INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/252

ALGERIA

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ALGERIA

September 2026

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Algeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 11, 2026 consideration of the staff report that concluded the Article IV consultation with Algeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 11, 2026 following discussions that ended on June 30, 2026, with the officials of Algeria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 26, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Algeria.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR26/290

IMF Executive Board Concludes 2026 Article IV Consultation with Algeria

FOR IMMEDIATE RELEASE

- Algeria's reform program has supported diversification and robust growth, although large fiscal deficits have depleted fiscal buffers and external buffers have eroded.
- Higher hydrocarbon revenue improves the near-term outlook and provides an opportunity to rebuild buffers, but reducing vulnerabilities requires fiscal consolidation, monetary policy focused on price stability, and greater exchange rate flexibility.
- Algeria's diversification efforts and removal from the FATF list of jurisdictions under increased monitoring are welcome and should be complemented by deeper reforms to support stronger, more resilient, private sector-led growth.

Washington, DC – September 21, 2026: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation for Algeria on September 11, 2026.[1]

Robust growth in 2025 was accompanied by higher inflation and large fiscal and current account deficits. Real GDP growth is estimated at 3.9 percent in 2025 (from 3.7 percent in 2024) supported by strong investment. Headline inflation rose from -2.0 percent in September 2025 to 5.2 percent in April 2026, as food-price deflation ended and jewelry prices increased sharply with higher gold prices. Although the fiscal deficit narrowed in 2025, supported by large one-off dividend payments from SOEs and the Bank of Algeria, it remained very large. And with fiscal buffers depleted, continued large financing needs increased public debt and reliance on central-bank financing. The current account deficit widened sharply as imports surged, and hydrocarbon exports declined, leading to large reserve losses. Monetary conditions eased alongside increased central bank financing of the government and the parallel exchange rate premium widened further.

Near-term prospects remain broadly positive, although the erosion of fiscal and external buffers weighs on the outlook. Higher hydrocarbon prices are expected to boost export and fiscal revenues. GDP growth is projected to remain robust at 3.8 percent in 2026. Inflation is projected to increase temporarily. The fiscal deficit is projected to remain high, with continued monetary financing, while the current account deficit is projected to narrow on the back of higher hydrocarbon prices and lower imports. Over the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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medium term, growth is expected to moderate, while continued large fiscal deficits would raise public debt and persistent current-account deficits would further reduce reserves.

Key downside risks include a sharp decline in hydrocarbon prices, continued large fiscal deficits that could jeopardize debt sustainability and intensify the sovereign-bank linkages, and continued reliance on monetary financing, which could undermine price stability and policy credibility. On the upside, stronger fiscal consolidation, faster diversification, and continued structural reforms could improve the business climate, attract private investment, and strengthen medium-term growth and resilience.

Executive Board Assessment[2]

In concluding the Article IV consultation with Algeria, Executive Directors endorsed staff's appraisal as follows:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Algeria's continued robust growth and diversification efforts, supported by its public investment led strategy. While near term prospects remain broadly positive, Directors noted that large fiscal deficits have eroded fiscal and external buffers and increased financing pressures. They emphasized the need for a gradual rebalancing of macroeconomic policies and sustained structural reforms to rebuild buffers, strengthen resilience, support diversification, and promote private sector led growth. Strong engagement through Fund capacity development and technical assistance remains important.

Directors called for credible and gradual fiscal consolidation, noting that large fiscal deficits pose significant fiscal sustainability risks. They highlighted that the current hydrocarbon windfall provides an opportunity to rebuild fiscal buffers. Directors emphasized the need for stronger nonhydrocarbon revenue mobilization, more efficient public investment, and expenditure rationalization, including through gradual energy subsidy reform accompanied by targeted support for vulnerable households. They highlighted that continued progress on improving public financial management and fiscal risk management, anchored in a rules-based framework, would support fiscal adjustment.

Directors emphasized that monetary policy should be tightened if broader inflationary pressures intensify. They recommended enhancing the monetary policy framework by establishing low inflation as a clear nominal anchor, improving monetary policy transmission, reinforcing the Bank of Algeria's operational independence, and limiting monetary financing to exceptional circumstances. Directors underscored that greater exchange rate flexibility would strengthen external shock absorption, also helping to reduce the parallel market exchange rate premium.

Directors welcomed Algeria's efforts to strengthen financial stability and inclusion. While noting that banks remain liquid, profitable, and well capitalized, they called for continued reforms to contain risks from high NPLs and linkages between the sovereign, state owned enterprises (SOEs), and state-owned banks. Measures to strengthen supervision, crisis and liquidity management, and enhance public bank

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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governance are important. Directors commended the authorities for Algeria's swift removal from the FATF list of jurisdictions under increased monitoring. They encouraged continued effective implementation of the strengthened AML/CFT framework and steps to address outstanding FSAP recommendations.

Directors welcomed the authorities' diversification efforts, while noting that deeper reforms are needed to support stronger, more resilient private sector-led growth. Priorities include improving the business climate, leveling the playing field between SOEs and the private sector, reducing regulatory barriers and informality, and strengthening governance and transparency. Directors also highlighted the importance of building climate resilience and deepening trade and energy linkages with Europe and Africa. They called for improved data coverage, timeliness, and quality to better inform policymaking.

It is expected that the next Article IV consultation with Algeria will be held on the standard 12-month cycle.

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Algeria: Selected Economic and Financial Indicators, 2023–31

			Projections						
	2023	2024	2025	2026	2027	2028	2029	2030	2031
Output and prices			(Annual percentage change)						
Real GDP	4.1	3.7	3.9	3.8	3.1	3.0	3.0	2.9	2.9
Hydrocarbon sector	3.6	-1.3	1.3	2.7	-0.8	-0.1	3.4	1.2	1.2
Nonhydrocarbon sector	4.2	4.3	4.3	4.0	3.6	3.3	3.0	3.1	3.1
Per capita	2.5	2.7	2.6	2.5	1.9	1.9	2.0	1.9	2.0
Consumer price index (period average)	9.3	4.0	1.4	5.5	3.5	3.8	3.8	3.8	3.8
Money and credit			(Annual percentage change unless otherwise indicated)						
Net foreign assets	8.9	19.4	-14.5	-6.2	-3.2	-8.6	-7.2	-5.9	-5.8
Credit to the economy	6.0	5.9	7.8	9.6	6.7	6.6	6.6	6.5	6.3
Money and quasi-money	6.0	9.0	6.9	11.5	9.5	9.4	8.9	8.9	8.8
Central government finances			(in percent of GDP)						
Revenue	31.9	23.8	26.3	25.4	23.9	22.8	23.3	23.4	23.4
Expenditure (incl. net lending)	37.4	37.8	36.8	35.0	34.1	32.8	32.3	32.2	32.1
Overall budget balance	-5.5	-14.0	-10.5	-9.6	-10.2	-10.0	-9.0	-8.7	-8.7
Central bank financing (flow)	-0.7	-1.1	3.7	5.5	-0.7	-1.4	-0.4	0.0	0.0
Gross government debt (excluding guarantees)	47.7	48.1	52.1	53.2	60.4	66.4	71.2	75.4	79.0
			(in percent of nonhydrocarbon GDP)						
Nonhydrocarbon primary bal. excl. central bank dividends	-30.6	-30.1	-24.6	-24.9	-22.4	-20.3	-19.0	-18.3	-17.9
Nonhydrocarbon balance	-30.4	-30.7	-23.8	-26.2	-23.9	-21.9	-20.7	-20.2	-19.9
Revenue	39.4	28.6	30.8	30.8	28.1	26.5	27.0	26.8	26.7
Hydrocarbon	23.6	13.8	11.5	14.6	11.8	10.2	10.3	10.1	9.9
Nonhydrocarbon	15.8	14.8	19.3	16.3	16.2	16.3	16.7	16.7	16.8
Expenditure (including net lending)	46.2	45.5	43.0	42.5	40.1	38.2	37.4	36.9	36.7
Current expenditure	34.7	33.4	30.9	30.2	29.5	28.6	28.3	28.2	28.2
Capital expenditure	9.8	11.7	12.1	11.0	9.3	8.3	7.8	7.5	7.3
Net lending	1.7	0.4	0.0	1.3	1.3	1.3	1.3	1.2	1.2
Investment and savings			(In percent of GDP)						
Savings-investment balance	2.6	-1.1	-8.9	-1.9	-2.5	-3.1	-2.6	-2.2	-2.0
National savings	40.7	40.2	40.1	40.7	40.1	38.9	39.2	39.5	39.3
Central government	2.4	-4.3	-0.1	-0.6	-2.3	-2.9	-2.3	-2.2	-2.4
Nongovernment 1/	38.3	44.5	40.2	41.3	42.4	41.8	41.5	41.7	41.7
Investment	38.1	41.3	48.9	42.7	42.6	42.1	41.8	41.6	41.3
Central government	8.0	9.7	10.4	9.0	8.0	7.1	6.7	6.5	6.4
Nongovernment 1/	30.1	31.5	38.6	33.6	34.6	34.9	35.1	35.1	35.0
o/w Nongovernment nonhydrocarbon	28.4	30.0	36.8	32.1	33.2	33.5	33.6	33.7	33.5
External sector 2/									
Current account balance (percent of GDP)	2.6	-1.1	-8.9	-1.9	-2.5	-3.1	-2.6	-2.2	-2.0
Exports, f.o.b. (percent of GDP)	22.4	18.1	15.8	19.3	16.6	15.8	16.4	16.8	17.0
Imports, f.o.b. (percent of GDP)	17.3	16.8	21.9	18.5	17.0	17.0	17.0	17.0	17.0
Gross official reserves									
In US$ billions	70.6	68.9	51.0	46.5	41.0	33.4	27.8	23.5	19.8
In months of next year's imports of goods and services	15.6	11.1	8.6	8.1	7.2	5.8	4.8	3.9	3.3
Gross external debt (percent of GDP)	1.3	1.1	1.1	1.0	0.8	0.7	0.6	0.6	0.5
Memorandum items:									
GDP (in billions of dinars at current prices)	33,679	36,104	37,389	43,024	45,041	47,662	50,446	53,383	56,830
Nominal GDP Growth	5.1	7.2	3.6	15.1	4.7	5.8	5.8	5.8	6.5
NHGDP (in billions of dinars at current prices)	27,243	29,971	31,965	35,407	38,351	40,943	43,626	46,575	49,728
GDP capita per (in US$)	5,353	5,749	5,997	6,733	6,979	6,879	6,846	6,831	6,860
Exchange rate (DA per US$)	135.8	134.1	…	…	…	…	…	…	…
REER (percent change)	10.2	2.5	…	…	…	…	…	…	…
Crude oil export unit value (US$/bbl)	83.9	82.0	69.4	92.6	82.4	77.7	75.2	73.3	71.8

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Including public enterprises.
2/ In U.S. dollars unless otherwise indicated.

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INTERNATIONAL MONETARY FUND

ALGERIA

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

August 26, 2026

KEY ISSUES

Context. Algeria is seeking to enhance economic growth and resilience and diversify its economy away from hydrocarbons. To achieve this, the authorities are pursuing large foundational investment projects, import substitution and nonhydrocarbon export-promotion policies, alongside reforms to enhance tax administration and public financial management, improve governance and the business environment, and to reduce informality through digitalization and tax-regime reforms. These efforts have supported diversification and robust growth, although large fiscal deficits have eroded fiscal and external buffers and increased financing pressures.

Outlook and Risks. Algeria's near-term outlook remains broadly positive, as strong gas demand, OPEC+ quota increases, and higher hydrocarbon prices are expected to modestly boost hydrocarbon output, notwithstanding limited spare production capacity. However, fiscal buffers have been depleted and external buffers have eroded, while large fiscal deficits continue to pose significant financing pressures. The hydrocarbon windfall provides an opportunity to rebuild buffers. Headline inflation is projected to increase significantly in 2026, warranting close monitoring. The medium-term outlook depends on reforms to strengthen fiscal sustainability, diversify the economy, and boost private investment. Under the staff's baseline, growth is projected to moderate to about 2.9 percent over the medium term. Fiscal deficits would narrow but remain elevated, pushing central government debt higher, while persistent current account deficits would further reduce reserves. Key downside risks include a sharp decline in hydrocarbon prices, fiscal slippage that could jeopardize sustainability and intensify the sovereign-bank nexus, and continued reliance on monetary financing, which could undermine price stability and policy credibility. Stronger fiscal consolidation, faster diversification, and continued structural reforms to improve the business climate, attract private investment, and deepen financial markets constitute important upside risks.

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Key Policy Recommendations

- *Fiscal Policy*. Large deficits pose fiscal sustainability risks. Credible and gradual fiscal consolidation while continuing to diversify financing sources and avoiding further monetary financing will be critical to mitigate these risks. Staff estimates that additional fiscal measures of about 5 percent of nonhydrocarbon GDP over 2026–29, relative to the baseline, would be needed to stabilize debt. The adjustment should combine stronger nonhydrocarbon revenue mobilization, gradual energy subsidy reform accompanied by targeted compensation for vulnerable households, better-targeted social benefits, lower transfers to SOEs, and greater public investment efficiency. Continued progress in public financial management and fiscal risk management, anchored in a rules-based framework, would support the adjustment.

- *Monetary Policy*. The BA should tighten monetary policy if broader inflationary pressures accelerate. The monetary policy framework should be enhanced by establishing low inflation as a clear nominal anchor, reinforcing the BA's operational independence, limiting central bank financing of the government to exceptional circumstances, and improving monetary operations.

- *Exchange Rate Policy*. Greater exchange rate flexibility would help absorb hydrocarbon-price volatility, reduce exchange rate misalignment, support economic diversification, strengthen monetary policy transmission, and help develop the FX interbank market. Reducing the very high parallel market exchange rate premium requires a tighter macroeconomic policy mix, greater exchange rate flexibility, reduced import compression, and continuing to ensure that sufficient foreign exchange is available for current international transactions, in line with IMF Article VIII obligations. Forthcoming IMF LEG/MCM technical assistance will support the authorities' efforts to review and streamline the FX regulatory framework.

- *Financial sector*. Algeria's removal from the FATF list of jurisdictions under increased monitoring is an important achievement, reflecting strong commitment and substantial efforts. Continued implementation of Anti–Money Laundering and Combating the Financing of Terrorism (AML/CFT) reforms would help consolidate this progress. Banks remain liquid, profitable, and well capitalized, and the authorities have strengthened prudential regulations, including with IMF technical assistance. Close monitoring and enforcing prudential requirements are critical to contain financial sector risks, especially given the growing links between banks, SOEs, and the government. Further progress on supervision, crisis and liquidity management, and NPL resolution, together with continued implementation of the 2020 FSAP recommendations and the new Monetary and Banking Law (MBL) would reinforce financial stability.

