumes was, however, overcompensated by the jump in import prices (+15.5%), which was cross-cutting but more pronounced for food products (+32.6% y-o-y). However, the trend in food and commodity prices reversed in H2-2022, as world prices for cereals and dairy products fell and

producer prices stabilized, while equipment imports picked up in Q4-2022. (Figures 10 and 11).

The budget deficit narrowed in 2022, despite a large increase in spending

The overall budget deficit narrowed in 2022, as the sharp rise in hydrocarbon revenues outweighs

FIGURE 12 • The increase in hydrocarbon revenues was larger than that of spending...

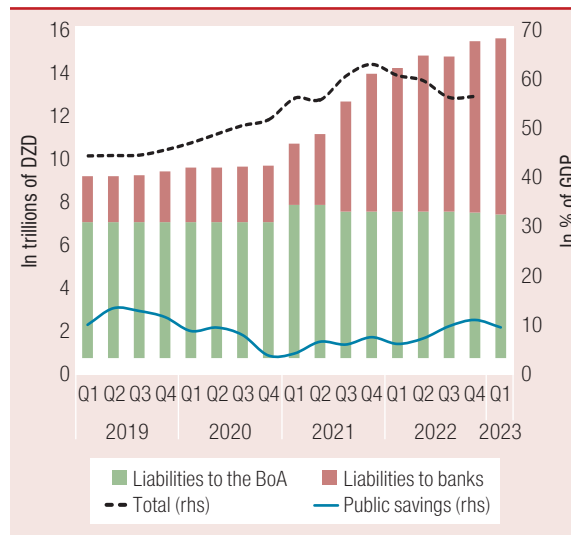


Source: Ministry of Finance, ONS and World Bank estimates for 2022.

that of operating expenses. Following the increase in hydrocarbon export revenues (+75.5%), the depreciation of the dinar against the US dollar (-4.9%), and an increase in the share of export revenues going to the budget, hydrocarbon revenues in the budget more than doubled (+117%).¹⁸ Tax revenues increased, supported by the good dynamics of private consumption and the recovery of corporate tax revenues, after a year 2020 marked by the COVID-19 crisis and the postponement of the losses incurred to fiscal year 2021. Contrasting with the low growth in capital expenditure, public expenditures increased sharply (+30%), driven by operating expenditure. The jump in the latter is explained in particular by the rise in public sector wages, the increase in retirement pensions, the implementation of the unemployment benefit, and the increase in the cost of universal subsidies for basic foodstuffs.¹⁹ Thus, the overall budget deficit is expected to be 2.9% of GDP in 2022, compared with 7.2% of GDP in 2021, but the non-hydrocarbon budget deficit would have deteriorated from 19% to 23.4% of GDP (Figure 12).

Public debt to the domestic banking sector increased moderately in 2022, in parallel to Treasury savings at the Bank of Algeria. The Treasury's debt to the domestic banking sector continued to grow (+21.5% in 2022, reaching 30.4% of

FIGURE 13 • ...and the Treasury's savings increased in parallel with public debt



Source: IMF and World Bank estimates.

Note: On the right-hand axis, public debt is related to GDP over four rolling quarters.

GDP at the end of the year), as part of regular sovereign issuances and the implementation of the last phase of the special refinancing program (PSR) program.²⁰ Nevertheless, the Treasury's savings at the Bank of Algeria increased in parallel to the rise in public debt, from DZD 962 billion at end-2021 to DZD 2,231 billion at end-2022 (or US\$ 15.7 billion, or 8.1% of GDP). As the increase in nominal GDP far exceeded the increase in public debt, the public debt ratio fell in 2022 to 55.6 percent of GDP.²¹ (Figure 13).

¹⁸ Hydrocarbon revenues include funds accruing to the Fonds de Régulation des Recettes, i.e., those that exceed the revenue estimates of the finance laws. The depreciation of the dinar increases the dinar value of hydrocarbon exports, denominated in dollars.

¹⁹ Public spending planned in the Supplementary Finance Law for 2022 (published in August) remains largely under-executed, and in particular public investment.

²⁰ Under this program, the Treasury substituted Treasury bills for SOE debt on public banks' balance sheets. These Treasury bills could then be refinanced by banks at the Bank of Algeria, but most of the liquidity acquired in this way had to be reinvested in Treasury bills, helping to finance the budget deficit.

