

ALGERIA



ECONOMIC UPDATE

A Holistic
Framework for
Sustained Export
Growth

Fall 2024



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Middle East & North Africa

Algeria Economic Update

A Holistic Framework for Sustained Export Growth

Fall 2024



Middle East and North Africa Region

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LIST OF ACRONYMS

AIS	Automatic Identification System	MENA	Middle East and North Africa
ASAP	Anomaly Hotspots of Agricultural Production	MTOE	Million tonnes of oil equivalent
BoA	Bank of Algeria	NASA	National Aeronautics and Space Administration
BTU	British thermal unit	NEER	Nominal effective exchange rate
ISIC	International Standard Industrial Classification	OAIC	Algerian Interprofessional Office of Cereals
CPI	Consumer Price Index	OECD	Organization for Economic Cooperation and Development
DZD	Algerian Dinar	ONS	National Office of Statistics
EIA	Energy Information Agency	OPEC	Organization of the Petroleum Exporting Countries
EUR	Euro	GDP	Gross Domestic Product
EPT	Algeria's administrative regions	Pp	Percentage points
FAO	Food and Agriculture Organization	PSR	Special refinancing program
IMF	International Monetary Fund	REER	Real effective exchange rate
FRR	Revenue Regulation Fund	SMMEEI	Steel, metal, mechanical, electrical, and electronic industries
LNG	Liquefied natural gas	SOE	State-owned enterprises
LPG	Liquefied petroleum gas	US\$	United States Dollar
FDI	Foreign direct investment	WB	World Bank
JODI	Joint Organizations Data Initiative		
Kb/d	Thousands of barrels per day		
MARS	Monitoring Agricultural Resources		
Mb/d	Millions of barrels per day		

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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 three chapters. Chapter 1 presents macroeconomic developments in Algeria over the year 2023 and the first half of 2024, while Chapter 2 describes the short- and medium-term outlook for the Algerian economy, and Chapter 3 presents macroeconomic considerations in support of non-hydrocarbon export development. **This report is based on data available on October 30, 2024.**

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EXECUTIVE SUMMARY

Economic Growth Remained Robust and Inflation Was Gradually Contained in H1-2024, but External and Fiscal Pressures Increased

During the first half of 2024, robust economic growth continued, supported by non-extractive sectors and dynamic investment. After an acceleration to 4.1 percent in 2023, GDP growth slowed slightly in the first half of 2024 (+3.9 percent y-o-y), supported by dynamic non-extractive growth. Investment growth accelerated, stimulating imports, while private and government consumption remained robust. Nightlights suggest that non-extractive growth was driven by the North-Center region. Non-extractive GDP growth was broad-based and supported by resilient agricultural output, but extractive GDP remained stable during H1-2024 (+1.0 percent y-o-y) after another reduction in Algeria's crude oil production quota in January and lower European gas demand.

Inflation decelerated markedly in H1-2024 as fresh food prices stabilized, import prices moderated, and the exchange rate remained stable. After reaching 9.3 percent in 2022 and 2023, inflation fell to 4.3 percent during the first nine months of 2024 following the stabilization of fresh food prices starting in H2-2023 after increasing rapidly. Lower inflation was also supported by resilient agricultural output, the lifting of meat import restrictions, as well as a stable exchange rate after the Bank of Algeria interrupted fourteen years of depreciation in mid-2022. Monetary policy remains accommodative, with the policy interest rate remaining unchanged since May 2020, and

money supply growth and credit to the private sector accelerated during 9m-2024.

Lower hydrocarbon exports, combined with higher imports and rising public spending, brought the current account back to balance and increased the fiscal deficit. After the current account surplus narrowed markedly to 2.3 percent of GDP in 2023, it reached balance in H1-2024 as export prices and volumes declined, while import volumes remained elevated, stimulated by investment. Foreign exchange reserves increased slightly, reaching about 16.2 months of imports of goods and services at end-September 2024. In addition to lower hydrocarbon revenues, increasing current and capital expenditures, including the last of three waves of public sector wage increases, are contributing to an expansion in the fiscal deficit, after it reached 5.2 percent of GDP in 2023. The deficit was mainly financed through oil savings, and therefore public debt increased moderately.

Growth Is Expected to Slow Moderately before Rebounding, while External and Fiscal Deficits Would Widen

Growth is expected to slow moderately in 2024, due to stable hydrocarbon output, while fiscal and external financing needs would expand. In the baseline scenario, GDP growth would slow to 3.1 percent in 2024 as non-extractive growth remains robust and broad-based, amidst dynamic investment and private consumption, but hydrocarbon output stabilizes.

As a result of the latter, exports would decline and, combined with sustained equipment-led imports, the current account would post a moderate deficit. Declining hydrocarbon revenues and rising expenditures would cause an expansion in the fiscal deficit, and public debt would reach 49.5 percent of GDP at end-2024.

A recovery in hydrocarbon output would support a rebound in growth in 2025, and hydrocarbon export revenues would rise. Nonetheless, faster import growth would cause the current account deficit to expand and foreign exchange reserves to decline, although they would remain at a comfortable level. The moderate increases in spending suggested by the medium-term budget framework of the 2024 Budget Law would stabilize the fiscal deficit at a high level, and public debt would rise, although it remains domestically held, at low rates and long-term maturities. Given the high share of rigid public spending and the economy's reliance on imports, unpredictable fluctuations in global hydrocarbon prices, amidst significant global uncertainty, remain the key risk to Algeria's macroeconomic outlook.

A Holistic Approach Is Essential for Sustained Growth and Diversification of Algeria's Non-Hydrocarbon Exports

Algeria's non-hydrocarbon export growth potential is significant. Hydrocarbon products still represented over 90 percent of Algeria's product exports in 2023, although nonhydrocarbon exports have tripled since 2017, to reach 2.0 percent of GDP or US\$ 5.1 billion in 2023. Fertilizers, iron and steel products and cement account for over 80 percent of nonhydrocarbon exports. Exports complexity is therefore limited, while exporters benefit from subsidized

inputs, and a few countries account for most exports. Yet, Algeria has a large potential for diversification and growth, including due to proximity with Europe, in support of its objective to export US\$ 29 billion in non-hydrocarbon products by 2030.

Productivity growth and a framework of conducive macroeconomic and microeconomic policies are key to boosting exports. Over the past twenty years, investment, aggregate productivity, and the share of manufacturing in GDP moderated, limiting competitiveness in sectors with higher export potential. Strengthening the business environment and firm productivity—including that of SOEs, which account for a fifth of nonhydrocarbon value-added—will be key to enhancing export competitiveness. Balanced and supportive exchange rate and trade policies would support export diversification, while attracting foreign direct investments would support integration into global value chains, generating productivity gains and export growth. Policies to develop value chains with export potential and comprehensively improve export facilitation would also support the growth and diversification of non-hydrocarbon exports.

Adapting to global decarbonization efforts is also essential to a sustainable export growth strategy. The global green transition will affect demand for products with a high carbon footprint, most immediately in the framework of Europe's carbon border-adjustment mechanisms (CBAM), which could generate significant costs for Algerian exporters. Over 80 percent of Algeria's non-hydrocarbon exports to Europe are in fact concentrated in carbon-intensive products (fertilizers, cement, iron and steel). Greening the production of these products, diversifying exports towards less polluting industries, and adopting explicit carbon pricing will be decisive for the long-term performance of Algeria's non-hydrocarbon exports.



RÉSUMÉ ANALYTIQUE

La croissance économique est restée robuste et l'inflation a progressivement ralenti au premier semestre 2024, mais les pressions sur les équilibres extérieurs et budgétaires se sont accrues

Au cours du premier semestre 2024, la croissance économique est demeurée robuste, soutenue par les secteurs non extractifs et l'investissement. Après une accélération à 4,1% en 2023, la croissance du PIB a légèrement ralenti au premier semestre 2024 (+3,9% en glissement annuel), soutenue par une croissance non extractive dynamique. La croissance de l'investissement s'est accélérée, stimulant les importations, tandis que la consommation privée et publique est restée robuste. Les données satellitaires d'éclairage nocturne suggèrent que la croissance non-extractive a été principalement tirée par la région du centre-nord. La croissance multi-sectorielle du PIB non extractif a notamment été soutenue par une production agricole résiliente, mais le PIB extractif est resté stable au cours du premier semestre 2024 (+1.0%) après une nouvelle réduction du quota de production de pétrole brut de l'Algérie en janvier et une baisse de la demande européenne de gaz.

L'inflation a nettement ralenti en 2024 grâce à la stabilisation des prix des aliments frais, la modération des prix à l'importation et la stabilité du taux de change. Après avoir atteint 9,3% en

2022 et 2023, l'inflation est tombée à 4,3% en glissement annuel sur les neuf premiers mois de 2024, à la suite de la stabilisation des prix agricoles frais à partir du S2-2023, après une forte hausse. La baisse de l'inflation a également été soutenue par la production agricole résiliente, la levée des restrictions à l'importation de viande, ainsi qu'un taux de change stable après que la Banque d'Algérie a interrompu quatorze années de dépréciation à la mi-2022. La politique monétaire est restée accommodante, le taux d'intérêt directeur demeurant inchangé depuis mai 2020, et la croissance de la masse monétaire et du crédit au secteur privé s'est accélérée durant les 9m-2024.

La baisse des exportations d'hydrocarbures, combinée à l'augmentation des importations et des dépenses publiques, a ramené la balance courante à l'équilibre et a augmenté le déficit budgétaire. Après que l'excédent du compte courant se soit nettement réduit, pour atteindre 2,3% du PIB en 2023, il s'est établi à l'équilibre au premier semestre 2024, les prix et les volumes des exportations ayant baissé, tandis que les volumes des importations restaient élevés, stimulés par l'investissement. Les réserves de change ont légèrement augmenté, atteignant environ 16,2 mois d'importations de biens et de services à la fin septembre 2024. Outre la baisse des recettes d'hydrocarbures, l'augmentation des dépenses courantes et d'investissement, y compris la dernière des trois vagues d'augmentation des salaires dans le secteur public, a contribué à une expansion du déficit budgétaire, après que celui-ci ait atteint

5,2% du PIB en 2023. Ce déficit a été principalement financé par l'épargne pétrolière, la dette publique n'augmentant que modérément.

La croissance devrait ralentir modérément avant de rebondir, tandis que les déficits extérieurs et budgétaires se creuseraient

La croissance devrait ralentir modérément en 2024, en raison de la stabilité de la production d'hydrocarbures, tandis que les besoins de financement budgétaire et extérieur augmenteraient.

Dans le scénario de base, la croissance du PIB ralentirait à 3,1% en 2024, la croissance non extractive restant robuste mais la production d'hydrocarbures se stabilisant. En conséquence, les exportations diminueraient et, combinées à des importations soutenues d'équipements, la balance courante afficherait un déficit modéré. La baisse des recettes d'hydrocarbures et l'augmentation des dépenses entraîneraient une hausse du déficit budgétaire, et la dette publique atteindrait 49,5 % du PIB à la fin-2024.

La reprise de la production d'hydrocarbures soutiendrait un rebond de la croissance en 2025, et les recettes d'exportations d'hydrocarbures augmenteraient. Une croissance plus rapide des importations entraînerait cependant une augmentation du déficit de la balance courante et une diminution des réserves de change, qui resteraient toutefois à un niveau confortable. Les hausses modérées des dépenses prévues dans le cadre budgétaire à moyen terme de la Loi de Finances pour 2024 permettraient de stabiliser le déficit budgétaire, qui demeurerait élevé et ferait augmenter la dette publique, qui reste détenue au niveau national, à des taux faibles et à des échéances à long terme. Compte tenu de la part élevée des dépenses publiques rigides et du poids des importations, les fluctuations imprévisibles des prix mondiaux des hydrocarbures, dans un contexte de forte incertitude géopolitique et économique mondiale, demeurent un risque important pour les perspectives macroéconomiques de l'Algérie.