- *Structural reforms*. Diversification efforts are continuing, notably in mining, agriculture, and nonhydrocarbon exports. Far-reaching reforms are needed to support stronger, more resilient, private sector-led growth. Priorities include improving the business climate, leveling the playing field between SOEs and the private sector, streamlining trade and regulatory procedures, enhancing product and labor market flexibility, and reducing informality through digitalization and tax-regime reform. Algeria's geographical position and wealth of energy resources provide important opportunities to deepen trade and energy linkages with Europe and Africa.

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Approved By
Taline Koranchelian and S. Jay Peiris

Discussions were held in Algiers during June 16–30, 2026. The mission team comprised C. Tsangarides (head), F. Painchaud, V. Salins (all MCD), and D. Al Masri (FAD). Mr. Badsi (OED) joined most meetings. The mission met with Governor of the Bank of Algeria, Mr. Lebbou; Finance Minister, Mr. Bouzred; Energy, Hydrocarbons and Mines, Minister of State, Mr. Arkab; Agriculture and Rural Development Minister, Mr. El-Mahdi Oualid; External Commerce Minister, Mr. Rezig; and Internal Commerce Minister, Ms. Abdellatif. The team also held discussions with other senior government and central bank officials and with representatives of the economic and financial sectors and civil society. Karman Singh provided excellent research support, and Sofia Cerna Rubinstein and Rodrigo Huguet contributed to the production of the report.

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Acronyms

AAPI	*Agence algérienne de promotion des investissements* (Algerian Investment Promotion Agency)
BA	*Banque d'Algérie* (Bank of Algeria)
CD	Capacity Development (technical assistance and training)
EBA	External Balance Assessment
FRR	*Fonds de Régulation des Recettes* (Revenue Regulation Fund)
FSAP	Financial Sector Assessment Program
Haut Comité	*Haut Comité d'Évaluation et d'Alerte des Risques Budgétaires* (High-level Budget Risk Committee of the Ministry of Finance)
MOF	Ministry of Finance
MENA	Middle East and North Africa
NEER	Nominal Effective Exchange Rate
NHGDP	Nonhydrocarbon GDP
NHPD	Nonhydrocarbon Primary Deficit (excl. Bank of Algeria's dividends)
NPL	Non-Performing Loan
ONS	*Office National des Statistiques* (National Statistics Office)
PIMA	Public Investment Management Assessment
PPPs	Public-Private Partnerships
PSR	*Programme Spécial de Refinancement* (Special Refinancing Program)
RAM	Risk Assessment Matrix
REER	Real Effective Exchange Rate
SIP	Selected Issues Paper
SOEs	State-Owned Enterprises
SOBs	State-Owned Banks
SR-DSA	Sovereign Risk and Debt Sustainability Assessment
VAT	Value-Added Tax

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CONTEXT

1. Algeria's public-investment-led strategy has supported the post pandemic rebound and is central to the authorities' ambitious growth, resilience, and diversification objectives. The 2021 Government Action Plan and the 2025 and 2026 budgets emphasize improved governance, public-sector modernization, import substitution, export promotion, and large foundational investments to support diversification. Since the pandemic, growth has rebounded, supported by high international hydrocarbon prices and increased public spending (Text Figure 1).

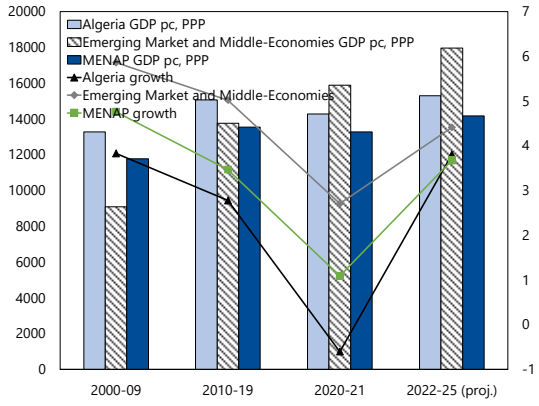
2. However, continued dependence on oil and gas revenues and public spending creates significant fiscal and external vulnerabilities. Together with the large role of the public sector, this dependence increases exposure to commodity-price volatility and constrains private-sector development. Large deficits in 2024–25 depleted fiscal buffers, while the sharp deterioration in the current account eroded external buffers, narrowing room for policy maneuver and increasing the urgency of policy adjustment.

3. Higher hydrocarbon prices and strong gas demand have improved Algeria's near-term outlook. They are expected to boost export and fiscal revenues, while administered prices, including for food and fuels, should help contain headline inflation. The windfall provides an opportunity to begin adjustment from a more favorable position and rebuild buffers, but it does not resolve underlying fiscal and external vulnerabilities.

Text Figure 1. Growth and Development Indicators: Algeria and Comparators

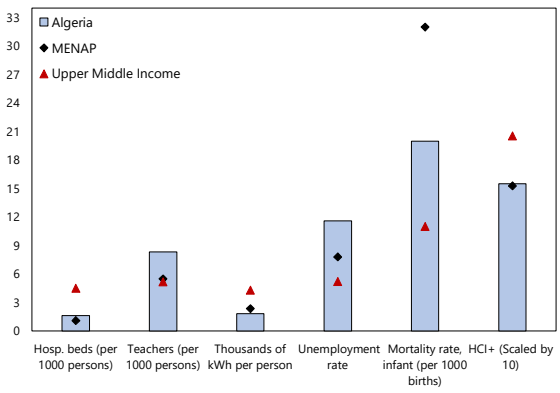
Algeria's income levels reflect decades of hydrocarbon-driven growth, with activity rebounding after the pandemic …

Real GDP per Capita, PPP (ICP Benchmark, 2021 USD) **and Growth of Real GDP** (RHS)



…but dependence on hydrocarbons, combined with institutional and structural challenges, has limited broader development outcomes and growth potential.

Development Indicators
(World Development Indicators, Latest available)



Sources: World Development Indicators; and IMF staff calculations and projections.

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RECENT ECONOMIC DEVELOPMENTS

4. Growth remained robust in 2025, while inflation began rising from 2025 into 2026 (Text Figure 2). Real GDP growth is estimated at 3.9 percent in 2025 (from 3.7 percent in 2024) supported by strong investment, while hydrocarbon sector growth remained subdued and hydrocarbon exports declined. Headline inflation rose from -2.0 percent in September 2025 to 8.6 percent in May 2026, as food-price inflation accelerated and jewelry prices increased sharply with higher gold prices.[1] Core inflation, as measured by staff,[2] also rose, although the large weight of jewelry and the outdated CPI basket complicate the assessment of broader underlying inflationary pressures.

5. The fiscal deficit improved in 2025 but remained very large. The 2025 overall and nonhydrocarbon deficits declined to 10.5 percent of GDP (from 14 percent in 2024) and 23.8 percent of nonhydrocarbon GDP (NHGDP, from 30.7 in 2024), respectively. The improvement was supported by large one-off dividend payments from SOEs and the Bank of Algeria (BA) of about 4 percent of GDP and stronger nonhydrocarbon revenue, partly offset by lower hydrocarbon revenue and elevated expenditure. With the Fonds de Régulation des Recettes (FRR) depleted in 2024, fiscal buffers were exhausted and continued large financing needs pushed central government debt to 52.1 percent of GDP.

6. The current account deteriorated sharply as imports surged in 2025, and hydrocarbon exports declined. Imports rose substantially, driven mostly by equipment goods related to large investments by the government and SOEs, as well as non-food consumer and intermediate goods. Combined with declining hydrocarbon exports, this widened the current account deficit to 8.9 percent of GDP, from 1.1 percent of GDP in 2024, leading to large reserve losses. International reserves declined to US$41.4 billion (7.2 months of imports) by April 2026, from US$68.9 billion at end-2024. Reserves slightly recovered to USD 41.8 billion in May as higher hydrocarbon prices began to support FX inflows. The parallel exchange rate premium peaked at 84 percent at end-2025, and remained at around 80 percent since February 2026, up from 68 percent on average in 2024.

7. Monetary conditions eased alongside increased central bank financing of the government. The BA reduced the policy rate by a cumulative 50 bps to 2.5 percent by January 2026 and lowered the reserve-requirement rate from 3 percent to 1 percent. Ample aggregate liquidity conditions continue to keep the interbank rate below the policy rate, constraining monetary policy transmission. The BA also purchased around 5¼ percent of GDP in government bonds in August 2025 and provided an advance to the government in January 2026 equivalent to 1.9 percent of GDP.

[1] The share of jewelry in CPI as per the 2001 reference year (1.5 percent), combined with the significant increase in the relative price of jewelry since 2001, translates into an unduly large contribution of jewelry (3.5 percentage points) to April 2026 inflation (5.2 percent).

[2] Core inflation excludes fresh food and administered prices.

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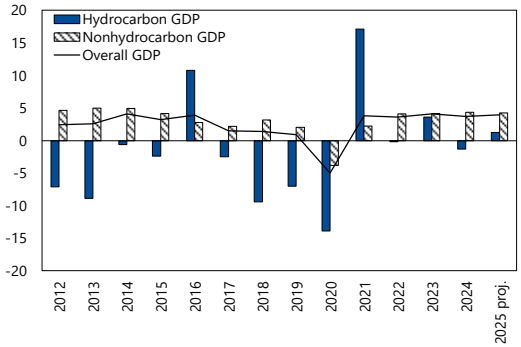
8. The banking sector remained liquid, solvent, and profitable but NPLs were high and sovereign-bank linkages intensified. Bank lending to the government increased by 17 percent in 2025, while credit to the economy grew by 7.7 percent. Capital adequacy remains high, but NPLs are elevated, especially in public banks, half of which are provisioned.

Text Figure 2. Overview of Recent Economic Developments

Growth remained robust in 2025, supported by investment…

Real Growth Rate

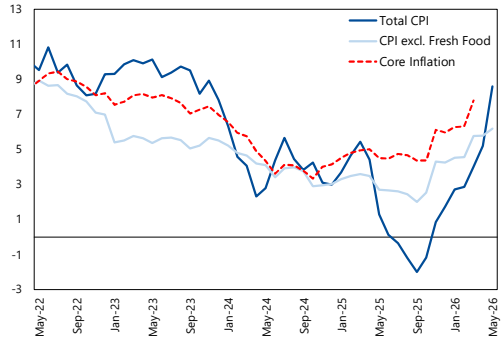
(Percent change, y-o-y)



… inflation accelerated due to significant food and jewelry price increases and technical issues.

Total CPI, CPI excl. Fresh Food, and Core Inflation

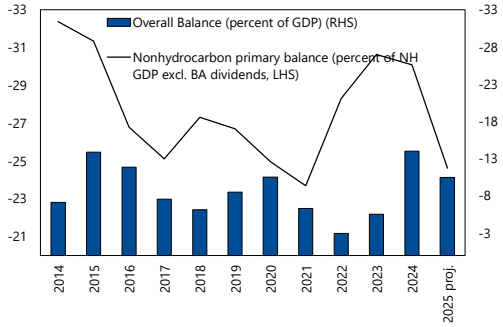
(Percent change, y-o-y)



One-off revenues reduced the deficit in 2025, but it remained very large…

Fiscal Balance

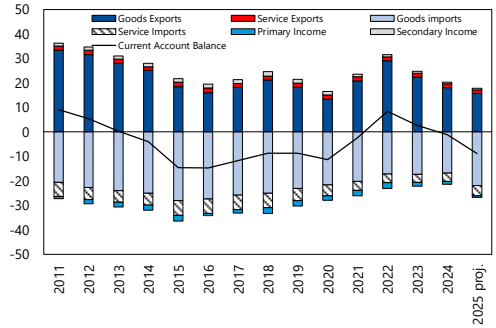
(In percent of GDP)



… while surging imports and lower hydrocarbon exports sharply widened the current account deficit.

Current Account Balance Decomposition

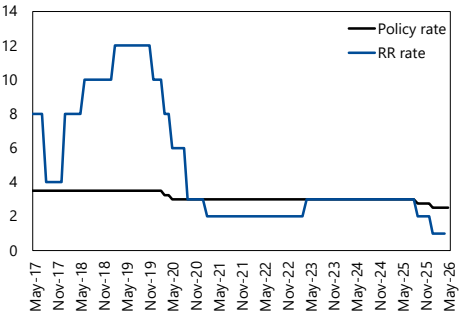
(In percent of GDP)



Monetary policy was eased…

Monetary Policy

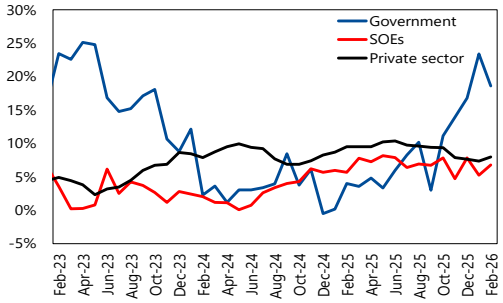
(Percent)



…and rising bank exposure to the government intensified sovereign-bank linkages.

Banks' Lending

(Y-o-y growth)



Source: Algerian authorities; and IMF staff calculations.

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OUTLOOK AND RISKS

9. The hydrocarbon windfall improves the near-term outlook and provides an opportunity to rebuild buffers (Text Table 1). Higher hydrocarbon prices, increased OPEC+ quotas, and strong gas demand are expected to modestly boost hydrocarbon output, although spare production capacity remains limited. This would offset a modest deceleration in nonhydrocarbon activity as the strong 2025 investment impulse moderates, with GDP growth projected to remain robust at 3.8 percent in 2026. Headline inflation is expected to rise to 5.5 percent this year, reflecting base effects, higher food-price assumptions, robust demand, and risks from liquidity conditions and monetary financing. The current account deficit is projected to narrow to 1.9 percent of GDP in 2026 as hydrocarbon prices rise and imports moderate. The fiscal deficit is projected to remain high, at 9.6 percent of GDP, despite higher hydrocarbon revenues, and the nonhydrocarbon deficit is projected to widen.

Text Table 1. Algeria: Macroeconomic and Financial Indicators, 2022–2031

	2022	2023	2024	2025 Est.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.	2031 Proj.
Output and prices				(Annual percentage change)						
Real GDP	3.6	4.1	3.7	3.9	3.8	3.1	3.0	3.0	2.9	2.9
Hydrocarbon sector	-0.2	3.6	-1.3	1.3	2.7	-0.8	-0.1	3.4	1.2	1.2
Nonhydrocarbon sector	4.1	4.2	4.3	4.3	4.0	3.6	3.3	3.0	3.1	3.1
Consumer price index (period average)	9.3	9.3	4.0	1.4	5.5	3.5	3.8	3.8	3.8	3.8
Central government finances				(In percent of GDP)						
Overall balance	-3.0	-5.5	-14.0	-10.5	-9.6	-10.2	-10.0	-9.0	-8.7	-8.7
Gross government debt (excl. guarantees)	48.1	47.7	48.1	52.1	53.2	60.4	66.4	71.2	75.4	79.0
Hydrocarbon revenue 1/	17.7	19.1	11.4	9.8	12.0	10.1	8.8	8.9	8.9	8.7
Nonhydrocarbon revenue	12.1	12.8	12.3	16.5	13.4	13.8	14.0	14.4	14.6	14.7
				(In percent of nonhydrocarbon GDP)						
Nonhydrocarbon balance	-27.7	-30.4	-30.7	-23.8	-26.2	-23.9	-21.9	-20.7	-20.2	-19.9
External sector										
Current account balance (percent of GDP)	8.4	2.6	-1.1	-8.9	-1.9	-2.5	-3.1	-2.6	-2.2	-2.0
Gross official reserves										
In US$ billions	63.5	70.6	68.9	51.0	46.5	41.0	33.4	27.8	23.5	19.8
In months of next year's imports of G&S	14.9	15.6	11.1	8.6	8.1	7.2	5.8	4.8	3.9	3.3
Algerian crude oil price (US$/barrel) 2/	103.9	83.9	82.0	69.4	92.6	82.4	77.7	75.2	73.3	71.8

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Including Sonatrach dividends.
2/ Weighted average of quarterly data.