²¹ Domestic debt accounts for 99% of public debt, of which 22.9% is market debt and the remaining 77.1% is composed mainly of Treasury bills issued under the 2017-19 monetary financing program and the 2021-2022 special refinancing program.

The authorities favored exchange rate policy, then monetary policy, to contain inflation

Consumer and producer prices growth remained high in H2-2022 and accelerated in Q1-2023, despite moderating prices of imported goods.

Consumer price index (CPI) growth reached 8.5 percent y-o-y in Q4-2022 (+9.3 percent y-o-y) and accelerated to 9.8 percent in Q1-2023. While the increase in 2022 was cross-sectional, the acceleration in Q1-2023 was fueled by the sharp rise in the prices of fresh agricultural products (+24.7%), mainly domestically produced,²² and in particular that of meat, fruit and dairy products. At the same time, growth in the prices of industrial food products and manufactured goods, mainly imported, has slowed significantly.²³ On the other hand, producer prices have also continued to rise (+13.5% y-o-y over 9m-2022), particularly in the ISMEE, mining and textile sectors, which heavily rely on imports.²⁴ (Figure 14).

In this context, the authorities strengthened measures to preserve purchasing power, through increases in salaries, pensions, unemployment benefits, and food subsidies. The government has announced that public sector wages will increase by around 10% per year in 2022, 2023, and 2024,²⁵ together with retirement pensions (between 2 and 5%). The amount of the unemployment benefit introduced in 2021, which benefits 2 million Algerians, will also be increased from DZD 13,000 to 15,000. Taken together, these three measures should benefit 7.4 million Algerians, or more than a quarter of the adult population.²⁶ Finally, the subsidy mechanisms for basic food products have been strengthened, with the extension of the OAIC wheat import monopoly to pulses and rice in February 2023.²⁷

The Bank of Algeria also intervened to support the appreciation of the dinar in H2-2022, with the objective of containing imported inflation. After several years of continuous depreciation (-6.2% per year on average between 2014 and 2021), the Bank of Algeria intervened in H2-2022 to allow the appreciation of the dinar against the US dollar, with the objective of containing imported inflation.²⁸

Thus, the dinar rose by 4.0% in H2-2022 against the euro (+7.0% in 2022, returning to its level of 2020), by 6.2% against the US dollar (+0.8% in 2022, returning to its level at the end of 2021) and by 9.4% against the yuan (+9.3% in 2022, returning to its level at the end of 2020).²⁹ The real effective exchange rate has appreciated by 9.0%, with Europe also experiencing a high level of inflation. Thus, the appreciation of the exchange rate has been accompanied by a marked increase in Algeria's terms of trade, despite the fall in oil prices (Figure 15).

While inflation remained high in Q1-2023, the Bank of Algeria initiated a tightening of monetary policy. In 2022, monetary policy remained accommodative as suggested by the sustained increase in money supply (+14.2%) and currency in circulation (+10.9%),³⁰ the Bank of Algeria maintaining the policy rate³¹ and the reserve requirement rate at the level established during the pandemic. Despite this, credit growth to the private sector remained limited (+3%), while credit to SOEs remained stable after

²² According to the ONS only 11.3% of national consumption of agricultural products was imported in 2021.

²³ Agro-industrial products, manufactured goods and services indeed showed a more moderate increase (5%, 6.8% and 3.3% y-o-y). According to the ONS, 30% of national consumption of agro-industrial products and 63% of manufactured goods is imported. Thus, their price is more sensitive to the exchange rate and import prices. (World Bank, 2022).

²⁴ ONS data for the national public sector.

²⁵ World Bank estimates based on salary scales published in Official Gazette 3 of 2023.

²⁶ According to the Minister of Labor, nearly 2 million unemployed, 2.8 million civil servants and 2.6 million pensioners will see their income increase (APS, December 26, 2022).

²⁷ APS, February 13, 2023. This announcement comes after the granting of a monopoly on the purchase of imported (2021) and domestically produced (2022) wheat. For an inventory of measures taken in 2022, see World Bank (2023).