Une approche holistique est essentielle à une croissance soutenue et à la diversification des exportations hors hydrocarbures de l'Algérie

Le potentiel de croissance des exportations hors hydrocarbures de l'Algérie est important.

Les hydrocarbures représentaient encore plus de 90% des exportations de produits de l'Algérie en 2023, même si les exportations de produits hors hydrocarbures avaient triplé depuis 2017, pour atteindre 2,0% du PIB ou 5,1 milliards de dollars en 2023. Les engrais, les produits sidérurgiques et le ciment représentent néanmoins plus de 80 % des exportations hors hydrocarbures et la complexité des exportations est limitée, tandis que les exportateurs bénéficient d'intrants subventionnés et qu'un petit nombre de pays représente la majorité des exportations. Cependant, l'Algérie dispose d'un important potentiel de diversification et de croissance, notamment en raison de sa proximité avec l'Europe, en soutien à l'objectif d'exporter 30 milliards de dollars de produits hors hydrocarbures d'ici 2030.

L'amélioration de la productivité et un ensemble de politiques macroéconomiques et microéconomiques favorable sont essentiels pour stimuler les exportations.

Au cours des vingt dernières années, l'investissement, la productivité globale et la part de l'industrie manufacturière dans le PIB ont montré des signes de ralentissement, affectant la compétitivité dans les secteurs à fort potentiel d'exportation. Le renforcement de l'environnement des affaires et l'amélioration de la productivité des entreprises sont essentiels à la compétitivité des exportations, notamment au niveau de la productivité des entreprises publiques, qui représentent un cinquième de la valeur ajoutée hors hydrocarbures. Des politiques calibrées de change et de commerce extérieur soutiendraient la diversification des exportations, tandis que l'attraction des investissements directs étrangers favoriserait l'insertion dans les chaînes de valeur mondiales, générant des gains de productivité et stimulant les exportations. Des politiques de développement de chaînes de valeur ayant

un potentiel à l'export, et de facilitation transversale, soutiendrait également la croissance et la diversification des exportations hors-hydrocarbures.

L'adaptation aux efforts mondiaux de décarbonation est également essentielle à une stratégie de croissance durable des exportations.

La transition verte au niveau mondial affectera la demande de produits à forte empreinte carbone, plus immédiatement dans le cadre du mécanisme européen d'ajustement carbone aux frontières (CBAM),

ce qui pourrait générer des coûts importants pour les exportateurs algériens. Plus de 80% des exportations algériennes hors hydrocarbures vers l'Europe sont en effet concentrées dans des produits à forte intensité de carbone (engrais, ciment, fer et acier). Verdir la production de ces produits, diversifier les exportations vers des industries moins polluantes, et adopter une tarification explicite du carbone seront déterminants pour la performance à long terme des exportations hors hydrocarbures de l'Algérie.

ملخص تنفيذي

ظلّ النمو الاقتصادي قوياً وتم احتواء التضخم تدريجياً في النصف الأول من عام 2024، غير أن الضغوط على الميزانية العامة والميزان الخارجي تزايدت.

بقي النمو الاقتصادي قوياً، في النصف الأول من عام 2024، مدعوماً بنمو القطاعات الغير الاستخراجية والاستثمار. بعد أن ارتفع نمو الناتج المحلي الإجمالي إلى 4.1% في عام 2023، تباطأ بشكل طفيف في النصف الأول من العام 2024 (3.9% سنوياً)، مدعوماً بنمو قوي في القطاعات الغير الاستخراجية. تسارعت وتيرة نمو الاستثمار، مما حفّز الواردات، بينما بقي كل من الاستهلاك الخاص والعمومي قويين. تشير بيانات الإضاءة الليلية إلى أن نمو القطاع الغير الاستخراجي كان مدفوعاً بشكل رئيسي بالمنطقة الشمالية الوسطى. كان النمو متعدد القطاعات في الناتج المحلي الإجمالي الغير الاستخراجي مدعوماً بشكل خاص بالإنتاج الزراعي القوي، لكن الناتج المحلي الإجمالي الاستخراجي ظل مستقرًا في النصف الأول من عام 2024 (+1.0% سنوياً) بعد تخفيضات في حصص إنتاج النفط الخام الجزائري في جانفي وانخفاض الطلب الأوروبي على الغاز.

تباطأ التضخم بشكل ملحوظ في 2024 بفضل استقرار أسعار الأغذية الطازجة، وتراجع أسعار الواردات، واستقرار سعر الصرف. بعد أن بلغ 9.3% في عامي 2022 و2023، انخفض التضخم إلى 4.3% سنوياً خلال الأشهر التسعة الأولى من عام 2024، نتيجة استقرار أسعار المنتجات الزراعية الطازجة منذ النصف الثاني من 2023 بعد ارتفاعها الكبير. كذلك كان انخفاض التضخم مدعوماً بالإنتاج الزراعي القوي، ورفع القيود المفروضة على استيراد اللحوم، واستقرار سعر الصرف بعد أن أوقف بنك الجزائر أربعة عشر عاماً من انخفاض قيمة العملة في منتصف عام 2022. ظلت السياسة النقدية تيسيرية، حيث ظل سعر الفائدة الرئيسي دون تغيير منذ ماي 2020، وتسارع نمو الكتلة النقدية والائتمان للقطاع الخاص خلال الأشهر التسعة الأولى من عام 2024.

أدى انخفاض صادرات المحروقات وارتفاع الواردات والإنفاق العمومي إلى إعادة ميزان الحساب الجاري إلى التوازن وزيادة عجز

الميزانية. بعد أن تقلص الفائض في الحساب الجاري بشكل ملحوظ إلى 2.3% من الناتج المحلي الإجمالي في عام 2023، وصل إلى التوازن في النصف الأول من عام 2024 مع انخفاض أسعار الصادرات وحجمها، بينما ظل حجم الواردات مرتفعاً، مدعوماً بالاستثمار. وارتفعت احتياطي الصرف بشكل طفيف، لتصل إلى حوالي 16.2 شهراً من واردات السلع والخدمات في نهاية سبتمبر 2024. وبالإضافة إلى انخفاض إيرادات المحروقات، ساهمت الزيادة في النفقات الجارية والاستثمار العمومي، بما في ذلك الموجة الأخيرة التي شملت ثلاث زيادات في أجور القطاع العمومي، في زيادة عجز الميزانية، بعد أن بلغ 5.2% من الناتج المحلي الإجمالي في عام 2023. تم تمويل هذا العجز بشكل رئيسي من خلال المدخرات النفطية، بينما زاد الدين العمومي بشكل طفيف.

من المتوقع أن يتباطأ النمو قليلاً قبل أن ينتعش، بينما من المتوقع أن يتسع عجز الحساب الخارجي وعجز الميزانية.

من المتوقع أن يتباطأ النمو بشكل طفيف في عام 2024، بسبب استقرار إنتاج المحروقات، بينما ستزداد الاحتياجات التمويلية الداخلية والخارجية. في السيناريو المرجعي، سيتباطأ نمو الناتج المحلي الإجمالي إلى 3.1% في عام 2024، مع استمرار نمو القطاع الغير استخراجي بشكل قوي مع ثبات إنتاج المحروقات. ونتيجة لذلك، قد تنخفض الصادرات، إلى جانب الواردات التي تعززها واردات المعدات. قد يسجل الحساب الجاري عجزاً طفيفاً. قد يؤدي تراجع عائدات المحروقات وزيادة الإنفاق إلى ارتفاع عجز الميزانية، وقد يصل الدين العمومي إلى 49.5% من الناتج المحلي الإجمالي بحلول نهاية عام 2024.

قد يدعم انتعاش إنتاج المحروقات انتعاش النمو في عام 2025، وقد تزداد عائدات تصدير المحروقات. ومع ذلك، فإن تسارع نمو الواردات سيؤدي إلى زيادة عجز الحساب الجاري وانخفاض احتياطي الصرف، الذي سيظل بالرغم من ذلك عند مستوى مريح. الزيادات الطفيفة في الإنفاق المتوخاة في إطار الميزانية المتوسطة المدى لقانون المالية لعام

2024 قد تسمح بتثبيت عجز الميزانية الذي سيظل مرتفعاً وسيؤدي إلى زيادة الدين العمومي الذي لا يزال محصوراً على المستوى الوطني و بنسب فائدة منخفضة وبأجال استحقاق طويلة المدى. ونظراً لارتفاع نسبة الإنفاق العمومي غير المرن (كالأجور)، واعتماد الاقتصاد على الواردات، فإن التقلبات غير المتوقعة في أسعار المحروقات العالمية في بيئة تتسم بقلّة الرؤية الجيوسياسية تشكل خطراً أساسياً على آفاق الاقتصاد الكلي في الجزائر.

إن اتباع نهج شامل ضروري لتحقيق النمو المستدام وتنويع الصادرات الجزائرية خارج قطاع المحروقات.

تتمتع الجزائر بإمكانيات كبيرة لتنمية صادراتها خارج قطاع المحروقات. لا تزال المحروقات تمثل أكثر من 90% من صادرات الجزائر من المنتجات في عام 2023، على الرغم من أن صادرات المنتجات خارج المحروقات قد تضاعفت ثلاث مرات منذ عام 2017، لتصل إلى 2% من الناتج المحلي الإجمالي أو 5.1 مليار دولار في عام 2023. تمثل الأسمدة، المنتجات الحديدية، والإسمنت أكثر من 80% من هذه الصادرات، ويظل تعقيد الصادرات فيها محدوداً، فيما يستفيد المصدرون من مدخلات مدعومة، وتتمركز الصادرات في عدد قليل من الدول. تمتلك الجزائر إمكانات هامة لتنويع صادراتها، خاصةً نظراً لقربها من أوروبا، بما يدعم هدفها بتصدير 30 مليار دولار من المنتجات خارج قطاع المحروقات بحلول 2030.

تحسين الإنتاجية وسياسات الاقتصاد الكلي والجزئي الملائمة أساسياً لتعزيز الصادرات. على مدى العشرين عاماً الماضية، تباطأ الاستثمار والإنتاجية الإجمالية وحصّة الصناعة التحويلية في إجمالي الناتج المحلي، مما حد من القدرة التنافسية للقطاعات ذات الإمكانيات التصديرية العالية. تعزيز بيئة الأعمال وتحسين إنتاجية الشركات أمران أساسيان لتعزيز القدرة التنافسية للصادرات، خصوصاً بالنسبة لشركات القطاع العمومي التي تمثل خمس القيمة المضافة خارج قطاع المحروقات. ستساهم السياسات المتوازنة في مجالي سعر الصرف والتجارة الخارجية بتنويع الصادرات، في حين أن جذب الاستثمارات الأجنبية المباشرة سيعزز الاندماج في سلاسل القيمة العالمية، مما يحقق مكاسب في الإنتاجية وهو الصادرات. كما أن السياسات الرامية إلى تطوير سلاسل القيمة ذات الإمكانيات التصديرية، وتيسير التجارة عبر الحدود، ستدعم نمو الصادرات خارج قطاع المحروقات وتنويعها. ويعد التكيف مع الجهود العالمية للحد من الانبعاثات الكربونية ضرورياً لوضع استراتيجية نمو للصادرات مستدامة. سيؤثر التحول العالمي نحو الاقتصاد الأخضر على الطلب على المنتجات ذات البصمة الكربونية العالية، وبشكل مباشر في إطار آلية تعديل حدود الكربون في أوروبا (CBAM)، مما قد يفرض تكاليف إضافية على المصدّرين الجزائريين. تتركز أكثر من 80% من صادرات الجزائر خارج قطاع المحروقات الموجهة إلى أوروبا على منتجات كثيفة الانبعاثات الكربونية (مثل الأسمدة والإسمنت والحديد والصلب). سيكون التحول نحو إنتاج صديق للبيئة، وتنويع الصادرات نحو صناعات أقل تلويثاً، وتبني تسعير صريح للكربون أمراً حاسماً لأداء الصادرات خارج قطاع المحروقات للجزائر على المدى الطويل.