10. The medium-term outlook depends on reforms to strengthen fiscal sustainability, diversify the economy, and boost private investment. Under the baseline, growth gradually moderates to 2.9 percent over the medium term,[3] as financing constraints restrict public spending and structural bottlenecks constrain productivity and private sector growth. Inflation is projected to decline toward 3.8 percent. As hydrocarbon prices normalize, current account deficits are projected to further erode external buffers, with international reserves declining to US$19.8 billion, or 3.3 months of imports, by 2031. Financing constraints would narrow the

[3] Since the last A-IV, Algeria's long-term growth has been revised up by almost 0.4 percentage points (from 2.5 percent to 2.9 percent) to take into account the authorities reforms implementation and the impact of large investment projects.

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nonhydrocarbon fiscal deficit over the medium term, but the adjustment would be insufficient to stabilize central government debt, which is projected to increase to 79 percent of GDP by 2031.

11. Risks to Algeria's outlook are tilted to the downside (Annex II). The main near-term external risk is heightened hydrocarbon-price volatility. The normalization of energy market conditions could sharply lower hydrocarbon prices, widen fiscal and current account deficits, accelerate reserve losses, and weaken growth relative to the baseline (Annex III). Conversely, higher-than-assumed hydrocarbon prices would strengthen fiscal and external balances. Domestically, persistently large fiscal deficits, and the materialization of contingent liabilities could increase financing pressures and intensify the sovereign-bank nexus, while reliance on monetary financing could undermine price stability and policy credibility. Geoeconomic fragmentation, extreme climate events, and delays in structural reform implementation pose additional downside risks. Upside risks include stronger than expected returns from investment projects, faster diversification, successful fiscal consolidation, and implementation of the government's structural reform agenda.

Authorities' Views

12. The authorities expected stronger medium-term growth and more favorable fiscal and external outcomes than projected under staff's baseline. They expected more robust economic growth (around 4 percent) owing to the implementation of their ambitious reform agenda, including large foundational investment projects and structural reforms. They also expected these investment projects to strengthen nonhydrocarbon exports and import substitution, thereby easing external pressures over time. Fiscal outcomes were also expected to improve after 2028, as major infrastructure projects are completed and their growth and revenue benefits materialize. They did not characterize BA's financing of the government as direct monetary financing, but as investment of BA equity (bond purchases) and temporary financing (BA advance). The authorities noted that fiscal and financial risks—from contingent liabilities and sizable financing needs—are closely monitored and managed.

POLICY DISCUSSIONS[4]

Near-term priorities are to initiate credible and gradual fiscal consolidation, use the hydrocarbon windfall to rebuild fiscal buffers, limit monetary financing to exceptional circumstances, tighten monetary policy if broader inflationary pressures accelerate, allow greater exchange-rate flexibility, reduce the parallel market premium, and monitor financial-sector risks. Medium-term priorities include strengthening the fiscal and monetary frameworks, reducing risks from the sovereign–SOE–SOB linkages, and advancing structural reforms to support a gradual shift toward sustainable, private-sector-led growth.

[4] Algeria's implementation of past IMF recommendations has been uneven (see Annex I).

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A. Fiscal Policy

13. Large fiscal deficits pose significant financing and fiscal sustainability risks despite higher hydrocarbon revenue and underscore the urgency of beginning fiscal adjustment while conditions remain favorable. Despite higher hydrocarbon revenue, staff projects the overall fiscal deficit to remain elevated in 2026 at 9.6 percent of GDP (Text Figure 3), as the large one-off dividends received in 2025 normalize. With the FRR depleted the budget is expected to continue relying substantially on BA financing, including advances (4.5 percent of GDP) and Treasury bond purchases (1.4 percent of GDP), increasing financing and macroeconomic risks. The authorities have taken welcome steps to diversify financing sources, including the successful issuance of sovereign Sukuk in early 2026 and prospective AfDB financing for a large infrastructure project, but budget financing is expected to remain mainly domestic over the coming years. Financing from other public entities is expected to decline over the medium term, adding to financing challenges.

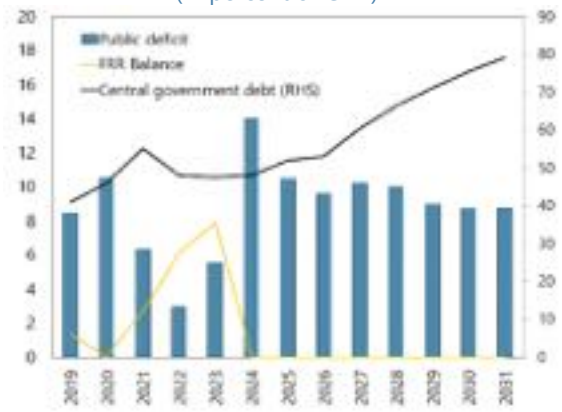
14. Algeria's risk of sovereign stress remains "High" reflecting depleted fiscal buffers, large financing needs, and a debt path that does not stabilize over the projection period. The Sovereign-Risk Debt Sustainability Analysis assesses Algeria's risk of sovereign stress as "High", broadly unchanged from the 2025 assessment. Over the medium term, the revenue-to-GDP ratio is expected to decline due to lower hydrocarbon revenues only partly offset by higher nonhydrocarbon revenues. Expenditure as a ratio of GDP is also projected to decline as major investment projects are completed, although rising interest payments offset part of the reduction in non-interest spending. The resulting reduction in the deficit would be insufficient to stabilize debt that is projected to reach about 79 percent of GDP by 2031. Continued large financing needs, volatile hydrocarbon revenues, and limited fiscal buffers keep medium term risks elevated and constrain the capacity to respond to shocks (Annex V).

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Text Figure 3. Fiscal Policy Developments, 2019–2031

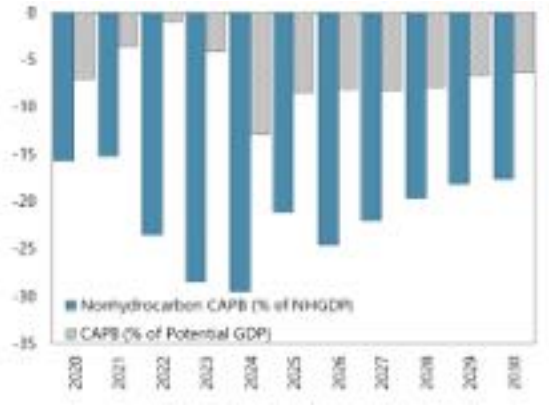
Large deficits are projected to keep central government debt rising under the baseline…

Central Government Debt and Overall Deficit
(In percent of GDP)



…despite some gradual fiscal tightening over the medium term.

Cyclically Adjusted Primary Balances



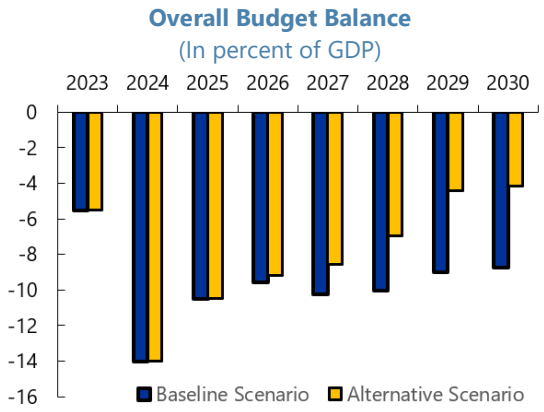
Sources: Algerian authorities; and IMF staff estimates and projections.

15. A credible and gradual fiscal consolidation is needed to stabilize the debt trajectory over the medium term. With depleted fiscal buffers, rising debt, and declining international reserves—partly reflecting the increase in imports associated with large public investments—fiscal consolidation should begin in 2026 and be anchored in a credible medium-term strategy. While the baseline scenario already forecasts consolidation of about 3 percentage points of NHGDP over 2026–29, staff estimates that additional measures of about 5 pp of NHGDP (4.5 pp of GDP) over 2026-29 would be needed to stabilize debt at about 63 percent of GDP by 2029 (Annex VIII and Text Figure 4). Together with ongoing efforts to diversify budget financing sources, the adjustment would alleviate financing pressures and slow the erosion of external buffers. Central bank financing of the government should be limited to exceptional circumstances, while financial operations similar to the 2021 *Programme Spécial de Refinancement* (PSR) should be avoided as these undermine the BA's independence, credibility, and ability to maintain price stability.

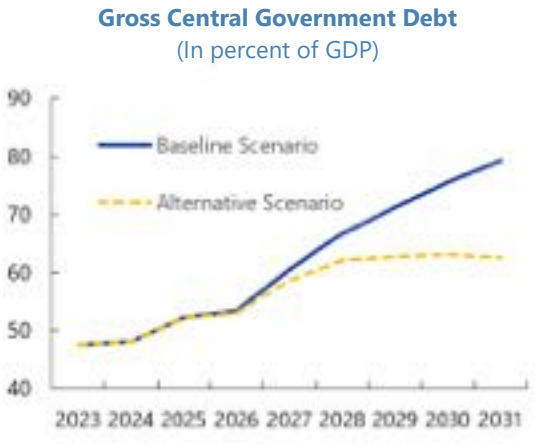
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Text Figure 4. Impact of Additional Fiscal Measures on Fiscal Balances and Central Government Debt, 2021–2030
(In percent of GDP)

Additional fiscal adjustment of 5 pp. of NHGDP over 2026–2029 would lower the fiscal deficit…



…and stabilize the central government debt at about 63 percent of GDP.



Source: IMF staff estimates and projections.

16. The consolidation strategy should combine nonhydrocarbon revenue mobilization and expenditure rationalization while protecting vulnerable households and priority spending. Revenue measures estimated at about 1.5 pp of NHGDP, could include rationalizing VAT exemptions, reducing tax expenditures from investment incentives, reforming mining taxation, strengthening tax debt recovery, and building on ongoing tax administration efforts and digitalization reforms to improve compliance. Measures to reduce informality through digitalization, stronger controls, and reform of the simplified tax regime would further support revenue mobilization (see Box 1). Spending measures at about 3.5 pp of NHGDP could include better targeted social benefits, limiting transfers to SOEs, and prioritization of public investment based on project readiness, returns, and implementation capacity. Gradual energy subsidy reform, as first envisaged in the 2022 Budget Law, accompanied by well-targeted compensation for vulnerable households, could generate additional sizable fiscal savings over time.[5]

17. Over the medium term, a rules-based framework would strengthen budget resilience and support the rebuilding of buffers. A dual-pillar fiscal framework combining a debt anchor with a minimum FRR savings floor could support debt sustainability and reduce procyclicality. The updated calibration points to the need for larger buffers than estimated in the 2022 Article IV, reflecting the deterioration in the fiscal position and depletion of fiscal savings

[5] The IMF Macroeconomic Climate Indicators dashboard reports that in 2025, cost recovery fuel subsidies represented 8.2 percent of GDP according to IMF estimates (https://climatedata.imf.org/pages/access-data).

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(see Box 2).[6] Given the current starting point, transition toward the framework would need to be gradual to avoid a sharp and rapid consolidation, with staff's proposed path serving as an initial step.

18. Ongoing public financial management reforms provide a basis for strengthening budget credibility and fiscal transparency. The implementation of the Organic Budget Law and Accounting Law has advanced, including through performance-based budgeting in pilot ministries, the issuance of guidance to better train budget actors and the gradual transition toward accrual accounting. The planned integrated financial management information system (FMIS) would help strengthen budget management, although its deployment has been delayed. Further reforms in budget preparation are needed to align budget allocations with execution capacity, limit unallocated expenditure credits, and develop the financing plan envisaged for Annex D of Budget Law. Publishing in-year budget execution reports and providing regular updates on extrabudgetary entities and SOE financial statements would improve fiscal transparency and support cash and debt management.

19. Fiscal risks are well identified, but their monitoring and integration into the budget framework remain fragmented. Risks related to hydrocarbon price volatility, government guarantees, pension system deficits, SOEs and SOBs, large investment projects, debt management, and climate change have been identified, but are not yet monitored through a unified framework. Building on the authorities' work, a more coordinated approach could include a comprehensive fiscal risk dashboard, stronger monitoring of SOE-related risks, and systematic integration of fiscal risk analysis into the medium-term fiscal framework and budget preparation.

[6] The framework combines a debt anchor with an FRR savings floor to support fiscal sustainability and buffer hydrocarbon price shocks. Updated estimates imply an aggregate fiscal buffer of 45.6 percent of GDP, to adequately strengthen budget resilience, an increase from 2022 estimates of 31 percent.

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Box 1. Reducing Informality in Algeria: A Multi-Pillar Strategy

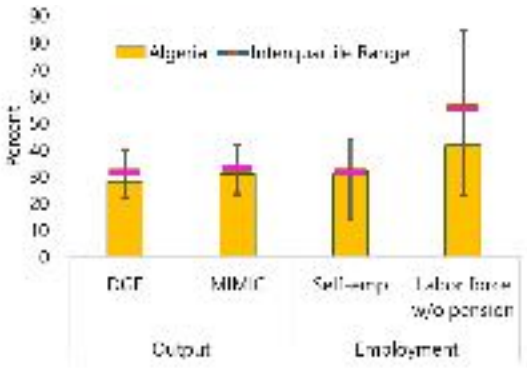
Informality remains an important structural challenge in Algeria, limiting revenue mobilization, productivity growth, and access to social protection. While Algeria's estimated level of output informality is broadly in line with the EMDE average (Box 1, Figure 1), a large share of workers and firms continue to operate outside formal arrangements, narrowing the nonhydrocarbon tax base and weakening policy effectiveness.

Cross-country evidence suggests that development, governance, competition, labor taxation, and public-service delivery are important correlates of informality. Recent reforms, including simplifying tax regimes extension, digitalization, stronger compliance, reduced cash use, and expanded employment-protections aimed at strengthening incentives for formalization.