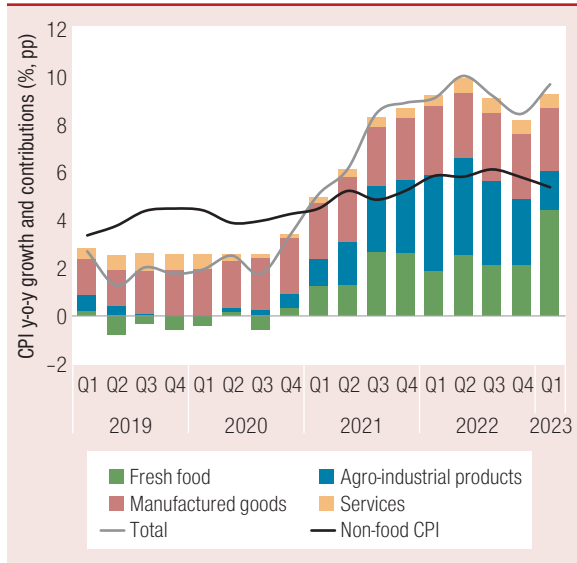
²⁸ "Indeed, this appreciable appreciation reflects the Bank of Algeria's desire to combat the acceleration of imported inflation in the context of the dinar's punctual undervaluation relative to its fundamentals, and the cyclical weakness of the euro." (Bank of Algeria, 2023) Authors' translation.

²⁹ End-period data.

³⁰ Data from December 2021 to December 2022 (IMF).

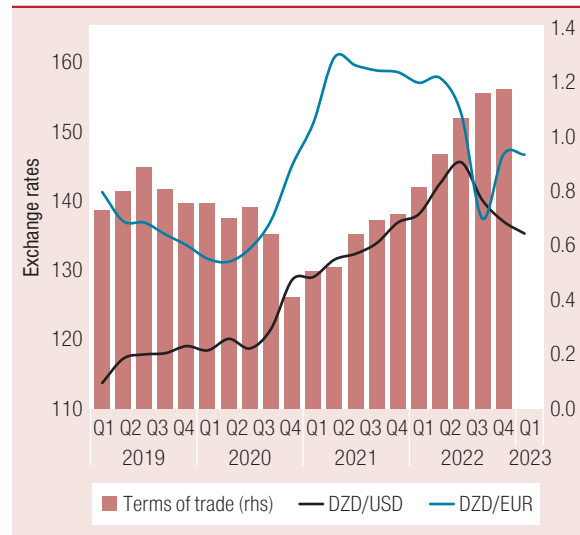
³¹ This is 3%.

FIGURE 14 • Inflation accelerated in Q1-2023



Source: ONS and World Bank estimates.

FIGURE 15 • The dinar appreciated strongly in H2-2022



Source: Investing.com, ONS, and World Bank estimates.

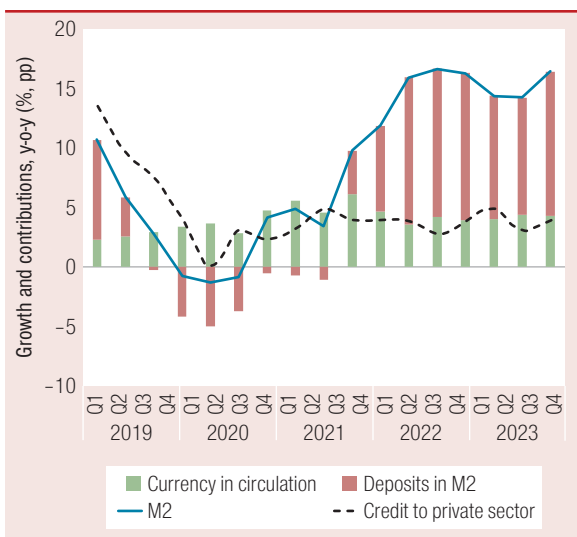
the sharp drop in 2021, induced by the buyback of their claims by the Treasury under the PSR. As the latter continued in H1-2022, 56% of new bank credit in 2022 were channeled to the Treasury, 34% to the Bank of Algeria, and 7% to the private sector.³² In April 2023, however, in order to contain persistent inflationary risks, the Bank of Algeria announced an increase

in the reserve requirement rate from 2 to 3%, its pre-pandemic level.³³ (Figures 16 and 17).

³² In stock, at the end of 2022, 35% of bank credit was directed to the private sector, 27% to SOEs and 39% to the Treasury.