RECENT ECONOMIC DEVELOPMENTS

Growth in Non-Extractive Sectors Remained Robust in H1-2024

Dynamic non-extractive GDP growth continued in H1-2024, supported by investment and private consumption. Non-extractive GDP¹ expanded by 3.7 percent in 2023, driven by strong investment growth. Combined with robust oil and gas output growth, overall GDP growth reached 4.1 percent in 2023. Standard labor market indicators have not been published since 2019, but international estimates suggest that unemployment rates decreased to their pre-pandemic levels.² Dynamic non-extractive growth extended into H1-2024 (+3.9 percent y-o-y) as investment growth accelerated further (+15.5 percent y-o-y), while public and private consumption remained robust. The expansion of investment-driven imports and a large contraction of non-hydrocarbon exports resulted in a steeply negative contribution of net exports to GDP. Satellite-based nightlights data also suggest that non-extractive growth remained robust in H1-2024, and that it was driven by the

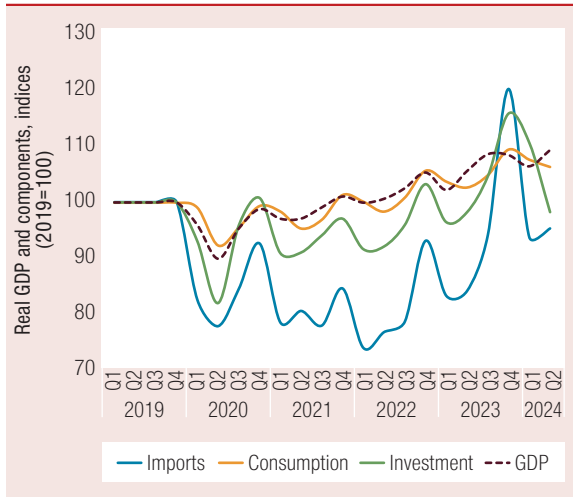
North-Center region of the country. The adoption of policies to support diversification and non-hydrocarbon investment has continued in 2024, including the launch of the Algerian Investment Promotion Agency's (AAPI, see Box 1) online investment platform and land grant program,³ and the introduction

¹ The rebased national accounts present "extractive industries" but do not present the former "hydrocarbon" sector. Extractive industries now mirror the international standard industry classification (ISIC) and account for crude oil and natural gas extraction activities, but also include mining activities. Hydrocarbon processing (oil refining, gas liquefaction) is now classified under the "manufacturing sector", while some hydrocarbon-related activities have been reclassified from the hydrocarbon sector to the dedicated ISIC sections (e.g., construction, transport).

² Modeled estimates from the International Labor Organization (ILO) suggest that the overall unemployment rate declined to 12.3 percent in 2023 (-0.2 pp), that the female unemployment rate declined to 21.5 percent (-0.3pp) and that the youth unemployment rate declined to 31.3 percent (-0.7 pp).

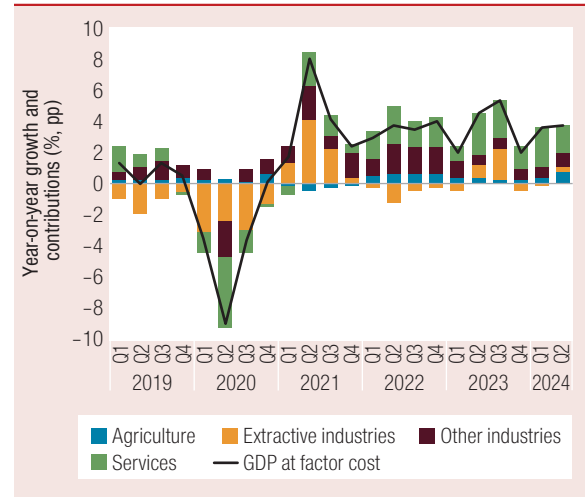
³ APS, February 2023.

FIGURE 1 • Investment demand was mostly met through imports...



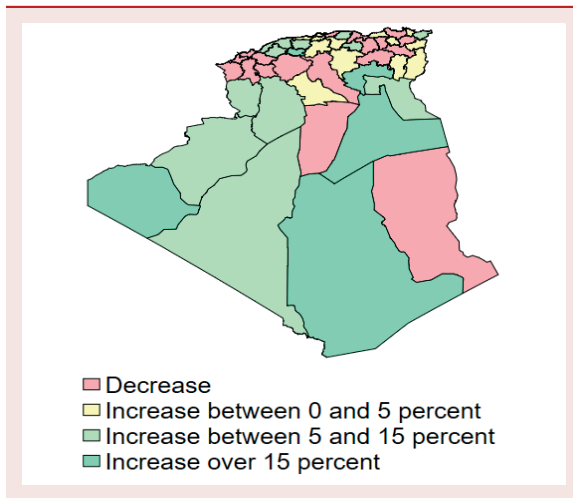
Source : Office National des Statistiques (ONS).
 Note: As the indices are in base 100 in 2019, these data compare the current level of the components of real GDP with their level in the same quarter in 2019.

FIGURE 2 • ...and the services sector was the main driver of growth



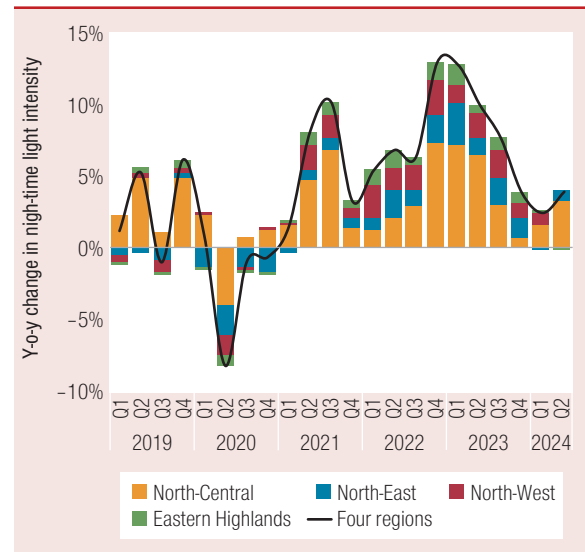
Source : Office National des Statistiques (ONS).
 Note: As the indices are in base 100 in 2019, these data compare the current level of the components of real GDP with their level in the same quarter in 2019.

FIGURE 3 • Nighttime lights suggest heterogeneous growth during H1-2024...



Source: World Bank staff estimates based on National Aeronautics and Space Administration (NASA) data.
 Note: The map uses the old administrative division into 48 wilayas.

FIGURE 4 • ...with the North-Center contributing most to non-hydrocarbon growth



Source: World Bank staff estimates based on NASA data.
 Note: The regions correspond to the Espaces de Programmation Territoriale (EPT).

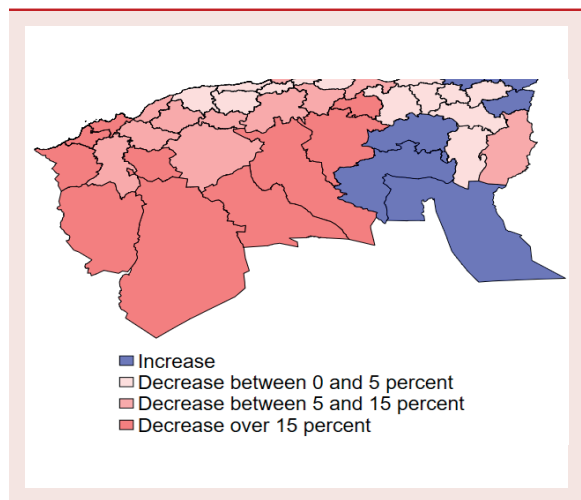
of Crédit Populaire d'Algérie (CPA), a state-owned bank, on the stock exchange.⁴

Demand generated by strong investment growth stimulated industrial production and imports, while private consumption growth boosted services. Dynamic investment stimulated industrial production in sectors like construction,

electricity, and manufacturing, while also boosting imports. At the same time, state-owned enterprise (SOE) activity decelerated, with non-hydrocarbon SOE industrial output growth slowing from 3.5 percent in 2023 to 0.7 percent y-o-y in H1-2024, with a

⁴ APS, June 2024.

FIGURE 5 • During the 2023-2024 crop season rainfall improved relative to the previous season in most of the East but worsened in the West...



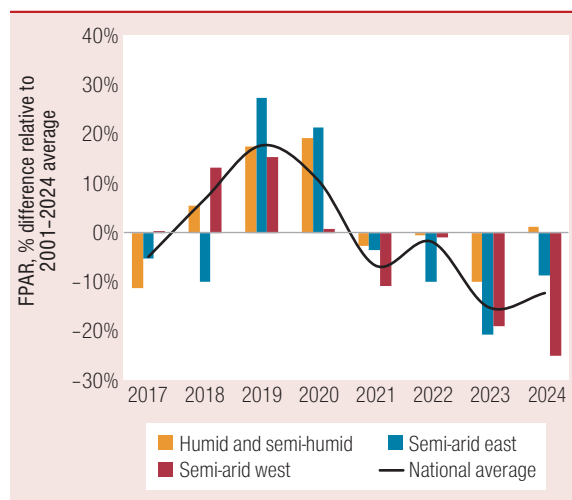
Source: ASAP.

Note: For the 2022–2023 crop season, rainfall between Q4-2022 and Q2-2023 is considered. For the 2023–2024 crop season, rainfall between Q4-2023 and Q2-2024 is considered.

marked decline in steel, metals, mechanics, electrical and electrical industries (SMEEI, –12.2 percent y-o-y in H1-2024). SOE output increased rapidly in the cement and agri-food sectors. Strong private consumption also stimulated the services sector (+4.2 percent y-o-y during H1-2024), which was the principal driver of non-extractive growth.

Agricultural output growth remained stable, with satellite data on crop development suggesting recovery in the East and the coastal regions, but subdued growth in the West. After posting modest growth in 2023 (+2.8 percent), agricultural output growth accelerated during H1-2024 (+4.7 percent y-o-y). Rainfall during the 2023–2024 season decreased year-on-year in western wilayas but improved in parts of the East and the humid and semi-humid coastal regions. Consequently, crop development improved in 2024 relative to 2023 but remains below its historic level as in recent years precipitation has been below average. The government has initiated several projects to improve agricultural production and resilience, including signing large agricultural investment agreements with Italy⁵ and Qatar,⁶ and initiating an innovative greenhouse project in the Sahara to be completed in 2024.⁷

FIGURE 6 • ...and crop growth measures tracked rainfall



Source: ASAP.