Reducing informality will require a sequenced, multi-pillar reform strategy that lowers the costs and increases the benefits of formality while strengthening compliance. On the firm side, priorities include improving simplified tax regimes, enhancing VAT compliance, and continuing reforms in digitalization, governance, the business environment and financial inclusion. Simplified regimes should provide an entry point into formality while encouraging firms to graduate progressively to the standard tax system as their capacity develops.

On the worker side, Algeria's relatively high labor tax wedge contributes to a sizable cost of formalization (Box 1, Figure 2). Better-targeted social assistance, a stronger link between social contributions and benefits, and targeted reductions in the labor tax wedge for low-wage and newly formalized workers could strengthen incentives for formal employment. Illustrative TaxFit simulations suggest that lowering PIT rates in selected lower taxable brackets, while maintaining a zero-rate bracket, would reduce the measured in-year cost of formalization and bring it closer to the EM average (Box 1, Figure 2).

Box 1. Figure 1. Informality: Output and Employment Indicators

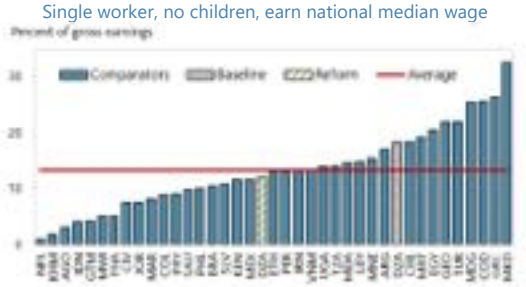


Source: World Bank Informal Economy Database
Note: The chart reports Algeria's 2019 values against the interquartile range of the relevant cross-country sample. DGE and MIMIC are model-based estimates of informal output as a share of official GDP. "Labor force without pension" refers to employees without social-security coverage.

Box 1. Figure 2. Illustrative Impact of Lower PIT Rates on the Cost of Formalization

Change in After-Tax Income when Formalizing at the same Level of Earnings

Single worker, no children, earn national median wage



Source: IMF Staff Calculation from Taxfit model simulations.
Note: The simulation assumes that PIT rates are reduced from 8 percent to 23 percent for the second bracket, from 27 percent to 15 percent for the third bracket, and from 30 percent to 25 percent for the fourth bracket. Income thresholds remain unchanged.

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Text Table 2. Algeria: Alternative Fiscal Scenario (With Central Government Debt Stabilization), 2025–2029

	2025	2026	2027	2028	2029	Δ2025–29
	(In percent of GDP, unless otherwise indicated)					
Baseline Scenario						
Total revenue	**26.3**	**25.4**	**23.9**	**22.8**	**23.3**	**-3.0**
Nonhydrocarbon revenue (% Nonhydro GDP)	19.3	16.3	16.2	16.3	16.7	-2.6
Nonhydrocarbon tax revenue (% Nonhydro GDP)	13.2	13.4	13.2	13.3	13.7	0.4
Total expenditure	**36.8**	**35.0**	**34.1**	**32.8**	**32.3**	**-4.5**
Total expenditure (% Nonhydro GDP)	43.0	42.5	40.1	38.2	37.4	-5.7
Current expenditure (% Nonhydro GDP)	30.9	30.2	29.5	28.6	28.3	-2.5
o.w. Transfers (% Nonhydro GDP)	15.6	14.6	13.7	12.9	12.7	-3.0
Capital expenditure (% Nonhydro GDP)	12.1	11.0	9.3	8.3	7.8	**-4.4**
Overall balance	**-10.5**	**-9.6**	**-10.2**	**-10.0**	**-9.0**	**1.5**
Nonhydrocarbon balance (% Nonhydro GDP)	-23.8	-26.2	-23.9	-21.9	-20.7	3.1
Gross government debt	**52.1**	**53.2**	**60.4**	**66.4**	**71.2**	**19.1**
Policy Scenario						
Total revenue	**26.3**	**25.4**	**24.4**	**23.7**	**24.7**	**-1.6**
Nonhydrocarbon revenue (% Nonhydro GDP)	19.3	16.3	16.7	17.3	18.2	-1.1
Nonhydrocarbon tax revenue (% Nonhydro GDP)	13.2	13.4	13.7	14.3	15.2	1.9
Total expenditure	**36.8**	**34.6**	**32.9**	**30.7**	**29.3**	**-7.5**
Total expenditure (% Nonhydro GDP)	43.0	42.0	38.7	35.8	33.9	-9.1
Current expenditure (% Nonhydro GDP)	30.9	30.2	28.9	27.2	26.2	-4.7
o.w. Transfers (% Nonhydro GDP)	15.6	14.6	13.0	11.5	10.5	-5.1
Capital expenditure (% Nonhydro GDP)	12.1	10.5	8.5	7.3	6.5	-5.7
Overall balance	**-10.5**	**-9.2**	**-8.5**	**-7.0**	**-4.5**	**5.9**
Nonhydrocarbon balance (% Nonhydro GDP)	-23.8	-25.8	-22.0	-18.5	-15.7	8.0
Gross government debt	**52.1**	**52.8**	**58.6**	**62.0**	**62.7**	**10.7**
Additional fiscal measures (% Baseline NHGDP)		**0.5**	**1.5**	**1.5**	**1.5**	**5.0**
Nonhydrocarbon tax revenue			0.5	0.5	0.5	**1.5**
Transfers			0.7	0.8	0.7	**2.2**
Capital expenditure		0.5	0.3	0.2	0.3	**1.3**

Source: IMF staff estimates and projections.

Authorities' Views

20. The authorities acknowledged the risks associated with elevated deficits but noted that they do not intend to implement a sizable consolidation in the short term, as completing foundational investment projects remains a priority. They pointed to significant efforts to increase public administration digitalization, which they expect will improve tax compliance, transaction traceability and enforcement, and the targeting of social benefits. They are also advancing initiatives to support tax debt recovery, assess tax expenditures, and pursue efforts to reduce informality and broaden the tax base, including through outreach campaigns to raise awareness of the benefits of formalization and facilitate business registration. They were also considering reforms to the simplified tax regime. They also highlighted that a planned Tax Administration Diagnostic Tool (TADAT) assessment would help identify areas of further improvement. Regarding spending, the authorities highlighted efforts to assess and prioritize large investment projects to improve public investment efficiency. Over the medium term, they expected the growth dividends from large infrastructure and mining projects to significantly boost revenue and help alleviate fiscal sustainability risks.

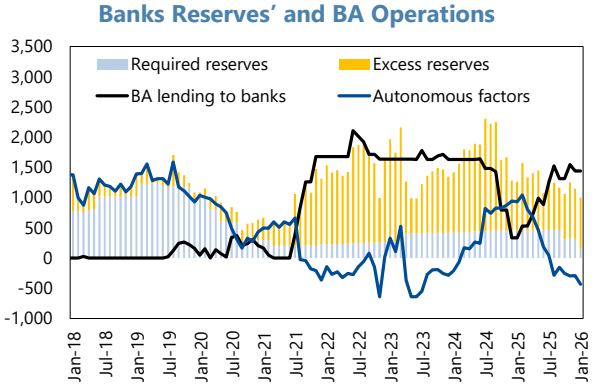
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B. Monetary and Exchange Rate Policies

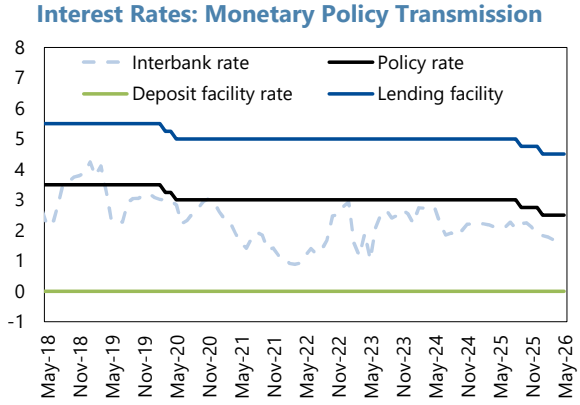
21. The BA should tighten monetary policy if broader inflationary pressures accelerate. Inflation picked up significantly in the second half of 2025 driven mainly by food and jewelry prices, although the large weight of jewelry and the outdated CPI basket complicate the assessment of underlying inflation. Inflation is expected to remain elevated in 2026, reflecting base effects, higher food-price assumptions, robust demand, and risks from liquidity conditions and monetary financing. The monetary policy stance is assessed to be broadly neutral (Annex X). Given uncertainty about the breadth and persistence of inflationary pressures, the BA should monitor closely inflation developments and tighten monetary policy if broader inflationary pressures accelerate. The BA should improve its liquidity management operations (Figure 5), which would help keep the interbank rate closer to the policy rate and improve monetary policy transmission.

Text Figure 5. Bank Liquidity and Monetary Policy Instruments

Bank liquidity has declined but remains unevenly distributed….



…while the interbank rate remains below the policy rate



Sources: Algerian authorities; and IMF staff calculations.

22. The BA should limit monetary financing and adopt a gradual, transparent approach to unwind its government bond holdings. The large purchase of government bonds in 2025 and further monetary financing in early 2026 weaken BA's operational independence, complicate liquidity management, and impair its ability to maintain price stability. The BA should gradually and transparently unwind its holdings of government bonds, including by ceasing new purchases, allowing bonds to mature without reinvestment, and supporting domestic bond market development to attract a more diverse investor base.

23. Greater exchange rate flexibility would strengthen the dinar's role as a shock absorber and help limit exchange rate misalignment and reduce the very high parallel market premium. The nominal effective exchange rate (NEER) and the real effective exchange rate (REER) have depreciated somewhat (3.3 percent) over the past year. Against the backdrop of

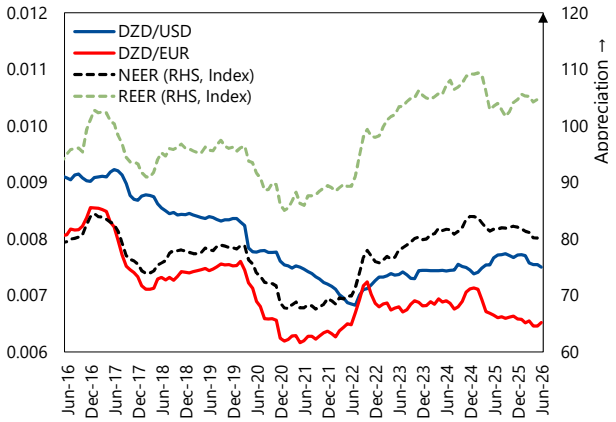
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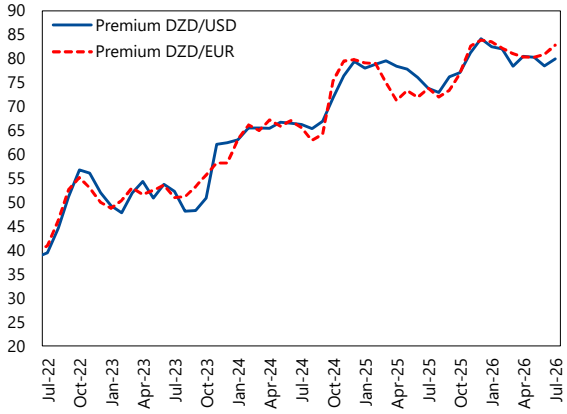
the sharp current account deterioration in 2025, the External balance Assessment (EBA) indicates that Algeria's external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies (Annex IV). The model implies a sizable REER overvaluation, although the estimated magnitude, about 30 percent, should be interpreted carefully given the import surge and the 2026 terms-of-trade shock. A widening of the daily buy/sell exchange rate band (currently +/- 0.15 DZD/USD) will support shock absorption, interbank FX market development, diversification, and monetary policy transmission.

Text Figure 6. Effective Exchange Rates and the Parallel Market Premium

The NEER and REER appreciated from mid-2022, helping to curb imported inflation, before depreciating modesty more recently…

…while the parallel market premium widened to 80 percent in early 2026.





Sources: Algerian authorities; and IMF Staff estimates.

24. Reducing the parallel market premium remains a key policy priority. The premium rose from an average of about 68 percent in 2024 to around 80 by April 2026. Recent measures increased FX allowances and subsequently tightened the modalities.[7] The premium likely reflects a combination of macroeconomic pressures and external shocks, still-loose macroeconomic policies, import compression, as well as demand associated with informal and other transactions. Reducing the premium will require a tighter macroeconomic policy mix, greater exchange rate flexibility, and reduced import compression. The BA should continue to ensure that sufficient foreign exchange is available for current international transactions, in line with IMF Article VIII obligations. Forthcoming IMF LEG/MCM TA will support the authorities' review and streamlining of the FX regulatory framework and help provide the authorities with a roadmap of reforms.

25. The BA has made progress in modernizing its monetary policy operations and strengthening its analytical capacity. The liquidity management framework was strengthened,

[7] In 2025, the BA raised the FX allowance for travel abroad from 100 euro to 750 euro per person per year. More recently, the modalities for accessing the travel allowance were modified through card-only use, advance payment through the banking system, and additional documentation requirements.

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and the BA has significantly improved its capacity in macroeconomic forecasting and policy analysis with support of the IMF under the Forecasting and Policy Analysis System (FPAS).

26. The effectiveness of the monetary policy framework can be enhanced by establishing a clear nominal anchor, strengthening BA's operational independence, and improving monetary operations. Algeria's monetary policy framework would benefit from having low inflation as a clear nominal anchor, to better guide expectations and improve policy effectiveness. The authorities should limit central-bank financing of the government to exceptional circumstances and clarify the modalities and strengthen the safeguards, including the definition on "exceptional circumstances" to protect the BA's operational independence. Further efforts are also needed to bring the interbank rate closer to the policy rate, strengthen monetary transmission, and advance the implementation of the FPAS, with IMF support.

Authorities' Views

27. The authorities agreed that monetary policy should be tightened if broader inflation pressures accelerate. They considered underlying inflationary pressures to be limited, as inflation reflected significant increase in jewelry prices and a moderate increase in food prices. They also agreed on the importance of avoiding monetary financing. While acknowledging the exchange rate's role as a shock absorber, the authorities emphasized that external stability depends on a broader policy mix, including fiscal policy. Regarding the parallel exchange rate premium, the authorities did not consider import compression to be a principal driver, pointing to the surge in imports in 2025. They viewed the parallel market as relatively small and largely associated with tax avoidance and unlawful transactions. They considered that stronger enforcement under the enhanced AML/CFT framework may have shifted some transactions previously conducted through formal channels toward the parallel market. They also highlighted the recent increases in FX allowances and welcomed forthcoming IMF technical assistance on the FX regulatory framework.

