

ALGERIA

Recent developments

Table 1 2018

Population, million	42.0
GDP, current US\$ billion	164.9
GDP per capita, current US\$	3926
National poverty rate ^a	5.5
International poverty rate (\$ 19) ^a	0.5
Lower middle-income poverty rate (\$32) ^a	3.9
Gini index ^b	27.6
School enrollment, primary (% gross) ^c	111.7
Life expectancy at birth, years ^c	76.3

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2011).

(b) Most recent WDI value (2017).

(c) Most recent WDI value (2017).

Major protests erupted in February 2019 to oppose President Abdelaziz Bouteflika's candidacy for a fifth term and demanding his resignation, which took place in April. An acting president was inaugurated to carry the transition and organize the presidential election. The uncertain path to elections and corruption investigations have reduced predictability in the business environment. The hydrocarbon sector continues to contract in the face of oil price volatility, partially offsetting the slight increase in non-hydrocarbon growth.

GDP growth reached 1.5 percent in 2018, compared to 1.4 percent in the previous year, and was sustained at 1.5 percent in Q1-2019. Growth in the hydrocarbon sector was sluggish, with economic activity contracting by 6.5 percent and 7.7 percent in 2018 and Q1-2019, respectively, partially offsetting the slight increase in non-hydrocarbon growth of 3.4 percent and 3.9 percent in 2018 and Q1-2019. On the sectoral side, commercial services, industrial, construction and public works, and agriculture sectors continue to drive non-hydrocarbon growth, reaching 5.6 percent, 4.6 percent, 3 percent and 2.7 percent in Q1-2019, respectively.

On the demand side, real private consumption growth reached 2.5 percent in Q1-2019, compared to 3 percent in the same period of the previous year. This deceleration is explained by lower growth in food consumption, possibly affected by the economic disruption. Investment grew however by 4.9 percent in Q1-2019 - a remarkable increase compared to the 0.2 percent of Q1-2018 - driven by public investment in the construction, public works and hydraulics sector with the expansion of social housing programs.

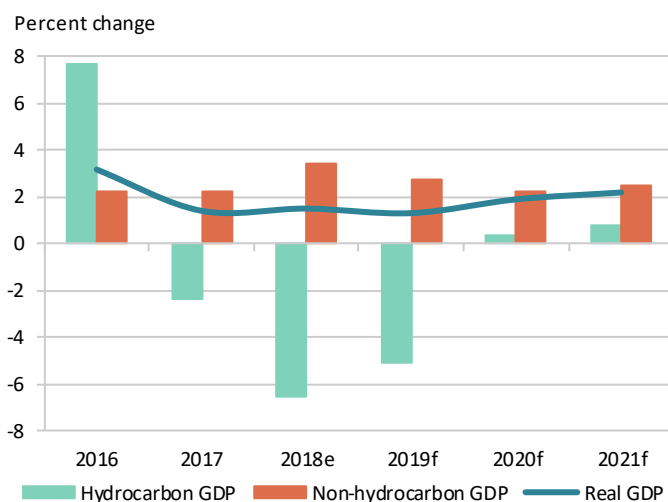
On the external front, exports of goods and services have contracted in real terms by 6.4 percent in Q1-2019, driven by a sizable decline in hydrocarbon exports (-8.1 percent) due to rising domestic demand and stagnant production. At the same time, imports of goods and services

have increased by 4.1 percent despite the sluggish economy, marking a sharp increase compared to a 10.6 percent retraction in the previous quarter. This has resulted in a wider trade and current account deficit of 6.5 percent and 12.8 percent of GDP, compared to 5.1 percent and 10.4 percent in Q1-2018, respectively. Foreign exchange reserves contracted to US\$68 billion in end-July, down from US\$79.9 billion in end-December 2018. The fast depletion of official reserves has pushed the government to take additional steps to tighten imports through new operational mechanisms to regulate wheat and milk imports and better controls on subsidies.

The budget and primary deficits have improved in 2018, reaching 7.6 percent and 4.9 percent of GDP, respectively, down from 8.8 and 6.9 percent of GDP a year earlier. This improvement occurred on the back of a slight increase in revenues, coupled with lower spending on goods, services and wages, as well as on capital spending. Inflation remained stable at 4.3 percent in 2018, and has declined to 4.1 percent in end-March 2019, despite the expansionary monetary policy under the "unconventional financing" by the central bank, amounting to 32 percent of GDP of which half has been already injected in the economy.