Note: FPAR=Fraction of Photosynthetically Active Radiation. Crop growth for each year is considered between Q4 of the previous year and Q2 of the index year. For example, data for 2024 is for Q4-2023, Q1-2024, and Q2-2024.

Oil and Gas Output Contracted in the First Half of 2024, and Hydrocarbon Export Revenues Fell

With another decrease in Algeria’s production quota in January 2024, oil production and exports contracted once again during H1-2024.

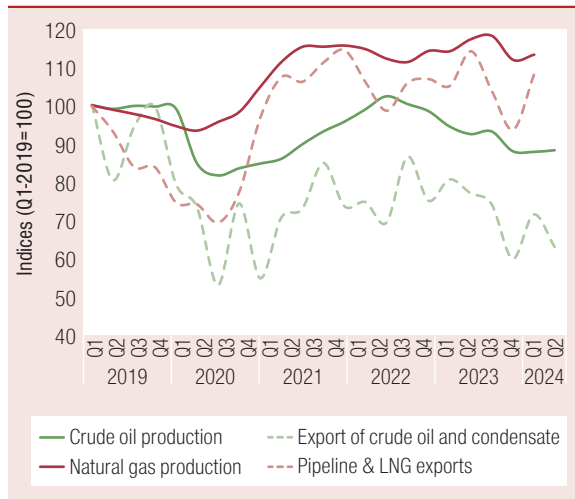
Following the partial recovery of oil production from pandemic-induced quota cuts by mid-2022, Algeria’s production quotas have decreased three times, from 1055 kb/d to 1007 kb/d in November 2022, then to 959 kb/d in May 2023, and to 908 kb/d in January 2024. As a result, crude oil production in September 2024 was 13.4 percent below the October 2022 peak and 5.3 percent lower than in September 2023. Lower crude oil production (–7.6 percent y-o-y during 9m-2024) has translated into lower refined petroleum output and, combined with increasing domestic consumption amid robust economic activity, has led to further contracting oil

⁵ APS, July 2024.

⁶ APS, April 2024.

⁷ AgriAlgérie, May 2024.

FIGURE 7 • Crude oil and natural gas production declined during H1-2024...



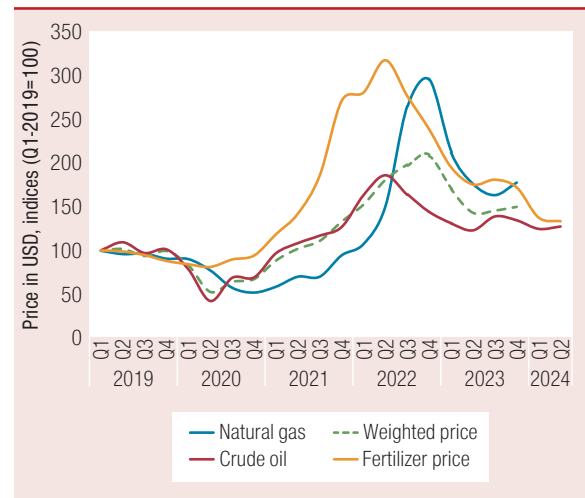
Source: Joint Organizations Data Initiative (JODI) for gas, Bank of Algeria (BoA), for exports to Q4-2023, OPEC for crude oil production. Note: Data are presented as a rolling four-quarter average. Crude oil and condensate export estimates are compiled from IMF PortWatch tanker tracking data.

exports in year-on-year terms during the first nine months of 2024.⁸

Natural gas production and exports decreased during the first seven months of 2024 relative to their 2023 peak, driven by contracting LNG exports. Natural gas production increased by 6.1 percent in 2023, driven by strong European demand and output from new fields, followed by a decrease of 7.4 percent y-o-y during the first seven months of 2024. Relative to the 2023 peak, increasing domestic consumption, another mild winter in Europe, a movement towards renewables, and record high levels of end-of-heating-seasons storage in Europe reduced LNG exports (-10.8 percent y-o-y), while pipeline exports remained stable (+0.7 percent y-o-y).⁹ Italy, Spain and France remain the most important buyers of Algerian gas as European countries continue to replace Russian imports and Algeria remains the second largest pipeline and fourth largest LNG supplier of Europe.¹⁰ With overall production in the extractive sector up slightly in H1-2024 (+1.0% year-on-year) despite the decline in oil and natural gas production, this suggests dynamic growth in the production of other types of primary energy (condensates or LPG in the fields) and mining production.

Hydrocarbon export revenues decreased in H1-2024, as natural gas export prices continued moderating and oil prices stabilized. Oil

FIGURE 8 • ...while export prices remained elevated despite a moderation in natural gas prices



Source: BoA, oilprice.com & World Bank Commodity Price Data for fertilizer price. Note: The weighted hydrocarbon price index uses dollar export values from BoA to weight each hydrocarbon type.

prices peaked in Q2-2022 and the reference price for Algerian oil decreased from US\$ 103.8 in 2022 to US\$ 83.6 in 2023, motivating successive quota cuts to support prices. During the first nine months of 2024 the reference price stabilized at US\$ 82.9 following the latest quota decrease in January 2024. On the other hand, natural gas prices peaked in 2022 following Russia's invasion of Ukraine and have since gradually moderated, though they remain elevated relative to historical levels. They are likely to have continued moderating in H1-2024, tracking oil prices with a lag of three to six months,¹¹ and contributing to lower hydrocarbon export prices (-5.5% y-o-y in H1-2024). As a result, and in combination with stable export volumes, the value of hydrocarbon exports fell by 4.7% y-o-y in H1-2024, and by 8.8% compared with H2-2023.

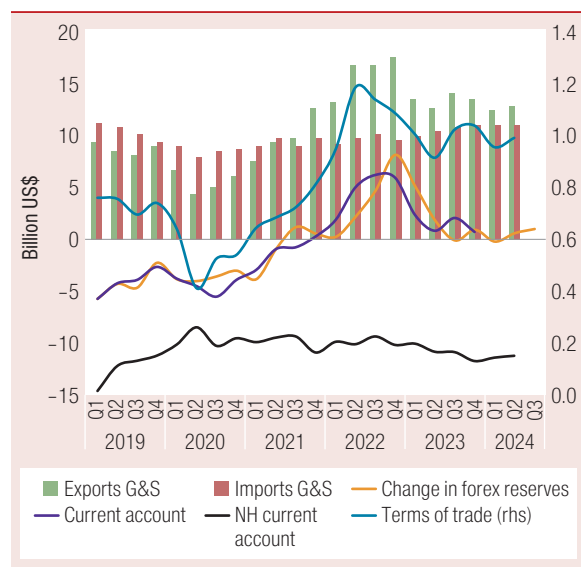
⁸ Hydrocarbon export volume data from the Bank of Algeria is only available until Q4-2023, but IMF Portwatch data on tankers leaving Algerian ports suggest a 12.4 percent y-o-y decline in tanker export volumes during the first nine months of 2024.

⁹ U.S. Energy Information Administration. Less natural gas consumption in Europe is keeping storage full. July 23, 2024.

¹⁰ European Commission. Quarterly Report on European Gas Markets with Focus on Annual Overview for 2023.

¹¹ Algeria Economic Update. "Building Resilience in Favorable Times" Spring 2022.

FIGURE 9 • The current account narrowed as export prices decreased and imports expanded...



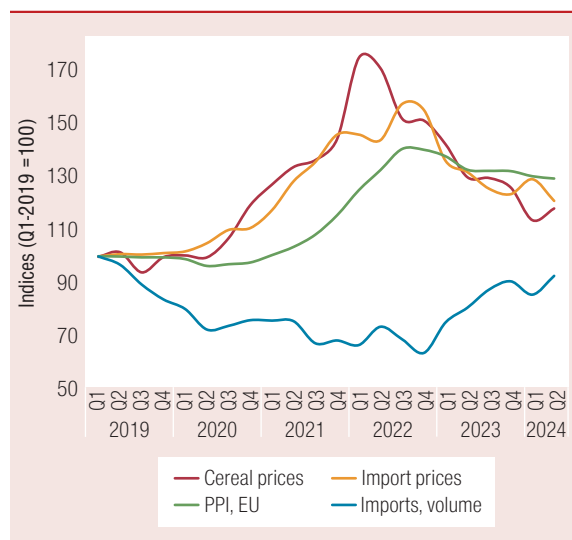
Source: BoA, International Monetary Fund (IMF), ONS and World Bank estimates.
Note: NH = non-hydrocarbon.

The Current Account Came Close to Balance in H1-2024

The current account came close to balance in H1-2024 as imports stabilized and exports decreased. After an average deficit of 11.6 percent of GDP between 2015 and 2020, surging oil and gas prices propelled the current account to its first surplus (8.6 percent of GDP) in eight years in 2022, before it narrowed considerably in 2023 (2.3 percent of GDP) as hydrocarbon and nonhydrocarbon exports declined and imports increased, stimulated by rising investment and consumption. This trend continued in H1-2024 as the trade balance narrowed from US\$ 6.3 billion in H1-2023 to US\$ 3.5 billion in H1-2024. As a result, the current account was close to balance in H1-2024 (-0.3 billion dollars) and foreign exchange reserves increased slightly. According to IMF data, the latter stood at \$71.3 billion at end-September 2024, or around 16.2 months of imports of goods and services.

Imports of goods and services stabilized at an elevated level in H1-2024, while falling fertilizer prices led to a fall in non-hydrocarbon exports. Total imports reached US\$ 22.5 billion in H1-2024, the same level as in H2-2023 and up 4.1% y-o-y, with

FIGURE 10 • ...even as import prices eased for several product categories



Source: ONS, Food and Agriculture Organization (FAO), Eurostat and World Bank estimates.

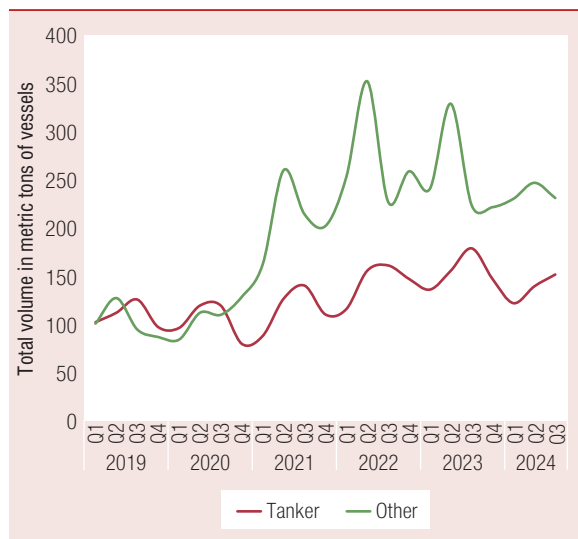
Note: PPI = Producer Price Index.

imports of transport equipment and materials remaining elevated (+23.8% y-o-y) due to dynamic investment and the temporary relaxation of vehicle import controls. Over the same period, a 26.5% y-o-y increase in food import volumes was offset by a 10.0% fall in food prices, and lower imports of raw materials, oils and chemicals. On the other hand, the value of goods exported fell by 5.2% y-o-y, as, in addition to the drop in hydrocarbon exports, non-hydrocarbon exports fell sharply (-9.2% y-o-y in H1-2024), due in particular to the sharp drop in fertilizer prices, against a backdrop of moderate growth in export volumes (+1.3% y-o-y). In Q3-2024, data from vessels leaving Algerian ports suggest stable non-hydrocarbon export volumes relative to Q2, a moderate increase in tanker exports, and continued dynamism in imports. The data also suggest that exports remain below their previous year's level.