C. Financial Sector Policies

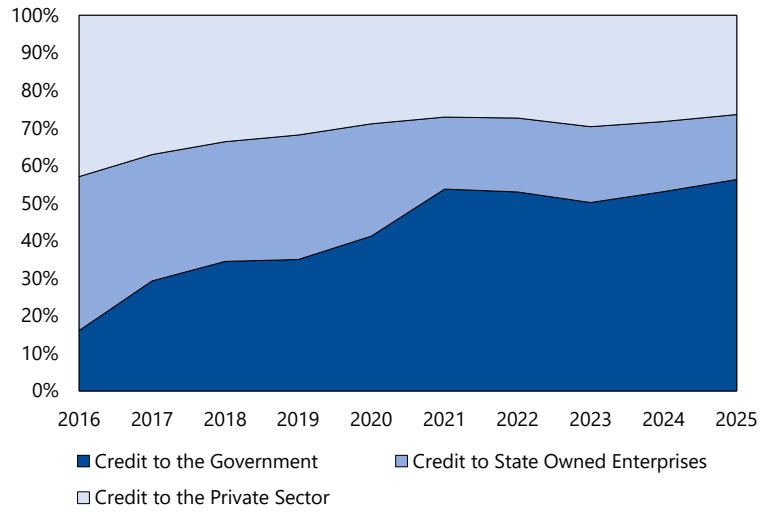
28. Close monitoring of banks and continued enforcement of prudential requirements are critical to contain financial sector risks. Banks appear well capitalized, with a Tier 1 CAR of 20 percent, and profitable, with ROE of 14.1 percent and ROA 1.7 percent. However, NPLs remain high at 20 percent, while provisioning is relatively low at 51 percent. Continued monitoring of individual banks' liquidity and solvency positions, enforcement of prudential requirements, stronger provisioning, and progress in NPL resolution would help contain vulnerabilities.[8]

[8] An Algerian bank regulation makes it effectively impossible to collect on a loan which has been written off. For this reason, banks tend to hold legacy NPLs on their balance sheets.

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29. The links between banks, SOEs, and the government have increased, warranting close monitoring by the BA. Algeria's six largest banks are state-owned banks and account for close to 90 percent of loans and deposits. Public banks perform important policy functions, including financing housing, youth employment programs, and SOEs (see 2023 Article IV). Bank credit remains concentrated on the government and SOEs (Text Figure 7), with the government's large financing needs increasing these exposures (Text Figure 8). These interlinkages can transmit stress across balance sheets, affecting financial stability, debt sustainability, and private sector credit. High NPLs compound these vulnerabilities.

Text Figure 7. Credit to the Government, SOEs, and the Private Sector
(Percent of total credit)



Sources: Algerian authorities; and IMF staff estimates.

30. Further reforms are needed to reinforce financial stability, help contain risks from the sovereign-SOE-SOB nexus, and support financial deepening. With support from IMF TA, Algeria recently strengthened banking regulations on loan classification, provisioning, large exposures, solvency ratios, and capital definition, bringing them into alignment with Basel III. Continued implementation of the Monetary and Banking Law and the remaining FSSA recommendations—including on stronger supervision, crisis and liquidity management, NPL resolution, stress testing, public bank governance, financial inclusion, and financial stability reporting—would further reinforce financial stability and financial deepening.

31. Algeria's swift removal from the FATF list of jurisdictions under increased monitoring is an important achievement, reflecting strong commitment and substantial institutional efforts (Box 2). Implementation of the FATF Action Plan strengthened the understanding of money-laundering and terrorist-financing risks, beneficial-ownership transparency, and risk-based supervision. Continued effective implementation of the strengthened AML/CFT framework and efforts to address remaining priorities from the 2023 MENAFATF Mutual Evaluation Report would help consolidate this progress.

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Box 2. Algeria's Removal from the FATF Grey List

Algeria's AML/CFT framework was assessed by the Middle East and North Africa Financial Action Task Force (MENAFATF) against the FATF Standards in 2022.[1] The resulting Mutual Evaluation Report, published in May 2023, highlighted serious deficiencies in the legal framework and low levels of effectiveness in several key areas.

As a result, in October 2024, Algeria was added to the FATF's list of jurisdictions under increased monitoring (the FATF grey list) and agreed to an 18-item Action Plan. Key measures included improving risk-based supervision, especially for higher money laundering and terrorist financing (ML/TF) risk sectors; enhancing transparency over basic and beneficial ownership information of legal persons and arrangements; strengthening suspicious transaction reporting; establishing an effective legal and institutional framework for targeted financial sanctions related to terrorist financing; and implementing a risk-based approach to oversight of non-profit organizations, without disrupting or discouraging legitimate activity.

Algeria's Action Plan was due to be completed by May 2026. In February 2026, the FATF determined that, all actions had been largely addressed. Following an onsite visit in April 2026, the FATF delegation concluded that Algeria had demonstrated the high-level political commitment and institutional capacity needed to sustain implementation. In June 2026, Algeria was removed from the grey list, less than two years after its listing—an important achievement reflecting substantial reform efforts and strong interagency coordination.

IMF technical assistance supported the authorities' efforts, particularly in strengthening the Bank of Algeria's risk-based AML/CFT supervision and developing the framework for a beneficial-ownership registry. Continued effective implementation of the reforms, including further strengthening risk-based supervision and beneficial-ownership transparency, would help consolidate this progress and address remaining MENAFATF recommendations.

[1] The Mutual Evaluation Report was published in May 2023, summarizing the AML/CFT measures in place in Algeria at the time of an onsite visit from July 24 to August 10, 2022.

Authorities' Views

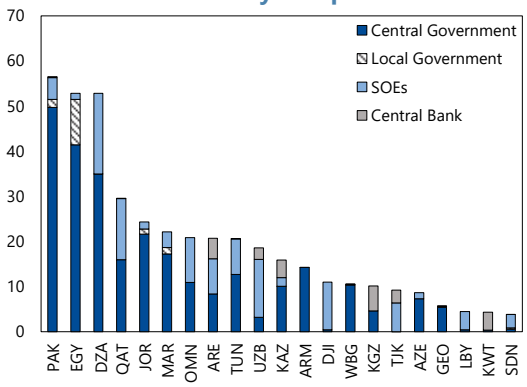
32. The authorities recognized the importance of enhancing regulation and supervision to support financial stability. They emphasized that banks are well capitalized, profitable, and liquid, and acknowledged some of the limitations in the NPL resolution framework. They were less concerned than staff about the elevated NPLs and SOB exposures to the government, citing the domestic nature of government debt, state ownership of the major banks, government guarantees on some public-bank claims, and close monitoring of these exposures. They noted that the high NPL ratio in public banks partly reflects legacy loans that are guaranteed by the government but have not been fully provisioned or written off in line with current regulations. They are continuing to clarify policy frameworks for payment-service providers, Islamic financing, and emergency liquidity assistance.

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Text Figure 8. Bank Exposure to the Public Sector
(In percent of total assets)

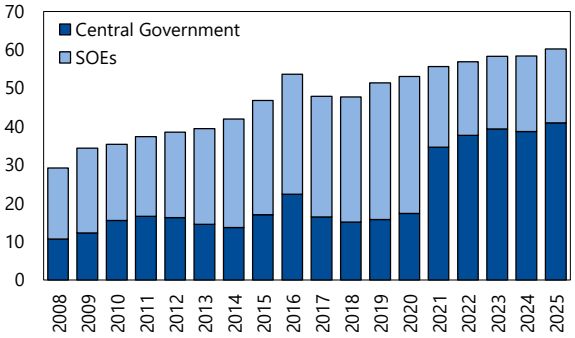
Algerian Banks have high public sector exposures compared with peers…

Exposure of Banks to the Public Sector: Cross-Country Comparison



…and these exposures have increased, heightening risks from the sovereign–SOE–SOB nexus.

Evolution of the Public Sector-Bank "Nexus" in Algeria 2008–2024



Sources: Algerian authorities; and IMF Staff estimates.

D. Structural Reforms to Promote Growth

33. Continuing reforms to improve business environment and governance would help translate investment and diversification efforts into stronger productivity and private-sector-led growth. Recent Investment and Land Laws, the development of the AAPI one-stop shop, and measures to streamline investment procedures and support innovation provide an important foundation. Complementary reforms should focus on strengthening competition, leveling the playing field between SOEs and private firms, improving product- and labor-market flexibility, supporting formal job creation, and deepening financial inclusion.[9] Algeria's geographical position and role as an energy exporter could support stronger regional integration—particularly through deeper trade and energy linkages with Europe and Africa.

34. Diversification is progressing, and the strategy could be broadened to support competitive, export-oriented, and lower-carbon nonhydrocarbon sectors. The authorities have focused their efforts on large mining projects, supported by the adoption of a new Mining Law in 2025, and on energy-intensive industries such as cement, fertilizers, and iron and steel. However, these industries are exposed to the EU Carbon Border Adjustment Mechanism (CBAM), which became effective in 2026 and could raise costs for some carbon-intensive exports to the EU, although the estimated effects are highly uncertain and vary across sectors (Annex XIII). The authorities are scaling up renewable-energy provision, and the hydrocarbon sector has established ambitious emissions-reduction objectives for 2030. The authorities are also

[9] Annex VII highlights that Algeria's nonhydrocarbon growth has largely relied on factor accumulation (extensive growth) rather than productivity gains and technology adoption.

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considering carbon taxation and have requested Fund TA to support this work. Broadening diversification toward less carbon intensive activities, while improving energy efficiency and emissions monitoring in existing industries, would help strengthen resilience to the low-carbon transition.

35. Recent steps provide a basis for further strengthening economic governance and transparency. The continued implementation of the 2023 national strategy to prevent and combat corruption, including through the launch of digital platforms for whistleblower reporting and asset declaration, and the Parliament's adoption of the Procurement Law are welcome steps. Further progress could focus on increasing transparency, especially in the hydrocarbon and SOEs sectors, strengthening the capacity of anti-corruption institutions, including the HATPLC, to implement the national strategy and verify asset declarations, and strengthening fiscal revenue and expenditure management.

36. Improving the coverage, timeliness, and quality of statistics is essential to enhance transparency and better inform policy making. Key data are either missing or significantly outdated, including labor market data and the CPI, while budget execution, and more recently, national accounts data have been subject to delays, creating shortcomings that somewhat hamper surveillance. Limited institutional coverage of government finance statistics hinders fiscal risk assessment, while financial monitoring would benefit from timelier and more granular FSIs (Annex XII). The ONS has requested IMF technical assistance to update the CPI, improve household survey frequency and address other statistical weaknesses.

Authorities' Views

37. The authorities underscored their strong commitment to promoting economic diversification and strengthen governance. They highlighted their ongoing efforts to promote investment, including by developing the AAPI one-stop shop, providing fiscal incentives, and facilitating land access for investment in strategic sectors. They emphasized that large foundational investments support diversification, expand productive capacity, and are expected to generate growth and export dividends over time. They also noted that ensuring energy security and establishing Algeria as a reliable supplier remain key priorities. They acknowledged the need to strengthen governance and pointed to Algeria's removal from the FATF grey list as evidence of their commitment and institutional capacity to implement reforms. They also highlighted ongoing investments in renewable energy and efforts to lower emissions in the hydrocarbon sector.

STAFF APPRAISAL

38. Algeria's public-investment-led strategy has supported the post-pandemic rebound but created significant fiscal and external vulnerabilities. The authorities are pursuing large foundational investment projects, import substitution, and nonhydrocarbon export-promotion policies, combined with structural reforms to achieve their growth, resilience, and diversification

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objectives. However, continued dependence on hydrocarbon revenue and public spending has created fiscal and external vulnerabilities, depleted buffers, and narrowed room for policy maneuvering.

39. Robust growth in 2025 was accompanied by higher inflation and large fiscal and current account deficits. Real GDP growth is estimated at 3.9 percent in 2025. Inflation has picked up significantly since the second half of 2025, although the outdated CPI basket and the large contribution from jewelry and food prices complicate the assessment of broader inflationary pressures. The fiscal deficit remained large, despite sizable dividends from SOEs and the BA. Monetary conditions eased alongside increased central bank financing of the government. The large current account deficit led to a sharp decline in international reserves.

40. Near-term prospects remain broadly positive, although the erosion of fiscal and external buffers weighs on the outlook. Higher hydrocarbon prices are expected to boost export and fiscal revenues. GDP growth is projected to remain robust at 3.8 percent in 2026. Inflation is projected to increase. The fiscal deficit is projected to remain high, with continued monetary financing, while the current account deficit is projected to narrow on the back of higher hydrocarbon prices and lower imports. Over the medium term, growth is expected to moderate, while continued large fiscal deficits would raise public debt and current account deficits would further reduce reserves. Inflation is expected to decelerate as the base effects dissipate. The outlook depends on reforms to strengthen fiscal sustainability, diversify the economy, and boost private investment.

41. Large deficits pose significant fiscal sustainability risks and underscore the urgency of rebuilding buffers and stabilizing debt. The authorities should begin a credible and gradual fiscal consolidation, use the higher hydrocarbon revenue to rebuild buffers, diversify financing sources, and limit monetary financing. Additional fiscal measures of about 5 percent of nonhydrocarbon GDP over 2026–29, relative to the baseline, would be needed to stabilize debt. The adjustment should combine stronger nonhydrocarbon revenue mobilization, gradual energy subsidy reform accompanied by targeted compensation for vulnerable households, better targeted social benefits, lower transfers to SOEs, and more efficient public investment.

42. The BA should tighten monetary policy if broader inflationary pressures accelerate. The monetary policy framework should be enhanced by establishing low inflation as a clear nominal anchor, strengthening the BA's operational independence, limiting central bank financing of the government to exceptional circumstances, and improving monetary operations and policy transmission.

43. Reducing the parallel market exchange rate premium remains an important policy priority. This will require a tighter macroeconomic policy mix, greater exchange rate flexibility, reduced import compression, and ensuring that sufficient foreign exchange is available for current international transactions, in line with IMF Article VIII obligations. Greater exchange rate flexibility is also needed to strengthen shock absorption, diversification, and monetary policy transmission, and to help develop the FX interbank market. Staff will continue to engage with the

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authorities to ensure compliance with Article VIII obligations. Forthcoming IMF LEG/MCM technical assistance will support the authorities' review and streamlining of the FX regulatory framework.

44. Continued reforms would reinforce financial stability and help contain risks from the sovereign-SOE-SOB nexus. Algeria has taken steps to strengthen banking regulations on loan classification, provisioning, large exposures, solvency ratios, and capital definition, now aligned with Basel III. Priorities include further strengthening supervision, crisis and liquidity management, stress testing, public bank governance, and NPL resolution, together with continued implementation of the 2020 FSAP recommendations and the new Monetary and Banking Law.

45. Algeria's removal from the FATF list of jurisdictions under increased monitoring less than two years after its listing is a major achievement. Continued effective implementation of the strengthened AML/CFT framework would help consolidate the progress achieved and address remaining MENAFATF priorities.

46. Diversification is progressing, but deeper reforms are needed to support stronger, more resilient, private sector-led growth. Priorities include improving the business climate, leveling the playing field between SOEs and the private sector, and reducing regulatory barriers and informality. Algeria's geographical position and wealth of energy resources provide opportunities to deepen trade and energy linkages with Europe and Africa.

