

ALGERIA

Recent developments

Table 1 2018

Population, million	42.0
GDP, current US\$ billion	510
GDP per capita, current US\$	3595
National poverty rate ^a	5.5
International poverty rate (\$ 19) ^a	0.5
Lower middle-income poverty rate (\$ 3.2) ^a	3.9
Gini index ^b	27.6
School enrollment, primary (% gross) ^c	113.6
Life expectancy at birth, years ^c	76.1

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 (2016).

A significant decline in hydrocarbon production dampened growth to 1.5 percent in 2018, despite solid non-hydrocarbon growth, resulting from a substantial fiscal expansion enabled by oil price increases. Sizable twin deficits remain, further shrinking the official reserves. In the medium term, sluggish growth is expected while the twin deficits will decline moderately, as the government implements its fiscal consolidation program. The financing of fiscal deficits by the central bank will eventually need to be unwound to maintain inflation under control.

Despite a substantial fiscal expansion and a higher-than-expected oil price, a sharp slowdown in hydrocarbon production (4.2 percent) hampered growth recovery in 2018. It is estimated that growth stood at 1.5 percent, down from the projected 2.5 percent in October 2018, before the extent of hydrocarbon production decline was apparent. Nonetheless, thanks to strong demand, strong growth was noted in: agriculture (6.9 percent), construction (4.6 percent), and non-government services (3.8 percent).

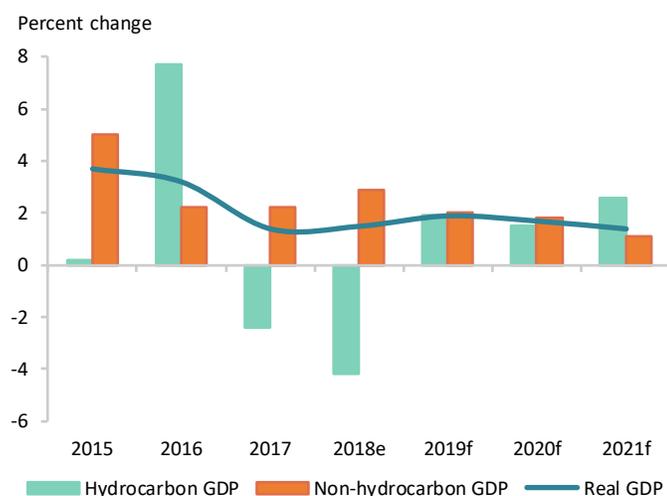
On the expenditure side, government spending increased substantially in 2018 (11.2 percent in nominal terms) compared to a slight decline in 2017. However, the higher level of revenues due to oil price increases led to a slight reduction of fiscal deficit (estimated at 6.0 percent of GDP, down from 8.7 percent in 2017). It is estimated that imports declined by 2.9 percent (5.1 percent in real terms) in 2018, signaling that various import reduction measures adopted in recent years may have started to curb import volume. Meanwhile, exports (of which hydrocarbons accounting for about 95 percent) increased significantly, by 21.9 percent (despite volume decline) mostly due to a significant increase in hydrocarbon price. This led to a reduction of the current account deficit to 7.6 percent of GDP in 2018 from 13.6 percent in 2017. With deficits and limited capital inflows, international reserves continued to decline, while total debt increased to 41.9 percent of GDP.

External debt remains low, as budget deficits are financed by central bank lending. Despite the expansionary monetary policy, inflation remained under control and declined to 4.3 percent in 2018, down from 5.6 percent in 2017. At end January 2019, the accumulated money creation under “unconventional financing” stood at DA 6556 billion, representing 31.1 percent of GDP, higher than the cumulated fiscal deficits for 2017 and 2018, DA 2793 billion. This is due to several “off-budget” uses of this financing. Inflation has shown little impact from unconventional financing because prices of many consumer goods and housing are subsidized.

The unemployment rate stood at 11.7 percent in September 2018, that is the same level a year ago, reflecting 2018 sluggish growth. Population groups that have typically endured higher rates of unemployment continue to do so: 19.4 percent among women and 29.1 percent among individuals in the 16-24 age range. For the youth (16-24 years old), the unemployment rate increased by 2.7 percentage points since April 2018.