Decreasing Hydrocarbon Revenues and Higher Spending Put Pressure on the Fiscal Balance

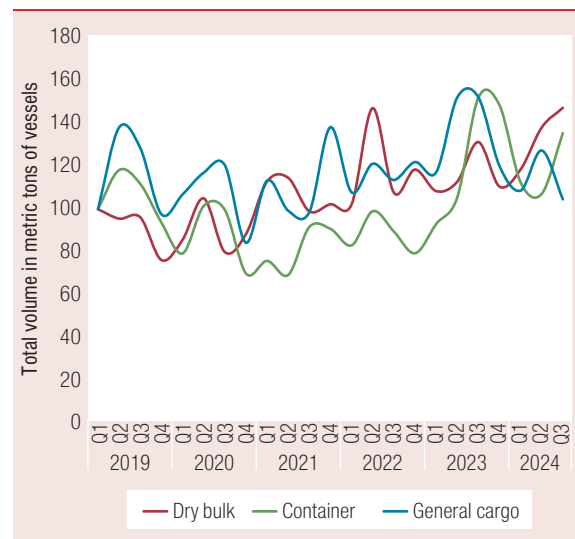
Declining hydrocarbon export revenues and a continued increase in public spending in 2024 suggest an expanding fiscal deficit. The budget

FIGURE 11 • Vessel tracking data suggest a cross-cutting decrease in export volumes in 2024...



Source: IMF Portwatch.

FIGURE 12 • ...while lower container and cargo imports were offset by higher bulk imports



Source: IMF Portwatch.

deficit averaged 9.6 percent of GDP during the five years before the pandemic, before narrowing considerably during the post-pandemic recovery amid surging hydrocarbon prices, reaching 3.0 percent of GDP in 2022. It expanded to 5.2 percent of GDP in 2023 due to moderating hydrocarbon prices and markedly expanding wage and transfer spending (+4.4 percent of GDP), as the government sought to ease cost-of-living pressures, and the non-hydrocarbon budget deficit increased from 20.6 percent of GDP to 24.9 percent. Preliminary data for H1-2024 suggests a further widening of the fiscal deficit in H1-2024 as hydrocarbon prices moderated and the government implemented the third and last wave of public sector wage raise and a 10 to 15 percent pension increase,¹² as well as increased investment spending. Rising expenditures would be partially offset by higher tax revenues supported by higher personal income tax receipts—tracking the larger wage bill—and the effect of economic growth on consumption, imports and firm profits, boosting tax receipts.

Public debt has only increased moderately in H1-2024, suggesting that oil savings were used to finance the deficit. Public debt peaked at 55.2 percent of GDP in 2021 to finance a significant

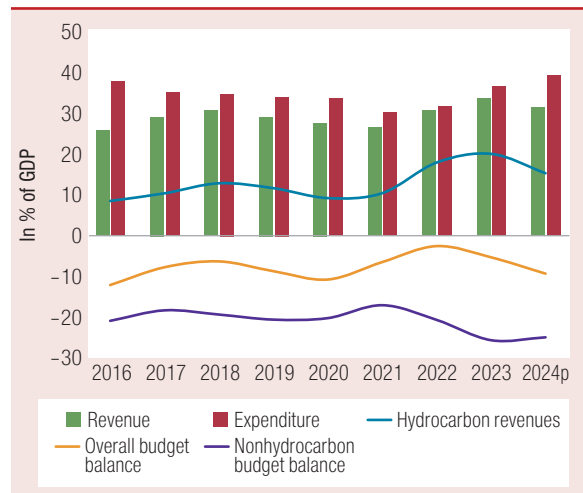
fiscal deficit and extensive SOE debt buyback, before moderating to 48.1 percent in 2022. Despite large fiscal financing needs, rising bond issuances, and the use of non-bank financing, the Treasury replenished the oil savings fund (*Fonds de Régulation des Recettes*, or FRR) in 2022 and 2023, which reached 7.9 percent of GDP at end-2023, as public debt increased to 49.2 percent of GDP. During H1-2024, the government partly used accumulated oil savings to finance the deficit, and public debt only increased by 5.1 percent in nominal terms. It remains nearly all domestically held, at long-term maturities and low interest rates.

Driven by Stabilizing Fresh Food Prices, Inflation Decelerated Significantly

Stabilizing fresh food prices led to a marked deceleration of inflation during the first nine months of 2024, reaching 4.3 percent y-o-y. Inflation started picking up in 2021 (7.2 percent),

¹² APS, May 2024.

FIGURE 13 • Increasing current expenditures and decreasing revenues are expected to widen the fiscal deficit...

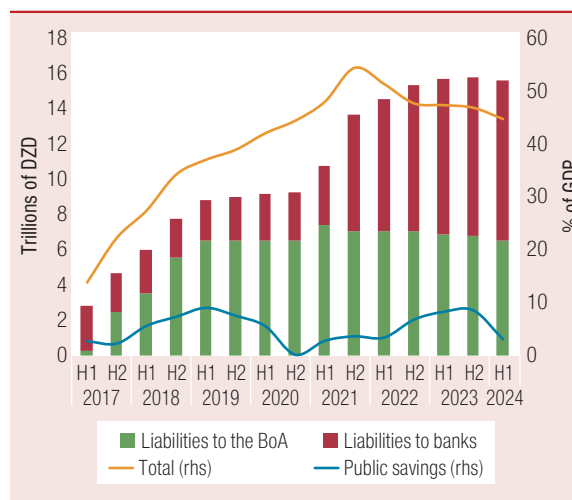


Source: Ministry of Finance, ONS and World Bank estimates.

accelerating in 2022 (9.3 percent) and stabilizing in 2023 (9.3 percent). Fresh food price inflation was particularly pronounced in 2023 (22.1 percent) driven by meat and fish products (28.6 percent) as well as fruits and vegetable (12.7 percent). As a result, food price inflation reached 13.3 percent, hurting the most vulnerable Algerians the most as food represents more than half of the expenditures of the bottom 40 percent of the population. However, the prices of fruits and vegetables, largely produced in Algeria, started to decline in mid-2023 in a context of resilient agricultural production, while meat and fish prices stabilized starting in Q4-2023, as the government authorized meat imports. As a result, fresh food inflation fell to 4.5 percent y-o-y during the first nine months of 2024 and, combined with a stable exchange rate and the continued moderation in import prices, enabled consumer price inflation to decline to 4.3 percent y-o-y over the first nine months of 2024.

The official exchange rate remained stable during the first nine months of 2024, but the informal market premium widened. After over a decade of exchange rate depreciation, the authorities supported a 6.6 percent appreciation of the dinar against the U.S. dollar between July and December 2022 to ease imported inflation before supporting the stability of the official exchange rate since early 2023. None-

FIGURE 14 • ...which is expected to be partially financed from oil savings



Source: IMF and World Bank estimates.

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

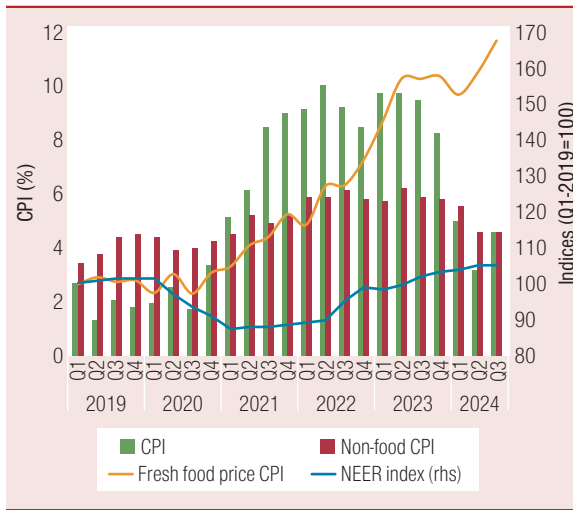
theless, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) appreciated during 2023 driven by the dinar's appreciation against the yuan, even as it remained stable against the U.S. dollar and the euro, as well as by the higher inflation rate in Algeria relative to trade partners, incentivizing imports, and particularly those from China.¹³ In H1-2024, the dinar was effectively pegged to the U.S. dollar at a rate of 134.5 DZD/US\$, while also remaining stable relative to the Euro and the Yuan, stabilizing the NEER and REER, before strengthening to 132.1 DZD/US\$ by the end of Q3-2024. Meanwhile, the informal market exchange rate weakened, with the exchange rate premium for the U.S. dollar increasing from 53 percent during Q4-2023 to 66 percent during Q3-2024.¹⁴

Monetary policy continues to remain accommodative, and money supply growth and credit to the private sector accelerated. The nominal policy

¹³ The NEER weights the exchange rates of different currencies by the amount of trade Algeria conducts with each country. The REER further adjusts for differences in inflation across countries.

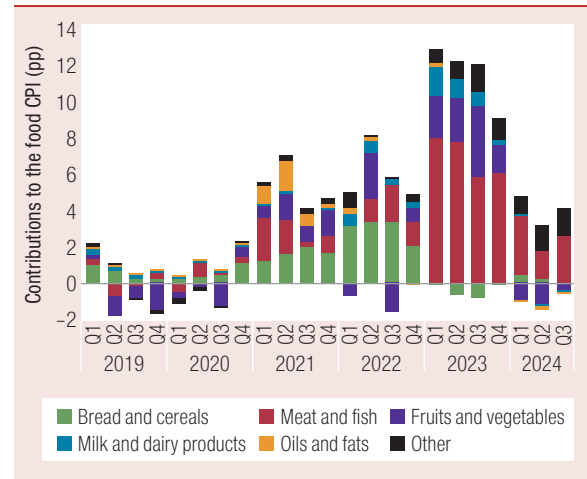
¹⁴ The average premium between 2019 and 2023 was 40 percent. The informal market exchange rate is gathered from various crowdsourcing websites.

FIGURE 15 • Inflation eased as fresh food prices stabilized for most of 2024...



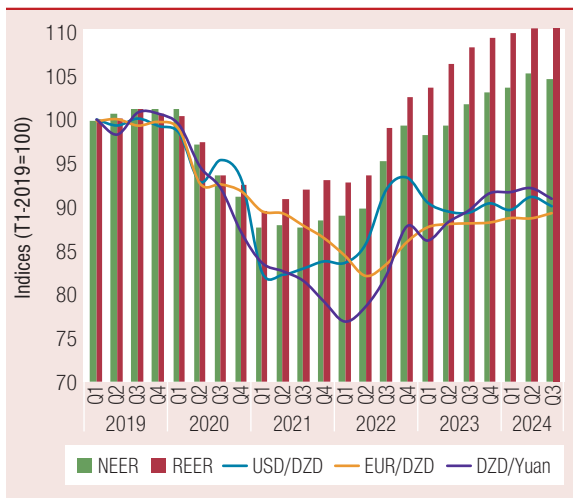
Source: ONS, IMF and World Bank estimates.