47. Recent reforms provide a basis for further strengthening economic governance and transparency. Further progress should focus on increasing transparency, particularly in the hydrocarbon and SOE sectors, and strengthening fiscal revenue and expenditure management.

48. Improving the coverage, timeliness and quality of statistics remains important to support surveillance and policy design. Data provision, including for CPI, National Accounts, and budget execution, has some shortcomings that somewhat hamper surveillance. IMF technical assistance can support ongoing improvements.

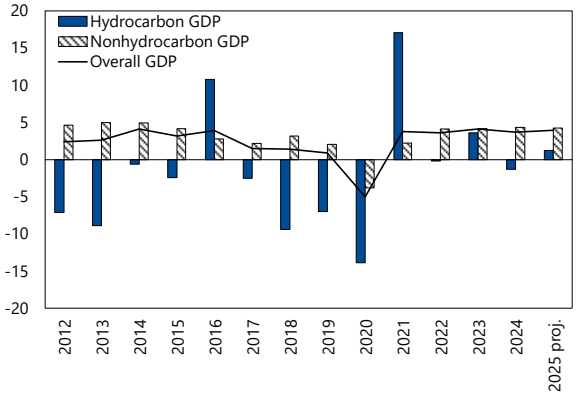
49. It is expected that the next Article IV consultation will take place on the standard 12-month cycle.

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Figure 1. Real Sector Developments

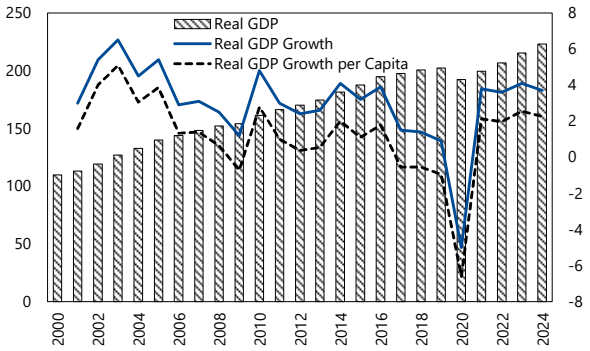
Nonhydrocarbon growth remained robust...

Real Growth Rate
(Percent change, y-o-y)



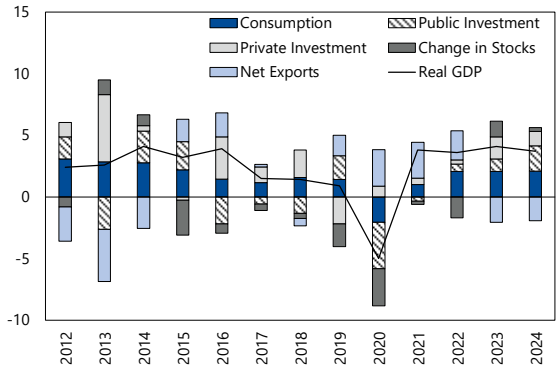
...but rapid population growth has kept GDP per capita gains modest.

Real GDP and Growth of Real and Real GDP per Capita
(Constant 2015 USD bn, percent change RHS)



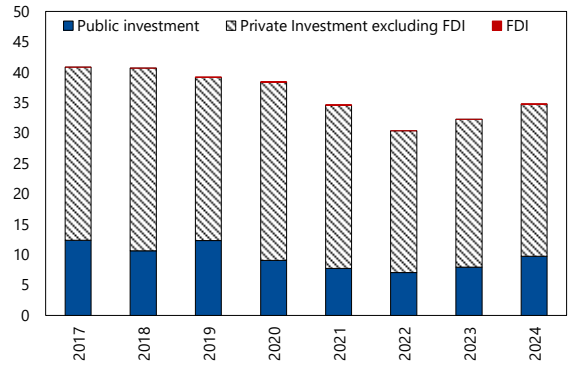
Consumption and investment supported growth in 2024...

Contributions to Real GDP
(Demand side, y-o-y percent change)



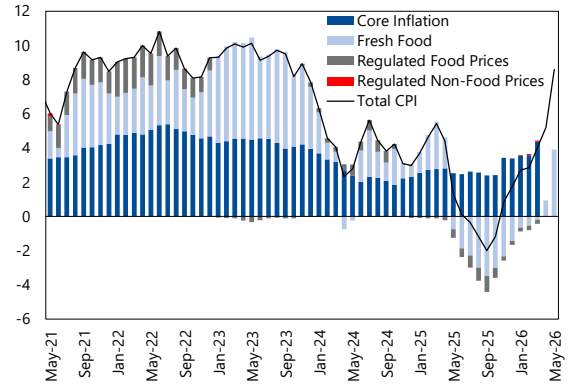
...with public spending driving much of the rise in investment.

Investment
(In percent of GDP)



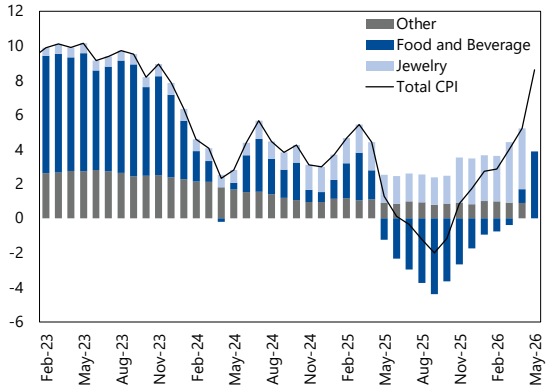
Inflation picked up significantly as food deflation subsided and core inflation accelerated somewhat.

Contributions Inflation
(Y-o-y percent change)



Excluding food and jewelry, there is limited inflation.

Contributions Inflation
(Y-o-y percent change)



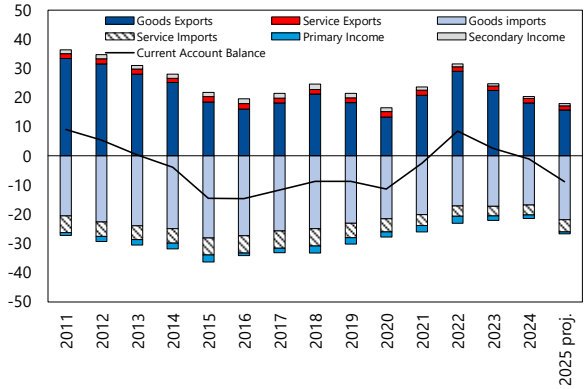
Sources: Algerian authorities; and IMF staff calculations and projections.

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Figure 2. External Sector Developments

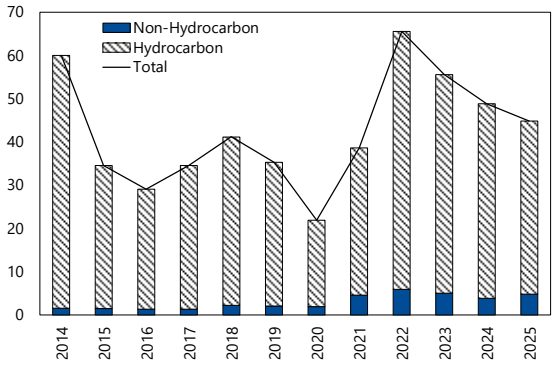
Surging imports and weaker exports widened the current account deficit…

Current Account Balance Decomposition
(In percent of GDP)



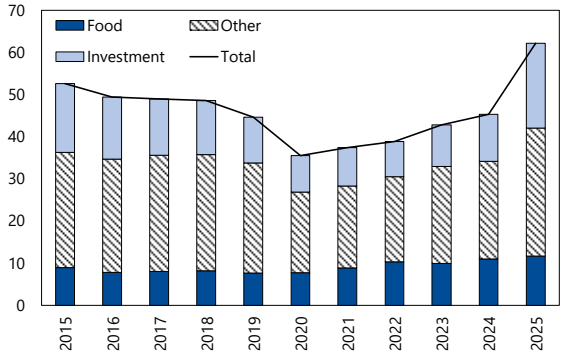
…with export weakness driven mainly by lower hydrocarbon exports.

Export of Goods
(FOB, in USD billion)



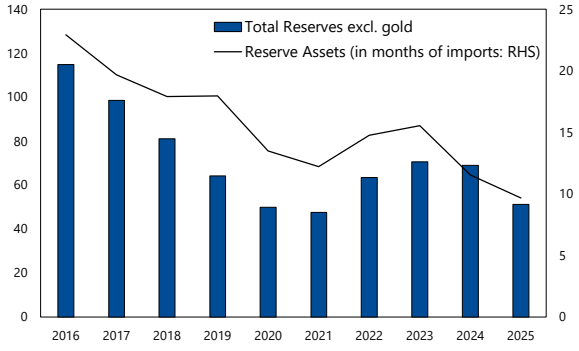
Import growth was broad-based, but especially strong for investment goods…

Import of Goods
(FOB, in USD billion)



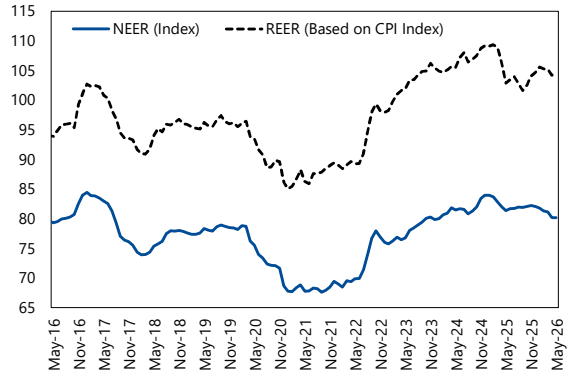
…and the CA widening resulted in a sharp decline in reserves…

Total Reserves
(Excl. gold, in USD billion)



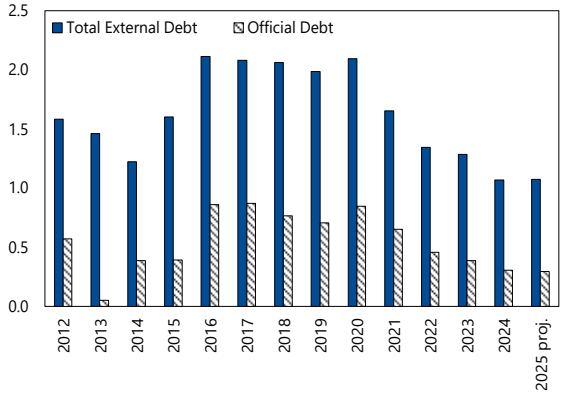
… with only limited adjustment in the REER.

Nominal and Real Effective Exchange Rates



External debt remains low.

External Debt
(In percent of GDP)



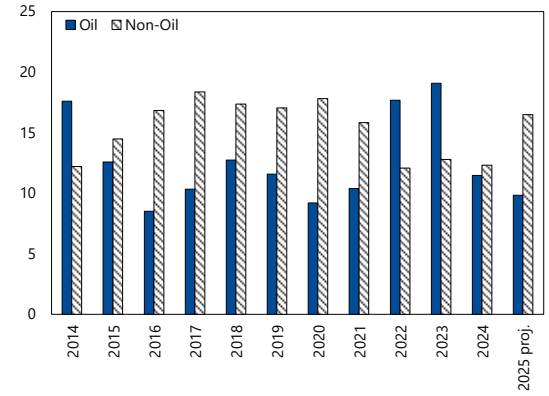
Sources: Algerian authorities; and IMF staff calculations and projections.

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Figure 3. Fiscal Developments

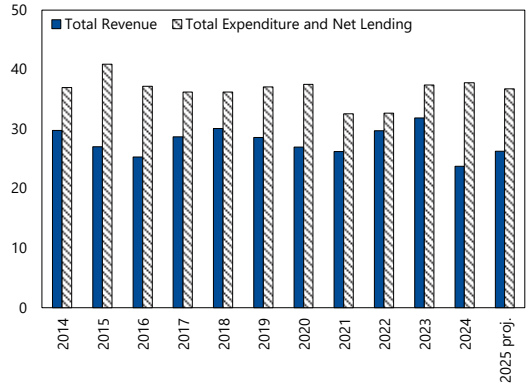
Revenues were supported by large one-off dividend payments in 2025…

Oil and Non-oil Revenue
(In percent of GDP)



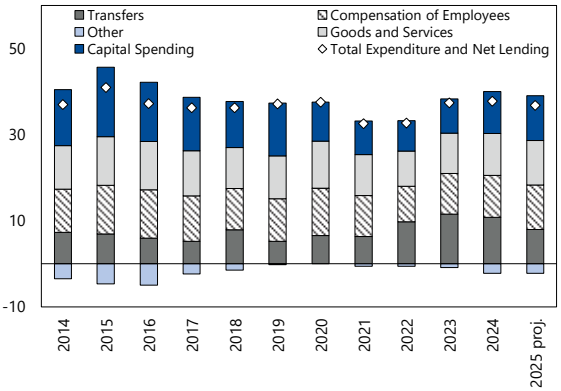
…while public spending remained elevated.

Revenue and Expenditure
(In percent of GDP)



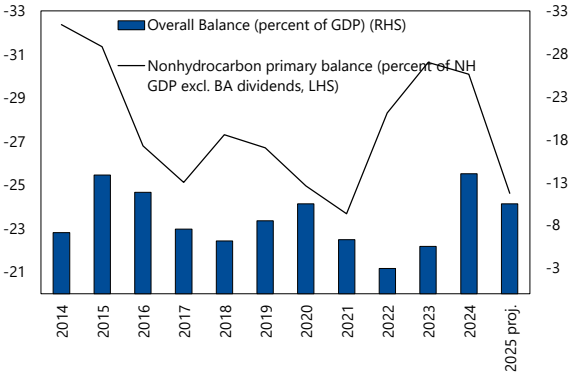
Higher wages and interest payments broadly offset lower transfers…

Expenditure Components
(In percent of GDP)



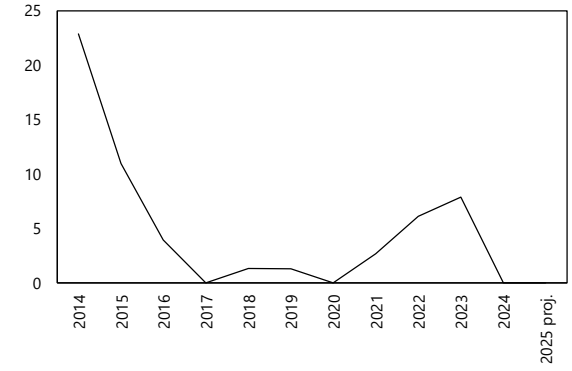
…so, the overall deficit narrowed but remained very large.