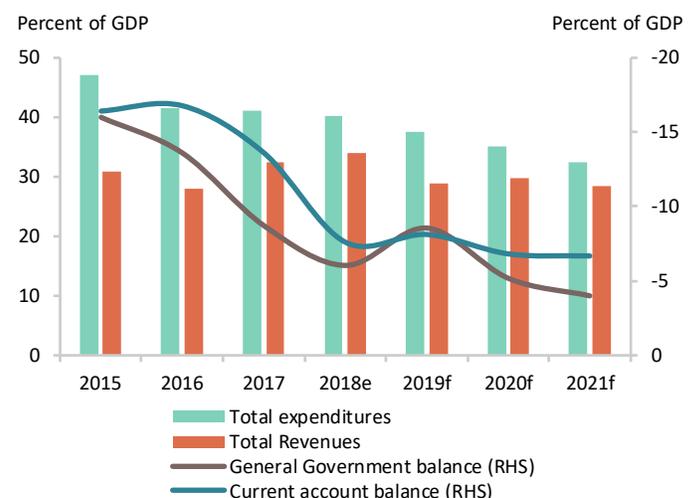
There are no recent poverty estimates for the country. Official poverty rates from 2010/11 show that 5.5 percent of the population was considered poor. Regional variations in poverty rates are significant: the Sahara region registered twice the national poverty rate and the Steppe three times. However, such estimates are based on poverty lines equivalent to 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 in international comparisons.

FIGURE 1 Algeria / Real GDP growth



Sources: MF and World Bank Staff estimates and projections.

FIGURE 2 Algeria / Twin deficits



Sources: World Bank Staff estimates and projections.

Outlook

Fiscal consolidation may resume in the second half of 2019. This is expected to cause a slight slowdown in the non-hydrocarbon sector for 2019, offsetting a slight increase in hydrocarbon production. As a result, real GDP growth is projected at 1.9 percent. With the lower oil price, both the fiscal deficit and the current account deficit are expected to worsen, reaching 8.5 and 8.1 percent of GDP respectively. Inflation will remain contained.

In the medium term (2020-2021), non-hydrocarbon growth will see headwinds from fiscal consolidation. Non-hydrocarbon revenues will provide some space to ease the extent of expenditure cuts. Hence, the fiscal deficit is expected to drop slightly (5.1 percent of GDP in 2020 and 4.0 percent in 2021), see Figure 2. This tradeoff between spending restraint and

revenue expansion will result in a sluggish growth path (1.7 percent in 2020 and 1.4 percent in 2021, see Figure 1). If structural reforms on subsidies and business environment reforms are implemented, the current account deficit will decline during this period (6.8 percent of GDP) rendering it manageable, given the substantial level of reserves (13 months of imports by end 2019). The cumulative effect of significant monetary financing will contribute to inflationary pressure.

The lack of data precludes the preparation of forecasts for the evolution of poverty. Nonetheless, the economy's potential for poverty (or vulnerability) reduction is limited due to low economic growth and chronically high unemployment rate. Although the government is making efforts to diversify the economy and increase the importance of private sector -including attracting foreign investors-, few improvements are projected in the short and medium run, thus limiting the scope for job creation.

Risks and challenges

The key challenge for the economy is building its resilience to the volatility of hydrocarbon prices, both by smoothing the impact of volatility on the budget and diversifying the sources of growth. Emerging global trends such as climate change, disruptive technology, and the increased importance of human capital, confirm the urgency of this challenge. A response will involve ambitious reforms, some of which have been specified by the government in the decree accompanying the use of unconventional deficit finance. Mitigating the potential negative impacts of reforms on vulnerable populations will require strengthening the country's statistical capacity for up-to-date analytics on living conditions and a comprehensive assessment of the impact of reforms on poverty and welfare. Any reversal of global hydrocarbon price trends will complicate the planned reduction of the twin deficits.

TABLE 2 Algeria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	3.2	1.4	1.5	1.9	1.7	1.4
Private Consumption	3.3	1.9	1.9	1.7	1.5	1.5
Government Consumption	24.0	11.9	-11.9	-10.5	8.2	7.3
Gross Fixed Capital Investment	22.7	-21.0	-8.0	13.5	-7.1	-7.2
Exports, Goods and Services	7.3	-1.6	-7.7	1.6	1.7	2.0
Imports, Goods and Services	-2.6	-2.6	-5.1	3.5	-4.3	-3.3
Real GDP growth, at constant factor prices	3.0	1.4	1.5	1.9	1.7	1.4
Agriculture	1.8	1.2	6.9	2.8	1.8	1.8
Industry	6.2	0.6	-0.6	2.4	2.1	2.1
Services	1.6	1.9	1.5	1.4	1.5	0.9
Inflation (Consumer Price Index)	6.4	5.6	4.3	5.6	6.7	8.7
Current Account Balance (% of GDP)	-16.7	-13.6	-7.6	-8.1	-6.8	-6.7
Fiscal Balance (% of GDP)	-13.6	-8.7	-6.0	-8.5	-5.1	-4.0
Debt (% of GDP)	31.3	34.4	41.9	47.8	56.8	58.3
Primary Balance (% of GDP)	-12.8	-7.4	-4.6	-6.7	-4.3	-3.1

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