FIGURE 16 • ...led by a stabilization in meat and fish prices, and a decline in fruit and vegetable prices



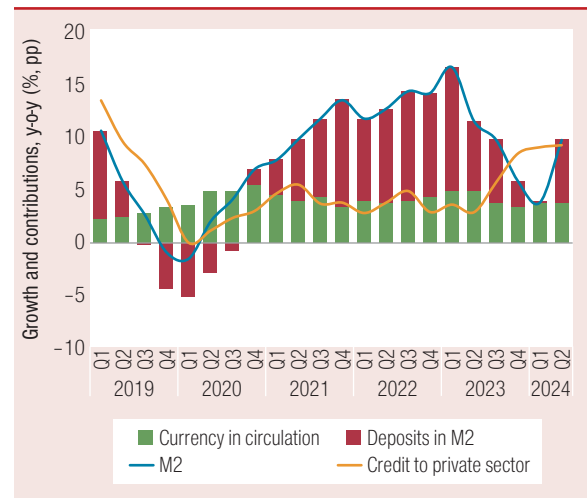
Source: ONS and World Bank estimates.

FIGURE 17 • The exchange rate remained stable in H1-2024...



Source: ca.investing.com, IMF and World Bank estimates.

FIGURE 18 • ...while the growth of money supply and credit to the private sector accelerated



Source: IMF & BoA and World Bank estimates.

rate of the Bank of Algeria remains unchanged since May 2020, which implies a negative real (inflation-adjusted) policy rate. As inflation has decelerated, the gap between inflation and the nominal interest rate has narrowed in recent months, increasing the incentive to save. Money supply growth decelerated from 14.3 percent y-o-y during Q4-2022 to 6.0 percent by Q4-2023. It accelerated again during H1-2024, reach-

ing 10.1 percent y-o-y in September. After accelerating in 2023, reflecting increased investment and imports, credit growth stabilized during the first nine months of 2024 (+5.6 percent y-o-y, with strong growth in credit to the private sector contrasting with stagnating credit to public enterprises).



OUTLOOK AND RISKS

Growth is Expected to Slow in 2024 Before Rebounding in 2025 and 2026

In 2024, non-extractive sectors would support growth, but hydrocarbon production would decline due to cuts in crude oil production quotas. In the baseline scenario, GDP growth is expected to slow to 3.1 percent in 2024, following an expected drop in extractive sector production, as crude oil production quotas remain in place and natural gas production declines. Growth in non-extractive sectors is expected to remain dynamic, with investment continuing to drive growth as major projects in the energy, mining, water and transport sectors progress, stimulating imports and the construction sector. Growth in private consumption would remain dynamic after three years of rising wages and transfers in the public sector, robust growth and decelerating inflation, stimulating sectors serving households. Net exports would once again make a negative contribution to growth, as hydrocarbon exports follow the decline in production, and investment stimulates equipment imports.

Growth would accelerate in 2025 and stabilize in 2026, as extractive production

recovers following an increase in quotas. Moderate growth in oil and gas output is expected under the baseline scenario in 2025 and 2026. Contributing to future gas export capacity, new strategic partnerships have been signed for the exploration and development of gas fields.¹⁵ Investment and private consumption growth would slow somewhat as the medium-term fiscal framework of the 2024 Budget Law suggests a slowdown in public spending, but remain dynamic relative to recent years, stimulating industrial production and services. Growth in agricultural production is expected to be moderate in 2025, in line with a relatively dry season from October 2024 to February 2025.¹⁶ Investment will continue to grow strongly, supported by the government's proactive policy (see Box 1). As a result, import growth would exceed export growth, and net exports would continue to make a negative contribution to GDP growth.

¹⁵ In particular with Midad Energy, ENI and Equinor.

¹⁶ European Commission, precipitation forecast maps (September 2024).

BOX 1: MEASURES TAKEN BY ALGERIA TO SUPPORT INVESTMENT

The Algerian Investment Promotion Agency (AAPI) facilitates investment in Algeria by simplifying administrative procedures and providing customs and tax incentives.^a Significant incentives exist for investment in (i) priority sectors, (ii) priority geographic areas, as well as (iii) structurally important (employment creating and very large) projects. These incentives include exemption from customs duties and VAT for imported goods used directly in realizing the investment, as well as from transfer duties and land registration taxes, administrative fees, and property taxes. Once investments are realized, companies can receive a 3-to-5-year exemption from the corporate income tax. The AAPI has recently introduced a one-stop-shop for investors, allowing them to register and access incentives through a digital platform. A recent addition to this platform allows businesses to search available land online and apply for it, further facilitating investment projects.

Over the last two years, AAPI registered 10,234 proposed investment projects, nearly all in the private sector, across a variety of sectors. While only a small share (188) of projects involve foreign investors, two-thirds of which are joint ventures, these projects represent most of the proposed investment value. 55 percent of the proposed investment amount comes from 15 Algerian-Chinese joint ventures, followed by 29 percent investment value from 9 Algerian-French enterprises. Proposed investments cover a variety of sectors, with industrial sectors representing 40.4 percent of proposed investment projects and services accounting for 4.7 percent. Within industry, the chemical (12.1 percent), the steel, metal, mechanical, electrical, and electronic (8.7 percent) and agro-food (7.5 percent) sub-sectors would receive the largest number of projects submitted to the AAPI. While the mining sector represents a small share of the proposed projects by number (0.8 percent) due to the size of these potential projects, they represent a disproportionate investment value (12.1 percent).

The projects submitted to the AAPI would represent significant investment in all regions of Algeria. 51.6 percent of projects would be realized in the North, 27.2 percent on the Highlands, and 21.2 percent in the South, the latter two regions being targeted as priority areas. A large share of investments would be realized by micro and small (88.2 percent) enterprises, while large enterprises represent a small share (0.8 percent) of projects but are disproportionately important in terms of proposed value of investment (34.7 percent), with the 29 largest investments representing nearly half of the promised investment value.

^a The authors thank the Algerian Investment Promotion Agency (AAPI) for providing the data used in this box.

Fiscal and External Deficits Will Remain Elevated

The current account would post a modest deficit in 2024, and reserves would stabilize.

Hydrocarbon export volumes would decrease, and prices remain stable in the baseline scenario, while imports would expand, and the current account deficit would post a modest deficit. Even as hydrocarbon exports are expected to recover in 2025, investment-driven imports would outpace exports, and the current account deficit would widen. Foreign exchange reserves would decrease to 9.4 months by end-2026.

The budget deficit would continue widening in 2024, while the government's medium-term budget framework points to fiscal consolidation starting in 2025. In 2024, the budget deficit would widen as hydrocarbon revenues fall with reduced production and exports, tax revenues remain approximately stable, and rapid growth in wage and transfer spending is compounded by a moderate pace of capital expenditure growth. In line with the medium-term budget framework of

2024 Budget Law, the pace of expenditure growth is expected to slow down in 2025 and 2026, while hydrocarbon revenues would recover, allowing the overall budget deficit to stabilize in 2025 before resorbing in 2026. Assuming that most hydrocarbon savings would be used to finance the 2024 deficit, the public debt to GDP ratio would stabilize in 2024 but would then increase more rapidly in 2025 and 2026, reaching 58.9 percent of GDP by 2026. As nearly all debt is held domestically and at long-term maturities and low interest rates, the public debt level would remain manageable, although domestic bank financing may crowd out private sector credit and investment.

Global Energy Prices and Climate Hazard Are Risks to the Macroeconomic Outlook

Hydrocarbon prices and their effect on revenues, public spending, and imports remain the main risk to the macroeconomic outlook. High hydrocarbon prices enabled a reduction in the budget deficit and a record current account surplus in 2022, while

lower prices and a reduction in quotas in response contributed to an increase in the budget deficit and a reduction in the current account surplus in 2023. The evolution of hydrocarbon prices therefore remains the main risk to the medium-term macroeconomic outlook, both upwards and downwards, a risk exacerbated by uncertainty surrounding global geopolitical and economic dynamics. Fluctuations in energy prices drive Algeria's export and budget revenues, and thus affect the country's ability to finance high levels of public spending and maintain high levels of imports to support investment.

Additional risks from climate change underline the importance of integrating climate risks into the national development strategy. In the short-term, growth is particularly vulnerable to droughts, which can affect Algeria's agricultural production, prices and

import needs. However, Algeria is facing structurally increasing temperatures and declining rainfall, with spatially differentiated effects on agricultural production, highlighting the importance of designing adaptation policies to protect output, firms, and households. A changing climate also entails additional risks, such as coastal erosion, floods, or forest fires, which have become more frequent. Developing a climate-resilient development strategy, which begins by assessing the medium- to long-term risks from climate change, will be key to the design of appropriate adaptation policies. Box 2 below provides a specific example of the risks and costs from forest fires in Algeria, in addition to adaptation priorities, building on the collaboration between Algerian authorities and the World Bank.

BOX 2: SUSTAINABLE FOREST MANAGEMENT TO COMBAT FOREST FIRES IN ALGERIA

In the North African region, Algeria is the country most affected by forest fires in terms of area affected. While the fires have on average affected about 20,000 hectares of forest in Algeria in recent years, a new phenomenon has emerged with "mega-fires". For instance, in 2021, more than 100,100 hectares were burnt out, affecting 40 wilayas and in particular Tizi Ouzou, Béjaia, Khenchela (DGF, 2021). The risks associated with forest fires is increasing with climate change, which increases the frequency and intensity of drought periods. As more people move into forests areas, the risk of fire increases, as well as the number of people impacted and at risk, including fatality. This is compounded by significant population growth, with Algeria's population predicted to increase to 51 and 70 million inhabitants, respectively in 2030 and 2050, compared to 44.18 million in 2021.

Forest fires cause significant damages and costs, impacting various sectors and necessitating substantial financial resources for recovery and prevention. In 2021 and 2022, material damages were estimated at 15.4 billion DA (US\$ 113.3 million) in the agricultural sector and 1.5 billion DA (US\$ 11 million) on housing. Beyond economic impacts, forest fires also have devastating effects on the health of local populations due to the smoke they generate. Annual economic losses related to the commercial value of wood and cork, firefighting operations, and vegetation restoration are estimated at between 2 and 2.5 billion DA (US\$ 15 to 19 million) per year. Compensation payments to victims amounted to 700 million DA in 2017 and 600 million DA in 2020. Preventing forest fires is significantly more cost-effective than covering post-fire interventions and state compensation for damages. For instance, 1 dinar invested in prevention could save 15 dinar in intervention costs (DNRM, 2022). Recent public policies, such as the Forest Strategy for 2035 and national strategies and action plans for forest fire management as well as the updated Forestry Law adopted in December 2023, emphasize the need to strengthen investments in sustainable forest management to prevent fires, protect forests, and develop rural areas.

The World Bank, the DGF, and the DNRM have jointly identified key recommendations and priority areas for action to enhance sustainable forest management (SFM) and combat forest fires. The latter are highlighted in the "Note on Algerian Forest: Sustainable Forest Management to Combat Forest Fires." Strengthening SFM is crucial for preventing forest fires and maximizing environmental and socio-economic benefits. The five major priority areas include: 1) ensuring continued financial resources and significant investments in the forestry sector, particularly for SFM, by mobilizing various funding sources; 2) placing forest management and forest fire risk analysis at the core of intervention processes with strong population involvement; 3) continuing strategic efforts to clarify the legal framework and coordinate forest and fire management; 4) improving forest and wildfire information management, inter-institutional collaboration, and communication; and 5) continuous strengthening the technical capacities of all actors involved in sustainable forest and wildfire management.



TOWARDS A HOLISTIC FRAMEWORK TO SUPPORT EXPORTS

Algeria Has a Large Non-Hydrocarbon Export Potential

Algeria's nonhydrocarbon exports are relatively limited, but their growth potential is significant.