Fiscal Balance
(In percent of GDP)



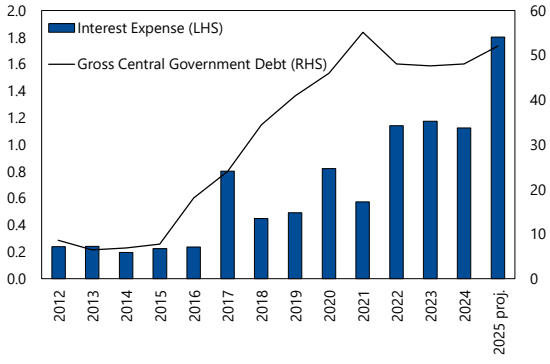
Fiscal savings were not rebuilt…

Revenue Regulation Fund Balance
(In percent of GDP)



…while central government debt continued to rise.

Debt and Interest Expense
(In percent of GDP)



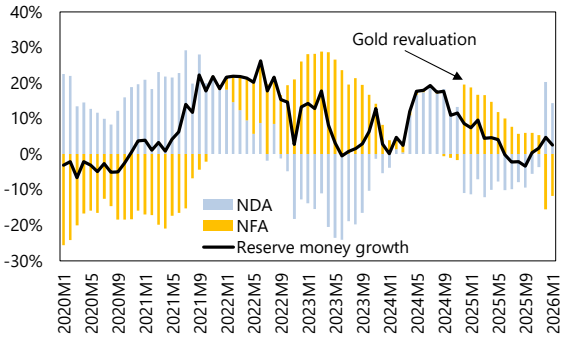
Sources: Algerian authorities; and IMF staff calculations and projections.

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Figure 4. Monetary Developments

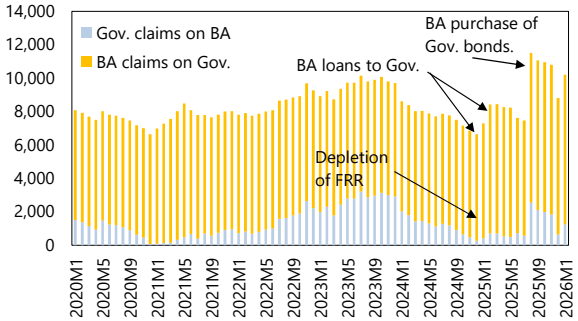
Gold revaluation boosted BA reserves at end-2024, but reserves have since declined sharply.

Contribution to Reserve Money Growth
(Percentage points)



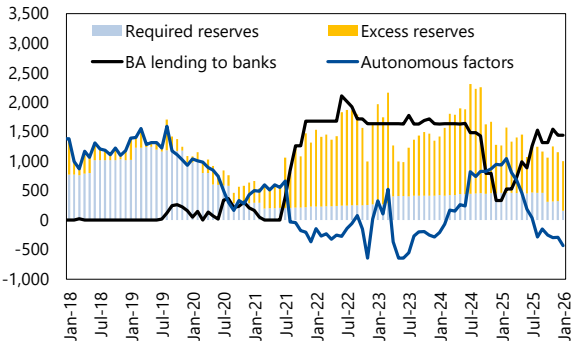
With the FRR depleted, BA helped finance the government through direct and indirect monetary financing.

BA Balance Sheet and Government Financing
(Billions of Algerian Dinars)



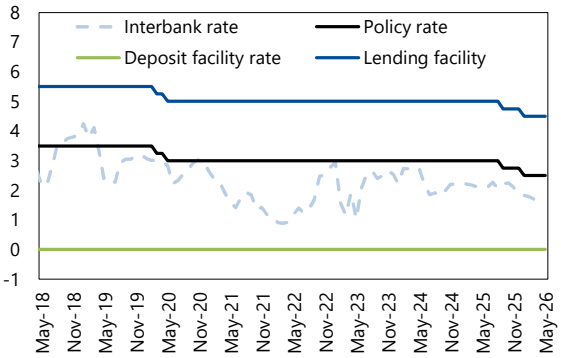
Reserve losses and import pressures drained banks liquidity in a system with uneven liquidity distribution…

Banks' Deposits at BA
(Billions of Algerian Dinars)



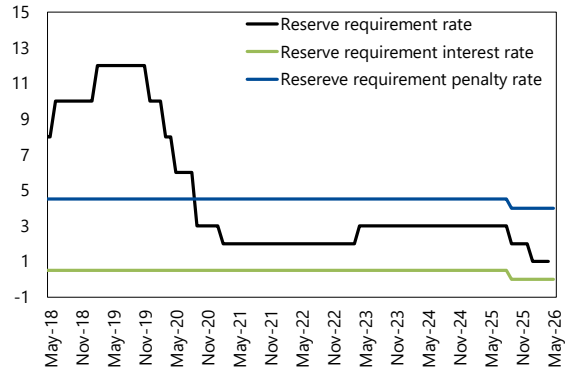
…but abundant liquidity kept the interbank rate below the policy rate.

Policy and Interbank Rates
(In percent)



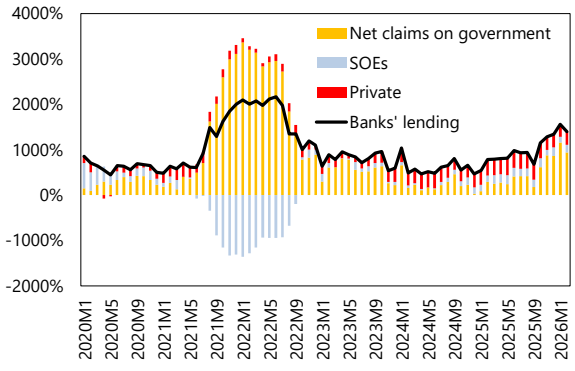
Reserve requirements were lowered further.

Reserve Requirements
(In percent)



Bank lending was driven by government financing needs.

Contribution to Banks' Lending
(Percentage points)



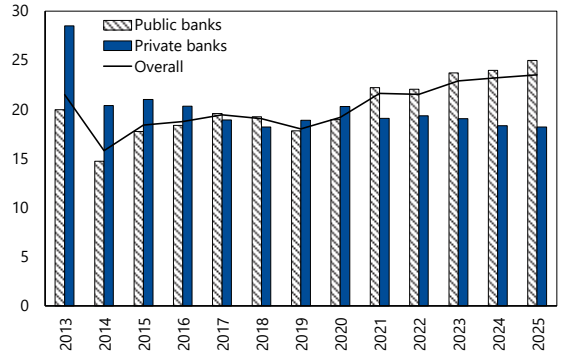
Sources: Algerian authorities; and IMF staff calculations and projections.

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Figure 5. Financial Sector Developments

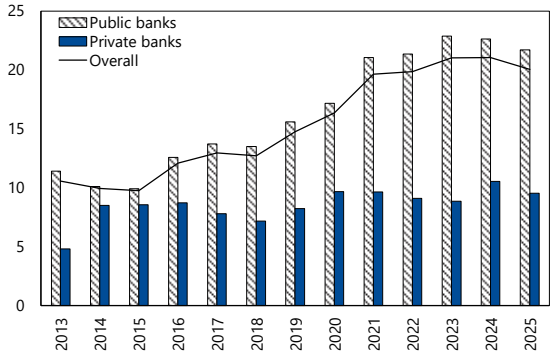
Banks remain well capitalized...

Capital Adequacy Ratio
(In percent)



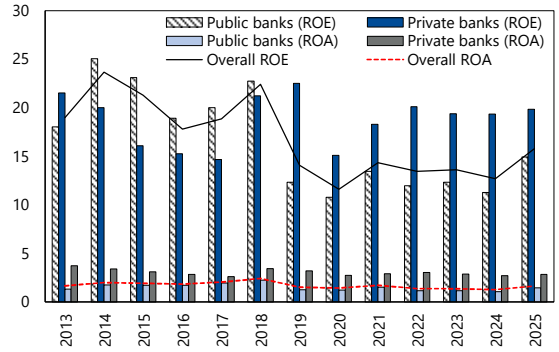
...but non-performing loans remain high, especially in public banks.

Non-Performing Loans to Gross Loans
(In percent)



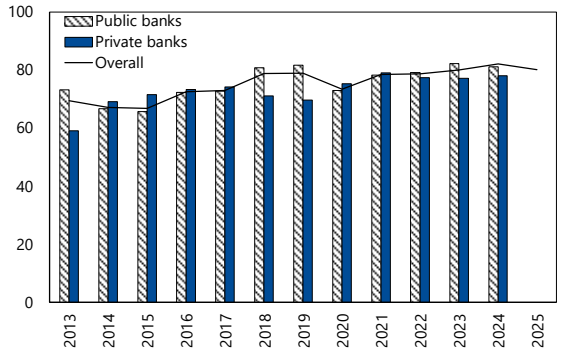
Profitability remains healthy, particularly in private banks.

Profitability and Sources of Income
(In percent)



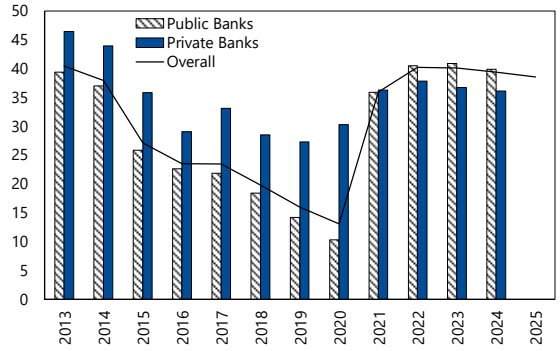
Interest rate margins remained broadly stable at attractive levels over the past years.

Interest Margin to Gross Revenues
(In percent)



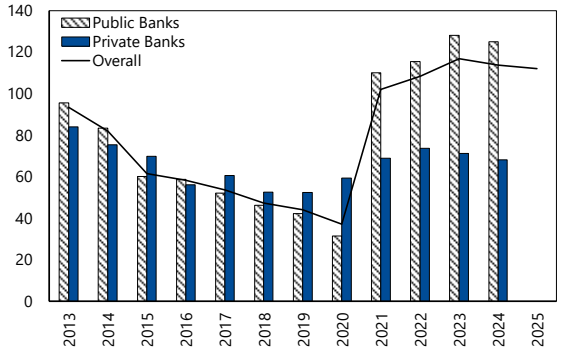
Banks are liquid...

Liquid Assets to Total Assets
(In percent)



...with liquid assets comfortably covering short-term liabilities.

Liquid Assets to Short-term Debt
(In percent)



Sources: Algerian authorities; and IMF staff calculations.

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Table 1. Algeria: Selected Economic and Financial Indicators, 2021–2031

	2021	2022	2023	2024	Projections 2025	2026	2027	2028	2029	2030	2031
Output and prices					(Annual percentage change)						
Real GDP	3.8	3.6	4.1	3.7	3.9	3.8	3.1	3.0	3.0	2.9	2.9
Hydrocarbon sector	17.1	-0.2	3.6	-1.3	1.3	2.7	-0.8	-0.1	3.4	1.2	1.2
Nonhydrocarbon sector	2.2	4.1	4.2	4.3	4.3	4.0	3.6	3.3	3.0	3.1	3.1
Per capita	2.2	2.0	2.5	2.7	2.6	2.5	1.9	1.9	2.0	1.9	2.0
Consumer price index (period average)	7.2	9.3	9.3	4.0	1.4	5.5	3.5	3.8	3.8	3.8	3.8
Money and credit					(Annual percentage change unless otherwise indicated)						
Net foreign assets	0.6	31.7	8.9	19.4	-14.5	-6.2	-3.2	-8.6	-7.2	-5.9	-5.8
Credit to the economy	-12.1	3.2	6.0	5.9	7.8	9.6	6.7	6.6	6.6	6.5	6.3
Money and quasi-money	13.2	14.3	6.0	9.0	6.9	11.5	9.5	9.4	8.9	8.9	8.8
Central government finances					(in percent of GDP)						
Revenue	26.2	29.7	31.9	23.8	26.3	25.4	23.9	22.8	23.3	23.4	23.4
Expenditure (incl. net lending)	32.5	32.7	37.4	37.8	36.8	35.0	34.1	32.8	32.3	32.2	32.1
Overall budget balance	-6.3	-3.0	-5.5	-14.0	-10.5	-9.6	-10.2	-10.0	-9.0	-8.7	-8.7
Central bank financing (flow)	2.1	-0.1	-0.7	-1.1	3.7	5.5	-0.7	-1.4	-0.4	0.0	0.0
Gross government debt (excluding guarantees)	55.1	48.1	47.7	48.1	52.1	53.2	60.4	66.4	71.2	75.4	79.0
					(in percent of nonhydrocarbon GDP)						
Nonhydrocarbon primary bal. excl. central bank dividends	-23.7	-28.3	-30.6	-30.1	-24.6	-24.9	-22.4	-20.3	-19.0	-18.3	-17.9
Nonhydrocarbon balance	-20.1	-27.7	-30.4	-30.7	-23.8	-26.2	-23.9	-21.9	-20.7	-20.2	-19.9
Revenue	31.5	40.0	39.4	28.6	30.8	30.8	28.1	26.5	27.0	26.8	26.7
Hydrocarbon	12.5	23.8	23.6	13.8	11.5	14.6	11.8	10.2	10.3	10.1	9.9
Nonhydrocarbon	19.0	16.2	15.8	14.8	19.3	16.3	16.2	16.3	16.7	16.7	16.8
Expenditure (including net lending)	39.1	44.0	46.2	45.5	43.0	42.5	40.1	38.2	37.4	36.9	36.7
Current expenditure	26.2	32.2	34.7	33.4	30.9	30.2	29.5	28.6	28.3	28.2	28.2
Capital expenditure	9.4	9.5	9.8	11.7	12.1	11.0	9.3	8.3	7.8	7.5	7.3
Net lending	3.6	2.3	1.7	0.4	0.0	1.3	1.3	1.3	1.3	1.2	1.2
Investment and savings					(In percent of GDP)						
Savings-investment balance	-2.4	8.4	2.6	-1.1	-8.9	-1.9	-2.5	-3.1	-2.6	-2.2	-2.0
National savings	38.1	44.0	40.7	40.2	40.1	40.7	40.1	38.9	39.2	39.5	39.3
Central government	1.5	4.1	2.4	-4.3	-0.1	-0.6	-2.3	-2.9	-2.3	-2.2	-2.4
Nongovernment 1/	36.6	39.9	38.3	44.5	40.2	41.3	42.4	41.8	41.5	41.7	41.7
Investment	40.5	35.6	38.1	41.3	48.9	42.7	42.6	42.1	41.8	41.6	41.3
Central government	7.8	7.0	8.0	9.7	10.4	9.0	8.0	7.1	6.7	6.5	6.4
Nongovernment 1/	32.7	28.5	30.1	31.5	38.6	33.6	34.6	34.9	35.1	35.1	35.0
o/w Nongovernment nonhydrocarbon	30.1	26.4	28.4	30.0	36.8	32.1	33.2	33.5	33.6	33.7	33.5
External sector 2/											
Current account balance (percent of GDP)	-2.4	8.4	2.6	-1.1	-8.9	-1.9	-2.5	-3.1	-2.6	-2.2	-2.0
Exports, f.o.b. (percent of GDP)	20.8	29.0	22.4	18.1	15.8	19.3	16.6	15.8	16.4	16.8	17.0
Imports, f.o.b. (percent of GDP)	20.2	17.2	17.3	16.8	21.9	18.5	17.0	17.0	17.0	17.0	17.0
Gross official reserves											
In US$ billions	47.5	63.5	70.6	68.9	51.0	46.5	41.0	33.4	27.8	23.5	19.8
In months of next year's imports of goods and services	12.2	14.9	15.6	11.1	8.6	8.1	7.2	5.8	4.8	3.9	3.3
Gross external debt (percent of GDP)	1.7	1.3	1.3	1.1	1.1	1.0	0.8	0.7	0.6	0.6	0.5
Memorandum items:											
GDP (in billions of dinars at current prices)	25,153	32,040	33,679	36,104	37,389	43,024	45,041	47,662	50,446	53,383	56,830
Nominal GDP Growth	20.3	27.4	5.1	7.2	3.6	15.1	4.7	5.8	5.8	5.8	6.5
NHGDP (in billions of dinars at current prices)	20,918	23,821	27,243	29,971	31,965	35,407	38,351	40,943	43,626	46,575	49,728
GDP capita per (in US$)	4,136	4,946	5,353	5,749	5,997	6,733	6,979	6,879	6,846	6,831	6,860
Exchange rate (DA per US$)	135.3	142.0	135.8	134.1	131.4	133.0	132.8	141.0	148.4	155.8	163.6
REER (percent change)	-4.8	6.2	10.2	2.5	-1.6	0.0	1.9	-4.0	-3.2	-3.0	-2.9
Exchange rate (DA per US$)	135.3	142.0	135.8	134.1	...	...	...	...	...	...	...
REER (percent change)	-4.8	6.2	10.2	2.5	...	...	...	...	...	...	...
Crude oil export unit value (US$/bbl)	72.3	103.9	83.9	82.0	69.4	92.6	82.4	77.7	75.2	73.3	71.8

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Including public enterprises.
2/ In US dollars unless otherwise indicated.