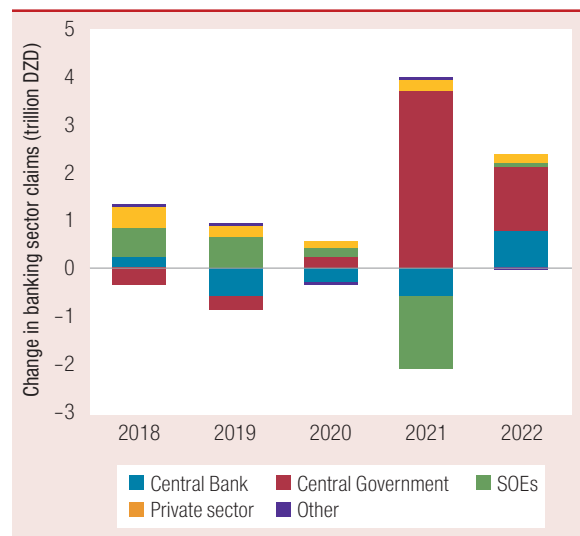
³³ "These measures target, initially, the sources of excess liquidity, potentially inflationary" (Bank of Algeria, April 2023) Authors' translation.

FIGURE 16 • Liquidity growth remains high, but credit recovery remains moderate...



Source: IMF and World Bank estimates.

FIGURE 17 • ...with 90% of bank liquidity channeled to the Treasury and the Bank of Algeria



Source: IMF and World Bank estimates.



OUTLOOK AND RISKS

Non-hydrocarbon activity is expected to be the main growth driver in 2023

The non-hydrocarbon sector is expected to sustain growth in 2023, overcompensating for stable hydrocarbon production. In the baseline scenario, GDP growth would reach 1.8 percent in 2023, resulting from growth in non-hydrocarbon activity (+2.2 percent) and the stability in hydrocarbon GDP (+0.6 percent). The agricultural sector is expected to slow down, as low rainfall has caused significant delays in crop development at the beginning of the year, particularly in the country's main agricultural regions.³⁴ Gas production would increase and crude oil production would decline, constrained by the reduction in production quotas from November 2022 and the one decided in March 2023, which will come into effect in May.³⁵ Thus, the services sector would remain the main contributor to growth.

On the expenditure side, growth is expected to be driven by the good momentum of private consumption and the recovery of investment, despite the decline in net exports. Private

consumption should remain dynamic, supported by the public effort to preserve purchasing power through increased public spending, and thus by activity in the services sector. The expected recovery in investment would materialize in 2023, supported by the hydrocarbon sector, stimulating industrial activity. However, net exports would slow growth, as the fall in hydrocarbon exports, weighed down by the fall in quotas and the concomitant recovery in domestic consumption, would be reinforced by the rise in imports, which are needed for investment and to offset the fall in agricultural production.

In the baseline scenario, the rebound in agricultural and crude oil production in 2024 would allow for higher growth. Assuming a return to average rainfall and agricultural production in 2024, on the one hand, and an increase in OPEC quotas

³⁴ According to satellite data, available through March 2023, almost all wilayas were in a water deficit situation in Q1-2023, and a majority of the main agricultural regions (including Tiaret, Sétif, Sidi bel Abbès, Oum el Bouaghi, Souk Akhras, Médéa, Relizane, Ain Defla) showed a marked delay in crop development. (JRC-EU, 2023).

³⁵ Algeria will make a voluntary reduction of 48,000 barrels per day. (APS, April 2023).

as a result of the recovery in global activity,³⁶ on the other, GDP growth would accelerate in 2024, reaching 2.6%. The rise in exports and moderate growth in imports would offset the slowdown in consumption and investment growth.

Inflation would slow down but remain high in 2023, despite the moderation in import prices.

In the baseline scenario, the growth of the consumer price index slows down gradually over the projection period due to the delayed disinflationary effect induced by the fall in the prices of imported products and the appreciation of the Algerian dinar in 2022, particularly in import-dependent sectors (agro-industrial and manufactured products).³⁷ The decision to grant the OAIC a monopoly on the purchase of domestic and imported wheat, extended to the import of rice and pulses, may also limit price increases, to the extent that OAIC's production capacity can meet domestic demand. Conversely, the effect of low rainfall on agricultural production, as well as the delayed effect of increased government spending and money supply in 2021 and 2022, could fuel price increases.