Hydrocarbon products still represented over 90 percent of Algeria's product exports in 2023, with oil products accounting for around half and gas products the other half.¹⁷ Nonhydrocarbon product exports increased markedly since 2017, rising from 0.7 percent of GDP to 2.0 percent of GDP in 2023. Moreover, Algeria has a large unexploited potential for nonhydrocarbon export growth, with the lowest openness to non-oil exports in the MENA region—that is, the largest gap between current exports and those that would be predicted based on a set of explanatory variables such as the size of its economy, that of its export destinations, the participation in free trade agreements, or the presence of a shared language or border.¹⁸ Notably, proximity to the European Union market constitutes a natural comparative advantage to exploit, compounded by the existence of a free trade agreement between Algeria and the EU.

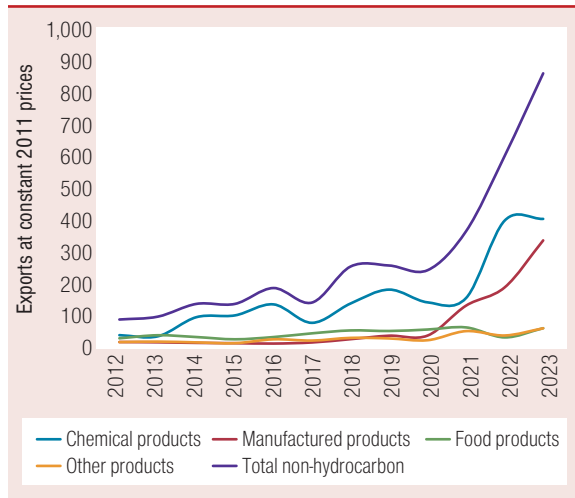
Expanding the basket of exported products, their complexity and the range of export

destinations are key priorities. Key nonhydrocarbon exports include nitrogenous fertilizers, ammonia, iron and steel products, hydrogen, cement, sugar and dates. These products represented 88 percent of nonhydrocarbon exports in 2023. Therefore, and although it has improved in recent years, export diversification and sophistication, as measured by the Economic Complexity Index (ECI), remains limited. Key manufactured products (cement, iron) also use a large share of subsidized products as inputs, with the production of construction materials using over 60 percent of inputs from the water and energy sector. Across key nonhydrocarbon export categories, a few countries account for most exports. For chemicals, 29.0 percent go to France, for fertilizers 18.4 percent go to the United States and 20.2 percent to Brazil,

¹⁷ Petroleum products account for 51 percent, including 24 percent from crude oil, 17 percent from refined petroleum products, 7 percent from liquefied petroleum gases and 4 percent from condensates. Natural gas products account for 49 percent, with 33 percent exported in gaseous form, and 16 percent in liquid form.

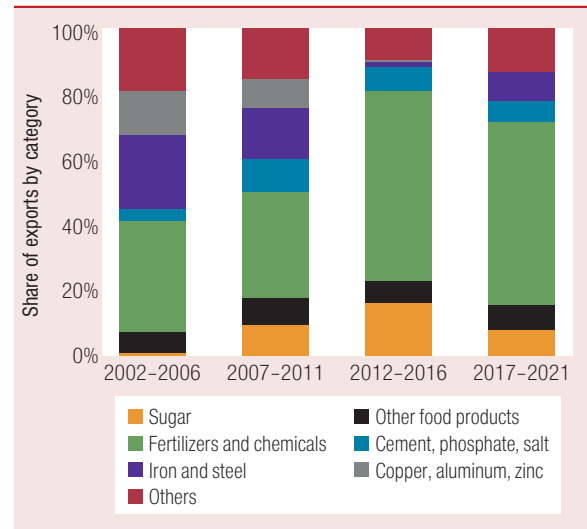
¹⁸ Gatti et al. (2024), Middle East and North Africa Economic Update, October 2024.

FIGURE 19 • Export volumes increased since 2017, led by chemical and manufactured products...



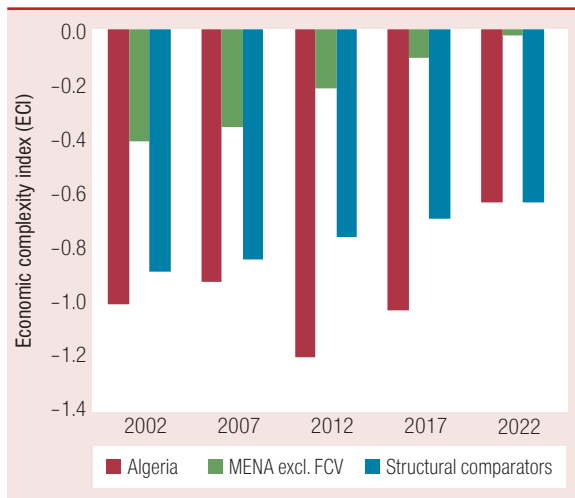
Source: ONS and WB staff estimates.

FIGURE 20 • ...but remain concentrated in a few products, notably fertilizers



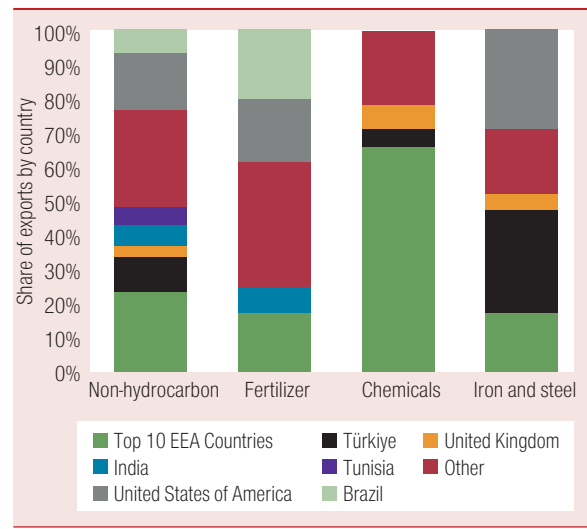
Source: Trade Map and World Bank staff estimates.

FIGURE 21 • Algeria’s exports are less complex than those of its peers, despite recent improvements...



Source: Atlas of Economic Complexity. FCV = countries in fragile, conflict or violence contexts.

FIGURE 22 • ...and are concentrated in a small number of countries



Source: Trademap.org.

for iron and steel, 29.8 percent going to Turkey and 28.6 percent going to the United States.

Productivity Growth and a Conducive Macroeconomic Framework Are Essential for Export Growth

Productivity gains, particularly in sectors with high export potential, will be essential to Algeria’s

competitiveness and sustained export growth.

Over the past twenty years, investment and aggregate productivity moderated in Algeria,¹⁹ limiting export competitiveness, including in sectors with higher export potential, such as steel, metal mechanical, electrical, and electronic industries (SMMEEI). Meanwhile, the share of manufacturing in non-extractive GDP

¹⁹ See World Bank Algeria Economic Update, Spring 2024.

FIGURE 23 • Algeria’s total factor productivity is lower than that of the region...

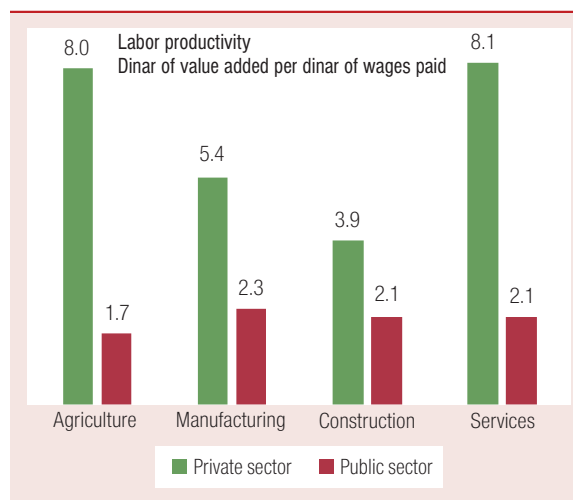


Source: Gatti et al., forthcoming.

declined from 11.2 percent in 2002 to 9.2 percent in 2022. As a result, Algeria’s total factor productivity (adjusted for oil rents) is lower than that of the region; Gulf Cooperation Council countries, but also that of non-oil countries in the region (Jordan, Egypt, Tunisia). Strengthening the business environment and firm productivity, including by raising the efficiency of factor markets, financial sector development and business sophistication will be key to enhancing the domestic and export competitiveness of Algerian firms.

Efforts to raise firm productivity should also include state-owned enterprises. SOEs account for a third of Algeria’s GDP, a fifth of its nonhydrocarbon value-added, and almost a quarter of that of the manufacturing sector. According to the Court of Accounts, SOEs’ economic and financial performance has been limited, except for six SOE groupings.²⁰ This is confirmed by ONS data, that shows that SOE profitability and labor productivity, measured by the value added per dinar of wages paid, is lower in public firms than in private firms, across economic sectors.²¹ Considering that SOEs account for a large share of the workforce, a large share of economic activity and for close to half of bank lending to the economic sector, and that SOE presence can have implication for private sector development, efforts to raise Algeria’s productivity and global competitiveness should also include a strategy to increase SOE productivity.

FIGURE 24 • ...and labor productivity is lower in public than in private firms



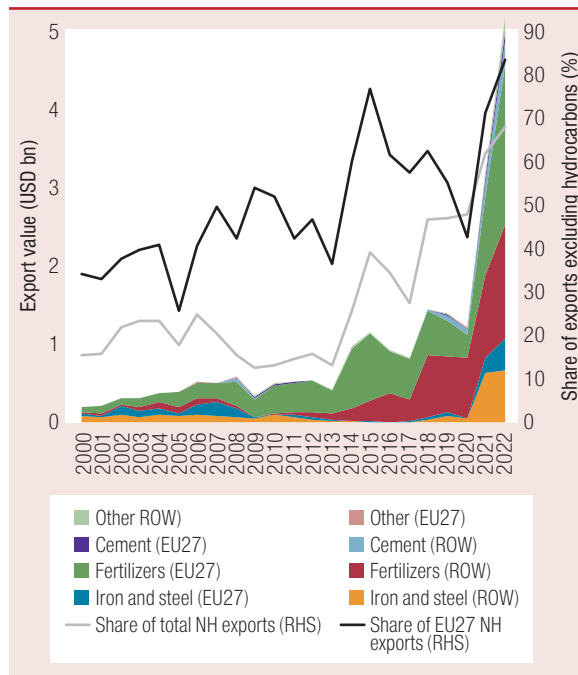
Source: ONS and WB staff calculations. Note: Labor productivity is measured here as the ratio of value added to wages paid (in dinars).

Conducive exchange rate, international trade, and foreign investment policies are also needed to support nonhydrocarbon export growth. In Algeria, the real effective exchange rate has remained stable over the past decade, despite a marked nominal depreciation, which has therefore had limited effects on Algerian competitiveness. Meanwhile, the presence of a dual exchange rate system could bias the incentives to import—and, if the dinar is overvalued, could encourage import and import over-invoicing—while discouraging non-hydrocarbon exports. Trade policies can also impact Algeria’s export capacity, with trade restrictions limiting access to foreign inputs and products, affecting productivity and exports, but full liberalization potentially harming emerging domestic producers. Lastly, encouraging foreign direct investments can support insertion into global value chains, allowing foreign exporters to enter the Algerian market, supporting

²⁰ Namely SONATRACH (energy), SAIDAL (pharmacy), GICA (construction materials) COSIDER (construction), SERPORT (transport) MADAR (agro-industry). See Court of Accounts, Annual Report 2022.

²¹ Parro and Torres (2024) also suggest substantial productivity gains across the MENA region from reallocating talent away from the public sector, estimating that aggregate productivity would increase by over 40 percent in Algeria.