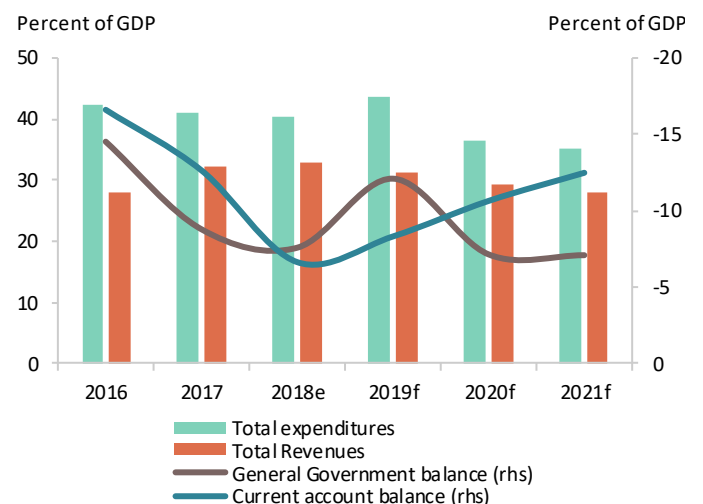
On the socioeconomic front, the unemployment rate reached 11.7 percent as of October 2018 and is higher among the youth (29 percent in April 2018), women (19.4 percent), and university graduates (18.5 percent), a result of the skills mismatch in the labor market. There are no

FIGURE 1 Algeria / Real GDP growth



Sources: IMF and World Bank Staff estimates and projections.

FIGURE 2 Algeria / Twin deficits



Source: World Bank Staff estimates and projections.

recent poverty estimates for the country, but official numbers from 2010/11 show that 5.5 percent of the population was considered poor, with large regional variations and higher concentration in the Sahara and the Steppe regions. Moreover, these estimates are based on poverty lines of less than 3.6 USD/day in 2011 PPP, which is far below the 5.5 USD/day poverty line associated with upper middle-income countries.

Outlook

Political uncertainty is likely to cause a slowdown in the non-hydrocarbon sector in 2019. Top business executives in various sectors have been detained on investigations of corruption, leading to economic disruptions due to abrupt changes in management and supervision, as well as investment uncertainty. In the hydrocarbon sector, political uncertainty will dampen the hope of increasing production as the revision of the hydrocarbon fiscal law is delayed. As a result, GDP growth is expected to decelerate to 1.3 percent in 2019. The pre-election season is also likely to

further delay the fiscal consolidation that had been programmed for 2019, exacerbating the fiscal deficit to an expected 12.1 percent of GDP and increasing the risk of a sharper adjustment down the road.

On the external front, the current account deficit is expected to widen to 8.1 percent of GDP, mainly on the back of a substantially larger trade deficit. The recent discovery of a new gas field provides hope for a rebound in gas production and exports, but only in the medium term and only if the hydrocarbon investment framework is conducive.

Due to the unavailability of recent data, projections for poverty trends are not possible. However, the economy's ability to reduce poverty (or vulnerability) may be limited given low rates of economic growth, persistently high unemployment and policy uncertainty. Despite the efforts to diversify the economy, increase the private sector contribution and attract foreign investors, few improvements are likely in the short run and job creation is likely to be limited. Consumers' real incomes and purchasing power are likely to be protected given that inflation is expected to remain contained in 2019.

Risks and challenges

Algeria's economy remains highly dependent on hydrocarbons, and on global oil and gas prices. As economic activity is expected to be impacted by the political course, it is also expected that more resources will be directed to social measures, at the expense of public investment spending. Private sector activity and investment will also be impacted by the political disruption and the unfavorable business climate, as well as disruptions caused by delays in paying workers in several industrial activities.

The combination of high fiscal break-even oil prices (estimated at over \$100) and delayed fiscal consolidation leaves the country vulnerable to renewed oil price volatility and a weaker global economy. In this context, fiscal policy needs to be operationally anchored in a medium-term framework to insulate the economy from oil price volatility. Delays in ending the political deadlock and policy uncertainty could further harm the country's economy, leading to an increase in imports and further depletion of foreign currency reserves.

TABLE 2 Algeria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	3.2	1.4	1.5	1.3	1.9	2.2
Private Consumption	3.3	1.9	2.9	2.5	1.9	2.2
Government Consumption	24.0	-5.9	-4.2	-10.5	8.2	7.3
Gross Fixed Capital Investment	19.7	-4.1	-7.0	-4.7	1.6	2.0
Exports, Goods and Services	7.3	-5.3	-6.1	-5.5	0.4	0.8
Imports, Goods and Services	-2.6	3.2	1.4	1.5	1.5	1.5
Real GDP growth, at constant factor prices	3.2	1.4	1.5	1.3	1.9	2.2
Agriculture	1.8	1.0	5.5	2.8	1.8	1.8
Industry	5.0	1.9	-2.4	1.4	2.1	2.1
Services	2.4	1.2	3.2	0.8	1.8	2.4
Inflation (Consumer Price Index)	6.4	5.6	4.3	4.3	5.1	5.9
Current Account Balance (% of GDP)	-16.6	-12.6	-6.7	-8.3	-10.7	-12.5
Fiscal Balance (% of GDP)	-14.6	-8.8	-7.6	-12.2	-7.2	-7.1
Debt (% of GDP)	32.2	33.9	41.7	52.1	62.2	66.1
Primary Balance (% of GDP)	-13.8	-6.9	-4.9	-5.3	-3.4	-3.3

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