Pressure on fiscal and external balances is expected to increase

In 2023, the current account surplus is expected to shrink (+1.9% of GDP) because of lower hydrocarbon export prices and volumes. In addition to the drop in export volumes, the average export price of Algerian oil is expected to fall in 2023, in line with international prices, while the export price of Algerian gas could remain at a high level. The decline in oil prices would also be accompanied by a decline in fertilizer and iron prices, which begun at the end of 2022. At the same time, imports would resume, with the fall in world market prices being offset by the increase in Algerian demand, particularly to enable the resumption of investment, and ensure the availability of food products. Stabilization of import prices, reduced pressure on imports, increased oil production and continued high gas prices would allow the current account to remain positive in 2024. In 2025, hydrocarbon exports growth would slow down, driven by continued growth in domestic consumption, fueled by costly energy subsidy policies.

The decline in hydrocarbon revenues and the projected increase in public spending will widen the budget deficit in 2023, but it would be partly pre-financed by the savings accumulated in 2022.

In the baseline scenario, revenues fall, with the drop in hydrocarbon export revenues partly offset by higher tax revenues, supported by high inflation, and higher dividends from the Bank of Algeria. Expenditures would rise again, however, because of further increases in civil service salaries and the higher cost of unemployment benefits introduced in 2021, despite the lower cost of food subsidies. The overall budget deficit would therefore rise to 7.0% of GDP but could be financed by domestic bond issues and Treasury savings at the Bank of Algeria, which reached an estimated 6.5% of GDP in March 2023 (over four rolling quarters). Despite the continued rise in public sector wages, the pace of expenditure growth would slow in 2024 and 2025 and, given the anticipated increase in revenues, the overall Treasury deficit would stabilize at around 6% of GDP. Public debt would stabilize at around 62% of GDP, with the increase in the stock of public debt cushioned by the rise in nominal GDP.

Oil price volatility reminds of the need for economic diversification

In 2022, Algeria took advantage of the jump in oil prices and then in gas prices to build up a safety cushion. The spike in oil export prices, followed by that of natural gas, allowed Algeria to significantly increase hydrocarbon revenues, generate a trade surplus and reduce the budget deficit, but also increase Algeria's foreign exchange reserves and Treasury savings, removing in the short term the risks of an abrupt macroeconomic adjustment in the event of a further fall in prices. Moreover, the sustained reduction

³⁶ According to the World Economic Outlook, global growth is expected to slow in 2023 (+2.1%), before rebounding in 2024 (+2.4%). (World Bank, 2023b).

³⁷ See World Bank, 2023a. According to the World Bank (2023c), however, Algerian inflation is less sensitive to the exchange rate of the local currency relative to the U.S. dollar than MENA countries.

BOX 2: THE 2023 BUDGET LAW

The Budget Law for 2023 (BL2023)^a revises the budget deficit upwards, led by a marked increase in expenditure. It foresees a deterioration in the budget deficit relative to the complementary budget law for 2022 (CBL2022), despite an increase in revenues (+13%), excluding hydrocarbons (+21% and +3%, respectively). It plans a 19% increase in expenditure, after the massive increase forecast by the CBL2022 (+42% relative to 2021),^b driven by operating expenditure (+27%) and a modest increase in capital expenditure (+3%). In 2024 and 2025, the stabilization of expenditures and the increase in revenues, mainly tax revenues, would make it possible to reduce the deficit.

The substantial increase in operating expenditures is split between provisions for in-year budget reallocations, salary increases, and increases in the cost of unemployment benefits. One-third of the new spending is allocated to the Ministry of Finance, primarily for in-year reallocation. The Ministry of Labor would receive 23.6 percent of the new operating expenses, to finance the increase in unemployment benefits.^c The Ministry of the Interior and the Ministry of Education would receive 13.8 percent and 13.6 percent of the new operating expenditures, respectively, to be used for the planned wage increase.

The BL2023 includes measures to broaden the tax base and encourage financial inclusion. The newly created auto-entrepreneur status is now subject to the single flat tax (IFU), as are revenues from the sale of products at regulated prices. The BL2023 also allows for a partial recovery of car imports. Targeted tax measures are introduced to support investment and start-ups, as well as the fishing and aquaculture sector. The scope of certain taxes is also broadened.

For the first time, the BL2023 is presented according to the precepts of the 2018 Organic Budget Law (OBL).^d In particular, the budget for each ministry has been broken down by program rather than by function, consolidating operating and capital expenditures. Projected revenues, now divided into eight titles rather than four, are also disaggregated by government level, special account (a list of these also accompanies the BL2023), or public entity other than social security funds. Finally, partial estimates of the cost of preferential tax regimes are appended.