FIGURE 25 • Products affected by CBAM represent an increasing share of Algeria’s exports...

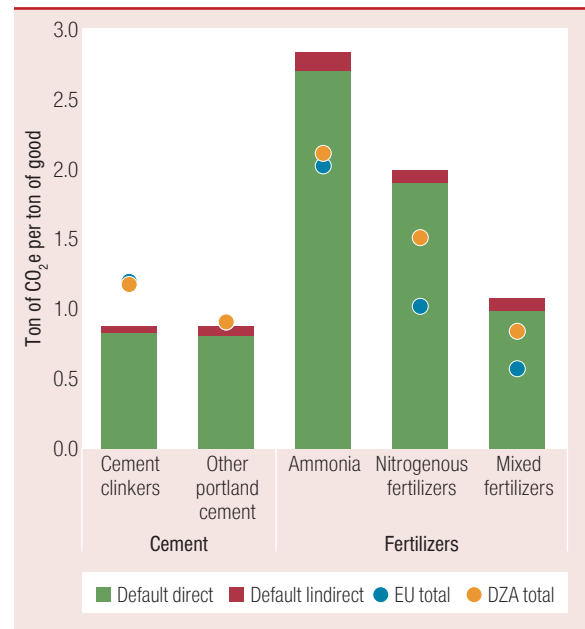


Source: WB staff estimates.

Algeria’s competitiveness and export growth. To this end, the partial repeal of the 51/49 Law in 2020 could support the entry of foreign exporters in Algeria, with the success of exporters such as Algerian Qatari Steel (AQS) or Tosyali providing examples to build on.

Export diversification also requires a multi-dimensional approach to export facilitation. This needs to be coordinated and driven at the highest level of government. Diversifying, expanding and developing exports requires a combination of vertical and horizontal approaches. A vertical approach focuses on developing value chains with export potential, from upstream to downstream, by removing bottlenecks and targeting promising markets and market segments, such as agriculture, fisheries and aquaculture, information and communication technologies, renewable energies, tourism or the industrial sector. On the other hand, a horizontal approach applies to all export sectors, covering regulatory and institutional aspects (export promotion, in particular) as well as those relating to financing, logistics, trade facilitation and quality certification.

FIGURE 26 • ...and Algerian fertilizers have a higher carbon content than EU products



Source: WB staff estimates. Note: Ammonia and nitrogenous fertilizers account for most of Algeria’s fertilizer exports, while cement clinkers and Portland cement account for most of its cement exports.

Adapting to Global Decarbonization Efforts Is also Essential

Given Algeria’s current specialization in exporting carbon-intensive products, a sustainable export growth strategy will also need to be cognizant of global decarbonization efforts. These efforts will affect demand for products with a high carbon footprint such as fertilizers, cement, and iron products, most notably in the framework of Europe’s carbon border-adjustment mechanism (CBAM). Given Algeria’s current export specialization, with exports to the EU increasingly concentrated in “CBAM products” (80 percent in 2023), reducing the carbon footprint of exported products, diversifying exports towards cleaner industries, and adopting an explicit carbon tax would be key to sustained nonhydrocarbon export growth. Absent adaptation, CBAM and other carbon border adjustment mechanisms could result in market share losses and significant taxes by Algerian exporters to European authorities (see Box 3).

BOX 3: CBAM IMPLICATIONS FOR ALGERIA

Starting in 2026, CBAM will impose a price on embedded CO₂ emissions of certain goods imported into the EU, to complement the EU Emissions Trading System (EU ETS). Currently, European emissions allowances are free to European producers, but those for highly polluting goods, such as cement, iron and steel, fertilizers, aluminum, electricity, and hydrogen, will gradually become payment-based as CBAM is rolled out, to ensure equal carbon pricing for EU-produced and imported goods. During the transition phase (2024–2025), importers must report their direct (from production) and indirect (from the production of energy used in production) emissions on a quarterly basis. From January 2026, imports of “CBAM products” will be subject to a carbon price equivalent to that paid by EU companies.^a Since 2022, the price of such allowances has been fluctuating between EUR 60 and 100 per ton of CO₂ emission. To avoid double pricing on carbon, any explicit (or direct) carbon price already paid in the exporting country will be deducted from the CBAM fiscal obligation. Emissions need to be verified by an accredited verifier; otherwise set default values will be applied.

CBAM products account for more than 80 percent of Algeria’s nonhydrocarbon exports to the EU and, absent action, could result in Algerian exporters paying large duties when exporting. In recent years, alongside substantial growth in Algeria’s fertilizer exports, which represent most of its nonhydrocarbon exports, Algeria has increased its exports of iron, steel, and cement products. CBAM products now account for nearly 70 percent of Algeria’s total nonhydrocarbon exports, highlighting the country’s vulnerability to CBAM. In addition, Algeria’s fertilizer products, its most traded CBAM goods with the EU, have higher embedded emissions than those produced in the EU, meaning that they will face higher taxes than those produced in the EU. Because CBAM will be implemented gradually, assuming constant exports of CBAM goods, stable emissions intensities and stable default values from 2022 to 2034, the revenue collected from Algerian exports by the EU through CBAM would be rising sharply after 2028, reaching close to US\$ 700 million by 2034, or about 4.6 percent of Algeria’s tax revenues.

To adapt to CBAM, Algeria could adopt cleaner production technologies and introduce an explicit carbon pricing instrument, thereby supporting Algeria’s own decarbonation efforts. Redirecting exports to non-EU countries would carry costs, while new markets could also soon adopt Border Carbon Adjustment (BCA) mechanisms. Even then, Algeria would still face price competitiveness losses vis-à-vis other, greener producers. However, if CBAM goods are produced in Algeria with lower embedded emissions compared to goods produced in the EU, its carbon cost would be lower. The recent agreement between Sonatrach and TOSYALI Algérie to produce hydrogen from renewable energies provide a good example of greening production processes.^b Finally, the introduction of an explicit carbon pricing instrument (carbon tax or ETS) would encourage green technology adoption, raise tax revenues in Algeria, and reduce fiscal CBAM obligations since the carbon price paid in Algeria would be deducted from the CBAM charges. For instance, Uruguay introduced a carbon tax in 2022, converting its implicit pricing to explicit pricing, while Vietnam is considering introducing one to replace taxes on fossil fuels.

^a During the definitive period, only direct emissions are to be considered for iron, steel, aluminum and hydrogen, while both direct and indirect emissions are within the scope for the remaining CBAM goods, namely cement, electricity and fertilizers.

^b See: <https://www.aps.dz/economie/173718-sonatrach-signature-d-un-protocole-d-entente-avec-tosyali-algerie-dans-le-domaine-de-l-hydrogene-vert>.

TABLE OF INDICATORS

	2020	2021	2022	2023e	2024f	2025f	2026f
Output and prices	(In percent, unless otherwise indicated)						
Real GDP	-5.0	3.8	3.6	4.1	3.1	3.8	3.3
Non-extractive	-1.9	2.5	5.0	3.7	3.6	4.0	3.5
Extractive	-20.9	19.8	-5.1	4.8	-0.8	2.2	1.5
Real GDP per capita	-6.6	2.1	1.9	2.5	1.6	2.4	1.9
Consumer price index (period average)	2.4	7.2	9.3	9.3	4.0	4.9	4.4
GDP (in billions of US\$)	164.9	186.3	225.6	239.9	261.6	276.7	291.4
GDP per capita (US\$)	3794.4	4216.3	5023.3	5260.2	5652.1	5896.3	6128.8
Crude oil production (thousand barrels per day)	899.2	910.7	1020.0	973.1	909.0	946.0	959.0
Natural gas production (billions of m ³)	87.7	102.8	99.2	105.2	102.0	105.2	107.2
External sector	(In percent of GDP, unless otherwise indicated)						
Current account	-11.3	-2.4	8.6	2.3	-1.2	-3.1	-4.2
Trade balance	-10.9	-1.3	9.9	3.0	-0.4	-2.3	-3.4
Exports of goods and services	15.1	22.5	30.6	24.5	21.6	20.0	19.0
Hydrocarbon exports	12.3	19.7	26.9	21.1	18.0	16.4	15.3
Nonhydrocarbon exports	2.8	2.7	3.7	3.4	3.6	3.7	3.7
Imports of goods and services	26.0	23.8	20.7	21.5	22.0	22.4	22.4
Gross official reserves (months of imports)	13.5	12.3	15.7	16.0	14.2	11.9	9.4
Exchange rate (Algerian dinar per US\$; period average)	126.8	135.1	142.0	135.8			
Sahara Blend export price (US\$/barrel)	41.4	70.6	100.9	82.6			
Central Government Finance	(In percent of GDP, unless otherwise indicated)						
Government revenue and grants	27.0	26.2	29.7	32.9	29.9	28.4	27.4
Hydrocarbon revenue ^a	9.2	10.4	17.7	19.7	14.4	13.1	12.3
Non-hydrocarbon revenue	17.8	15.9	12.1	13.2	15.6	15.4	15.0
Expenditures	37.5	32.5	32.7	38.1	39.7	38.3	36.0
Current expenditures	24.0	21.8	24.9	27.7	29.9	28.7	26.7
Capital expenditures	9.1	7.7	6.1	8.3	8.5	8.2	7.8
Special Account Balance and Treasury Interventions	4.5	3.0	1.7	2.1	1.4	1.5	1.5
Overall budget balance ^b	-10.5	-6.3	-3.0	-5.2	-9.8	-9.9	-8.7
Primary overall budget balance	-9.7	-5.7	-1.8	-3.9	-8.6	-8.6	-7.3
Non-hydrocarbon overall budget balance	-19.7	-16.7	-20.6	-24.9	-24.2	-23.0	-21.0
Total central Government debt	45.8	55.2	48.1	49.2	49.5	55.2	58.9
Domestic debt	45.1	54.5	47.6	48.9	49.1	54.9	58.7
External debt	0.7	0.6	0.4	0.4	0.3	0.2	0.2

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

^b Includes special account balance and Treasury interventions.

ANNEX 1: RECENT SPECIAL SECTIONS OF THE ALGERIA ECONOMIC UPDATE

Spring 2024: “Tracking Economic Developments with Alternative Data Sources.”

New developments in big data research enable immediate monitoring of economic trends at disaggregated geographical levels. Satellite data are available with a short lag and are highly disaggregated across time and space. By estimating the relationship between these alternative data and national accounts over the past years, they can help produce timely and geographically disaggregated output estimates. Nightlights data reliably estimate hydrocarbon and nonhydrocarbon GDP. Satellite-based weather and vegetation data can be used to estimate agricultural production. Data on vessels and their cargo arriving and departing from ports capture imports and exports in a timely manner.

Fall 2023: “Analyses in Algeria’s Public Finances.”

Algeria’s public finances have tracked oil and natural gas prices over the last two decades: when hydrocarbon prices fell, budget revenues followed, and the fiscal deficit expanded. At the same time,

overall government expenditures in Algeria have been cyclically neutral, on average not tracking swings in output, which compares favorably with peer countries. Patterns differ for current and capital expenditures. Current expenditures are countercyclical: wages and transfers are typically expanded during downturns. Capital expenditures are strongly procyclical: they have been increased when hydrocarbon output expanded. The rigidity of public expenditures has increased in recent years but remains below the average of peer countries.

Fall 2022: “Estimating Economic Activity from Nightlights Data.”

Nightlights 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 Group on Earth Observations 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 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. Moreover, 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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