^a Published in the official journal in December 2022.

^b As noted in the previous chapter, however, the announced amount of expenditures was under-executed.

^c The Minister of Labor announced that the unemployment benefit implemented in February 2022 will increase by 15% to reach 15,000 DZD/month (109.4 USD/month), it will be distributed to 1.9 million beneficiaries by January 2023. The cost of this allowance is estimated at DZD 342 billion, or 2.5% of the expenditure provided for in the 2023 finance law.

^d In the official journal 53 (september 2018).

in imports, while posing risks to the availability and price of imported goods and equipment, supports the current account balance and a continued increase in foreign exchange reserves in the baseline scenario. Finally, the smaller-than-expected increase in public spending has allowed for the accumulation of significant savings, which could help finance deficits over the projection period, and avoid the need to resort to the Bank of Algeria in 2023, assuming a prudent spending policy.

Despite this, the macroeconomic outlook remains highly sensitive to global oil prices, whose trajectory remains uncertain. Uncertainties surrounding the trajectory of the global economy, demand from major energy consuming countries, producer supply and global hydrocarbon prices remain high, as evidenced by OPEC's surprise announcement of a cut in production quotas in March 2023 to offset the unexpected decline in prices. For Algeria, these developments will have significant implications.

For example, all other things being equal, a simulation based on an oil price of US\$ 100 per barrel in 2023 suggests that the current account surplus would reach 5.5% of GDP (+3.6 pp) and the budget deficit would decrease to 4.5% of GDP (+2.5 pp), allowing for a more rapid accumulation of foreign exchange reserves. Conversely, an oil price of US\$70 per barrel would generate a current account deficit of 1.7 percent of GDP and the fiscal deficit would widen to 9.5 percent of GDP, prompting tighter import controls, spending cuts, and greater reliance on the domestic banking system to finance the deficit, with potential adverse effects on growth and inflation.

In this context, continued efforts to diversify the economy and exports remain essential. The authorities have undertaken major efforts to stimulate private and foreign investment, notably through a new Hydrocarbon Law (2019), the partial lifting of limits on foreign ownership of domestic firms (2020), and a new Investment Law (2022). The continuation and

effective implementation of reforms to improve the business climate, particularly to allow greater private sector participation in the economy, remains essential to the sustainability and resilience of the Algerian economy. Among other things, export diversification would reduce the vulnerability of macroeconomic balances to oil prices.

Climate change represents a growing risk for Algeria and the region

Climate change pose increasing risks to Algerian growth and inflation, including for the year 2023.

Since 2019, rainfall has been below historical averages,³⁸ a phenomenon even more marked in 2021. That year, agricultural GDP contracted by 1.9%, and inflation in fresh agricultural products rose to 13.9% (compared with 2% the previous year), led by a 21.3% increase in fruit and vegetable prices. Between October 2022 and February 2023, Algeria's rainfall was among the lowest it has been in 20 years and, despite a moderate increase in rainfall in March, the outlook for agricultural production is below average.³⁹ At the same time, inflation in fresh agricultural products accelerated to 24.7% y-o-y in Q1-2023. Thus, a

continuation of low rainfall in 2023 and through 2024 and 2025 could limit agricultural sector growth and fuel inflation.

In addition to the immediate macroeconomic effects, food inflation can affect the long-term economic outlook. It contributes at least half of the inflation in the MENA region, and disproportionately affects vulnerable households. It can increase the level of food insecurity,⁴⁰ and have multigenerational effects on children's education, health, and future income. This underscores the importance of rapidly adapting the agricultural sector, ensuring the availability of sufficient food through imports, and building household resilience to the effects of climate shocks, including through social protection and insurance mechanisms, targeted at the most vulnerable households.⁴¹

³⁸ National Meteorological Office, EU Joint Research Centre.

³⁹ EU Joint Research Centre.

⁴⁰ Inflation accounts for 24–33% of projected food insecurity in 2023.

⁴¹ See "Disrupted Destinies: Long-Term Effects of Rising Prices and Food Insecurity in the Middle East and North Africa Region" (World Bank, 2023b).

TABLE OF INDICATORS

	2019	2020	2021	Estim.	Projections		
				2022	2023	2024	2025
Output and prices							
Real GDP	1.0	-5.1	3.4	3.2	1.8	2.6	2.3
Non-hydrocarbon	2.7	-3.9	2.3	4.3	2.2	2.5	2.3
Hydrocarbon	-4.9	-10.2	10.5	-0.6	0.6	2.9	2.4
Per capita	-1.0	-6.9	1.6	1.4	0.0	0.7	0.5
Consumer price index (period average)	2.0	2.4	7.2	9.3	8.6	7.8	7.1
GDP (in billions of current USD)	171.8	145.7	163.4	195.0	196.8	214.7	226.4
GDP per capita (USD)	3955.2	3292.9	3631.7	4257.9	4221.1	4523.9	4686.3
Crude oil production (thousand barrels per day)	1020.5	897.5	908.4	1016.2	976.9	1015.7	1039.0
Natural gas production (billion of m3)	86.1	87.7	102.8	99.2	102.3	105.5	108.8
External sector							
Current account	-9.9	-12.8	-2.9	9.4	1.9	1.5	1.3
Trade balance	-9.2	-12.3	-1.6	11.1	2.8	2.5	2.3
Exports of goods and services	22.4	17.1	25.5	35.2	27.5	26.7	26.7
Hydrocarbon exports	19.4	13.7	20.8	30.7	23.7	22.9	22.8
Nonhydrocarbon exports	3.0	3.4	4.7	4.6	4.6	4.6	4.7
Imports of goods and services	31.6	29.4	27.1	24.1	24.7	24.2	24.4
Gross official reserves (months of imports)	14.0	13.7	12.5	15.8	16.5	16.4	16.2
Exchange rate (Algerian dinar per USD; period average)	119.4	126.8	135.1	142.0			
Sahara Blend export price (USD/barrel)	64.4	42.1	72.7	100.9			
Central Government Finance							
Government revenue and grants	32.2	30.5	29.9	34.2	32.1	30.6	29.8
Hydrocarbon revenue ^a	13.0	10.4	11.8	20.4	16.3	15.7	15.6
Nonhydrocarbon revenue	19.2	20.1	18.1	13.8	15.8	14.9	14.2
Expenditures	37.8	37.4	33.7	34.9	36.8	34.8	33.3
Current expenditures	23.9	27.1	24.8	27.4	28.7	27.6	26.4
Capital expenditures	13.9	10.2	8.9	7.5	8.1	7.2	6.9
Special Account Balance and Treasury Interventions	4.0	5.1	3.4	2.2	2.4	2.2	2.0
Overall budget balance ^b	-9.6	-12.0	-7.2	-2.9	-7.0	-6.4	-5.5
Primary overall budget balance	-9.0	-11.0	-6.5	-1.5	-5.6	-5.0	-4.1
Nonhydrocarbon overall budget balance	-22.6	-22.3	-19.0	-23.4	-23.3	-22.1	-21.2
Total central Government debt	45.6	52.0	62.8	55.6	61.8	62.0	62.1
Domestic debt	44.8	51.0	62.1	55.1	61.3	61.5	61.7
External debt	0.8	1.0	0.7	0.5	0.5	0.5	0.4

^a Includes dividends from Sonatrach and hydrocarbon revenues transferred to the oil savings fund.

^b Includes special account balance and Treasury interventions.

APPENDIX: LATEST SPECIAL SECTIONS OF THE ALGERIA ECONOMIC UPDATE

Fall 2022: “Estimating economic activity from nightlights data”

Nighttime lighting data is a tool now commonly used to assess economic activity. Since 2012, satellite data have been available daily and are publicly available on the Earth Observation Group website. For Algeria, the empirical link between nightlights data and economic activity is strong, both for oil production (geolocated by gas flaring sites), gas production, and non-hydrocarbon activity. The strong correlation between nightlights and non-hydrocarbon activity allows us to mobilize these data to estimate the recent level of economic activity, and to produce spatialized estimates of the level and dynamics of activity, useful for sectoral or local development analyses.

Fall 2022: “Estimation of the fiscal multipliers in Algeria”

The sharp increase in government spending in 2022 raises the question of its effects on economic activity. The propensity of public spending to support economic activity and generate additional economic activity is captured by the fiscal multiplier. An analysis conducted on quarterly Algerian data since 2000 finds

a weak multiplier effect of Algerian public spending on GDP, notably caused by the effect of an increase on the deterioration of the trade balance, resulting from its impact on imports. The spillover effect of spending on private consumption is observed but is limited, while the analysis finds a more marked effect of public spending on the construction sector.

Spring 2022: “Does Algeria benefit from rising gas prices?”

The export price of Algerian natural gas follows a distinct dynamic from the reference price of gas on international markets. Thus, while the Henry Hub gas reference price has gained nearly 50% between Q2 and Q3-2021, the export price of Algerian natural gas has increased by only 0.5% over the same period. Indeed, these prices are established contractually, sometimes on a long-term basis, and based on bilateral negotiations with buyers. An econometric modeling exercise allows us to establish that the export price of Algerian natural gas is characterized by a strong inertia, as well as a delayed linkage to the oil price. The model presented allows to explain 88% of the variation of the exported natural gas prices.

Spring 2022: “The impact of macroeconomic factors on inflation in Algeria

Inflation is on the rise in 2021 and 2022, both globally and in Algeria, but the underlying causes vary from country to country. In Algeria, the price increase that began in 2021 was driven by food prices. A model of the consumer price index since 2009 shows that it is characterized by strong short-term inertia, but that the depreciation of the dinar, the increase in the price of imported goods, the rise in public spending and the increase in currency in circulation explain more than 40% of the variation in the CPI after two years. In addition, the importance of these factors varies according to the categories of goods and services, reflecting in particular the intensity of imports of these products and the characteristics of the Algerian market both in terms of production and distribution.

Fall 2021: “Evolution of non-monetary poverty and inequality in Algeria

The multidimensional poverty indicator improved in Algeria between 2013 and 2019, reflecting progress in all its dimensions: education, health, and living conditions. Although Algeria performs well in the MENA region, and despite notable improvements, multidimensional poverty varies considerably across regions and between rural and urban areas. The North-Central and North-Eastern regions face lower levels of deprivation than the rest of the country, while the Central Highlands region faces a higher level of deprivation. The most vulnerable regions improved more rapidly between 2013 and 2019, showing convergence with the richer regions. Health and education have become more important dimensions of deprivation, underscoring the policy priorities for Algeria’s human development.

Fall 2021: “Resilience of Algeria to climate and natural disaster risks

The Algerian territory is exposed to a range of climatic and geological hazards, particularly in urban areas,

which are experiencing rapid population growth and concentrate a significant share of economic activity. Floods are the most frequent disasters in Algeria, but the greatest economic losses have been caused by earthquakes. Algeria has a modern legal framework for disaster risk management (DRM), a clear decision-making framework for emergency response, and recognizes the importance of protecting strategic infrastructure and critical sectors. Serious efforts have been made to reduce risk, especially in emergency response management and reconstruction, at the expense of prevention. However, information sharing is not systematic, leading to inconsistencies, especially in disaster prevention, and enforcement of GRC legislation can be improved. Significant efforts should still be made for comprehensive and cross-sectoral climate and disaster risk reduction and management.

Spring 2021: “Effects of COVID-19 on Inequality in the MENA Region and Algeria

Survey results from the Middle East and North Africa (MENA) region confirm that the poorest individuals are more likely to report a deterioration in their living conditions since the beginning of the COVID-19 crisis. Despite the lack of recent data on household welfare in Algeria, the characteristics of vulnerable individuals suggest that inequality has also increased. They are more likely to contract COVID-19 or lose their jobs during the pandemic, have less adequate social protection, and are likely to be disproportionately affected by ongoing macroeconomic and fiscal adjustments. A sustainable and inclusive recovery will therefore require offering the most vulnerable the opportunity to recover what they have lost.

Spring 2021: “Towards an equitable reform of the Algerian health system

The consequences of the COVID-19 pandemic have shown the need for a fair reform of the Algerian health system. Although officially the number of cases and deaths remains low, the pandemic has highlighted the limitations of the health system. A double burden of

communicable and non-communicable diseases, as well as limited resources, suggest a need to strengthen it. Although the health system receives substantial public financial support and requires relatively little individual expenditure, and although life expectancy and control of noncommunicable diseases are comparable to peer countries, health outcomes remain

below those of middle- and high-income countries, particularly in terms of equity in maternal and child health conditions. The need for physical and human resources and for a better distribution of health coverage are major challenges. Finally, declining public financing and health system capacity pose risks to health system resilience.

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