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Table 2a. Algeria: Balance of Payments, 2021–2031

(Billions of US dollars)

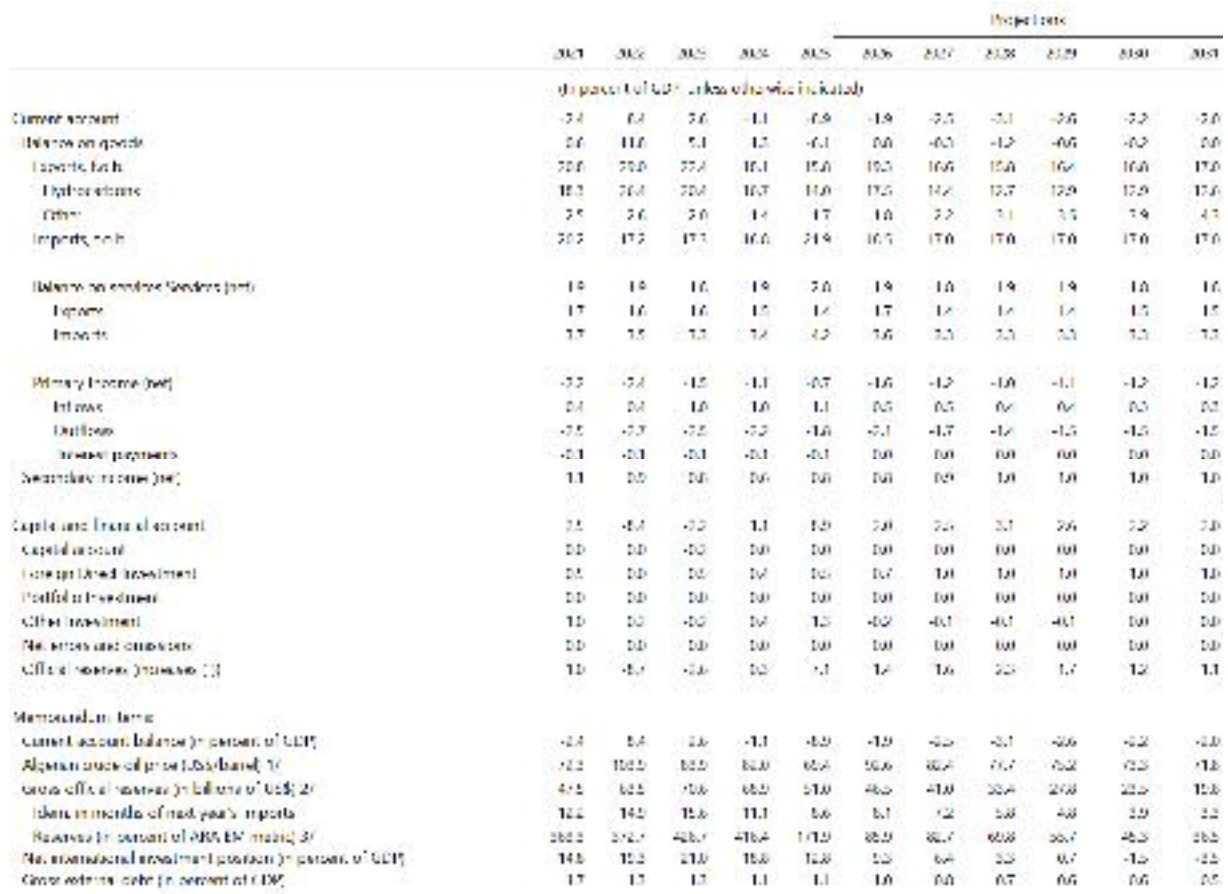
						Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Current account	-4.5	19.1	6.5	-2.9	-25.3	-6.3	-8.4	-10.6	-8.8	-7.4	-7.0
Balance on goods	1.2	26.7	12.7	3.5	-17.4	2.6	-1.1	-4.0	-2.0	-0.6	0.0
Exports, f.o.b.	38.6	65.5	55.6	48.8	44.8	62.4	56.4	53.3	55.7	57.5	58.9
Hydrocarbons	34.1	59.5	50.5	45.0	40.0	56.7	49.0	43.0	43.8	44.1	43.9
Other	4.6	6.0	5.1	3.8	4.9	5.7	7.4	10.3	11.9	13.4	15.0
Imports, f.o.b.	37.5	38.9	42.8	45.3	62.2	59.8	57.6	57.3	57.7	58.1	58.9
Volume change (in basis points)	-5.8	-5.0	12.2	6.0	35.9	-6.1	-4.3	-1.0	0.5	0.2	0.8
Price change (in basis points)	9.8	10.9	-2.5	0.5	0.3	2.4	0.5	0.5	0.2	0.5	0.5
Balance on services Services (net)	-3.6	-4.3	-4.4	-5.1	-8.1	-6.1	-6.2	-6.4	-6.3	-6.2	-6.2
Exports	3.2	3.6	3.9	4.0	3.9	5.4	4.9	4.6	4.8	5.0	5.1
Imports	6.8	7.8	8.2	9.1	12.0	11.5	11.1	11.0	11.1	11.2	11.4
Primary Income (net)	-4.0	-5.4	-3.74	-3.1	-2.0	-5.3	-4.2	-3.4	-3.8	-4.1	-4.3
Inflows	0.7	0.8	2.4	2.7	3.1	1.7	1.6	1.4	1.2	1.1	0.9
Outflows	-4.7	-6.2	-6.1	-5.8	-5.0	-6.9	-5.8	-4.9	-5.1	-5.2	-5.2
Interest payments	-0.1	-0.2	-0.3	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Secondary income (net)	2.0	2.0	1.9	1.7	2.2	2.5	3.1	3.3	3.4	3.5	3.6
Capital and financial account	4.7	19.0	5.5	2.9	25.2	6.3	8.4	10.6	8.8	7.5	7.0
Capital account	0.1	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Direct Investment	0.9	0.0	1.1	1.2	1.5	2.4	3.0	3.3	3.4	3.4	3.4
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	1.0	0.5	0.6	1.0	1.6	0.6	0.4	0.4	0.7	0.7	0.1
Net Errors and Omissions	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official reserves transactions (-)	1.0	-19.5	-6.4	0.0	20.2	4.5	5.5	7.6	5.5	4.2	3.7
Memorandum Items:											
Current account balance (in percent of GDP)	-2.4	8.4	2.0	-1.1	-8.9	-1.9	-2.5	-3.1	-2.5	-2.2	-2.0
Algerian crude oil price (US$/barrel) 1/	72.3	108.9	83.9	82.0	69.4	62.6	62.4	57.7	75.2	75.5	71.8
Gross official reserves (in billions of US$) net SDR holdings	44.6	58.1	65.2	64.7	45.7	42.2	36.7	29.0	21.4	13.7	5.5
Gross official reserves (in billions of US$) 2/	47.5	58.5	70.5	68.9	51.0	46.5	41.0	33.4	27.3	23.5	19.8
Import, in months of next year's imports	12.2	14.9	15.5	11.1	8.5	8.1	7.2	5.8	4.8	3.9	3.3
Reserves (in percent of ARA EM metric) 3/	363.3	372.7	426.7	416.4	171.9	85.9	82.7	69.8	55.7	45.5	36.3
Net international investment position (in billions of US$)	27.3	43.6	52.1	50.6	36.4	30.1	21.7	11.1	2.3	5.1	12.1
Gross external debt (in billions of US$)	1.1	1.0	1.2	2.9	4.1	4.1	4.2	4.1	4.1	4.0	4.0

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Weighted average of quarterly data.
2/ Gross official reserves include holdings of SDR assets and, for 2021, Algeria's share of the general SDR allocation by the IMF in August 2021.
3/ ARA EM metric includes additional buffer for commodity intensive countries (projection period only).

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Table 2b. Algeria: Balance of Payments, 2021–2031

(Percent of GDP)



Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Weighted average of quarterly data.
2/ Gross official reserves include holdings of SDR assets and, for 2021, Algeria's share of the general SDR allocation by the IMF in August 2021.
3/ ARA EM metric includes additional buffer for commodity intensive countries (projection period only).

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Table 3a. Algeria: Summary of Central Government Operations, 2021–2031[1/]

(In billions of Algerian dinars)

						Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	(In billions of Algerian dinars)										
Budget revenue and grants	6,598	9,524	10,735	8,577	9,836	10,921	10,762	10,844	11,770	12,504	13,285
Hydrocarbon revenue 2/	2,609	5,658	6,425	4,133	3,674	5,155	4,543	4,187	4,489	4,727	4,944
Nonhydrocarbon revenue	3,982	3,866	4,310	4,444	6,162	5,766	6,218	6,657	7,281	7,777	8,341
Tax revenue	2,762	2,988	3,496	3,612	4,222	4,755	5,047	5,447	5,955	6,348	6,805
Nontax revenues	1,220	878	814	831	1,940	1,011	1,171	1,210	1,326	1,428	1,536
o/w Fees	208	274	321	535	468	521	567	614	662	712	765
Bank of Algeria dividends and interests	900	503	457	236	953	256	434	422	454	482	515
Other	111	102	37	60	519	234	170	174	210	234	255
Grants	6	0	0	0	0	0	0	0	0	0	0
Total expenditure (incl. net lending and special Treasury accounts)	8,186	10,473	12,593	13,633	13,754	15,044	15,377	15,627	16,299	17,174	18,251
Current expenditure	5,480	7,677	9,464	10,021	9,864	10,694	11,296	11,694	12,365	13,112	14,034
Current non-interest	5,336	7,311	9,068	9,616	9,190	9,976	10,299	10,599	11,161	11,774	12,514
Personnel expenditure	2,397	2,626	3,170	3,524	3,872	4,446	4,678	4,897	5,203	5,506	5,847
Mudjahidins' pensions	266	241	234	243	247	260	229	238	247	256	266
Material and supplies	171	221	354	372	323	353	383	408	435	465	496
Current transfers	2,502	4,222	5,310	5,475	4,746	4,917	5,009	5,055	5,275	5,547	5,905
Interest payments	144	365	396	406	674	717	996	1,095	1,204	1,338	1,520
Capital expenditure	1,956	2,258	2,678	3,505	3,882	3,881	3,583	3,404	3,386	3,483	3,618
Net lending and special Treasury accounts net operations	750	538	451	106	8	469	499	529	549	579	599
Budget balance 3/	-839	-411	-1,407	-4,950	-3,910	-3,654	-4,117	-4,254	-3,981	-4,091	-4,367
Overall balance	-1,589	-949	-1,858	-5,056	-3,919	-4,123	-4,616	-4,782	-4,530	-4,670	-4,966
Nonhydrocarbon balance	-4,198	-6,607	-8,283	-9,189	-7,593	-9,278	-9,159	-8,969	-9,018	-9,397	-9,910
Nonhydrocarbon primary balance (excluding Bank of Algeria dividends)	-4,961	-6,744	-8,344	-9,020	-7,871	-8,816	-8,597	-8,297	-8,268	-8,542	-8,905
Net financing	1,589	950	1,858	5,056	3,919	4,123	4,616	4,782	4,530	4,670	4,966
Domestic	1,596	959	1,867	5,065	3,929	4,133	4,627	4,795	4,543	4,684	4,980
Bank 4/	3,267	612	-218	3,997	1,330	2,467	3,586	3,949	3,939	4,114	4,440
o/w gross central bank financing	517	-40	-247	-405	1,396	2,373	-320	-652	-200	0	0
Nonbank 5/	-1,671	347	2,085	1,068	2,599	1,666	1,041	845	603	569	541
Foreign	-7	-10	-9	-9	-9	-10	-12	-12	-13	-14	-14
Memorandum items											
Gross financing requirements	2,429	1,830	3,325	7,561	7,060	6,098	6,904	8,111	5,589	8,124	9,311
Financing need to be filled with new domestic debt issuance	4,987	2,768	3,789	3,817	5,250	5,391	6,597	7,804	5,282	7,817	9,004
Principal payments on public debt	841	881	1,467	2,504	3,141	1,975	2,289	3,328	1,059	3,453	4,345
Oil stabilization fund											
in billions of Algerian dinars	682	1,967	2,660	0	0	0	0	0	0	0	0
in percent of GDP	2.7	6.1	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross government debt, including guarantees (percent of GDP)	71.1	52.1	52.7	53.1	58.0	58.3	65.3	71.1	75.5	79.5	82.9
Gross government debt, excluding guarantees (percent of GDP)	55.1	48.1	47.7	48.1	52.1	53.2	60.4	66.4	71.2	75.4	79.0
o/w owed to central bank	26.1	20.3	17.9	14.4	16.1	19.1	16.8	13.1	11.6	11.0	10.3

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ On cash basis.
2/ Including Sonatrach dividends.
3/ The budget balance excludes the "Net lending and special Treasury accounts net operations"
4/ Bank financing includes domestic debt issuance and a drawdown of the oil stabilization fund and other government deposits at the central bank. It includes the repurchase of syndicated loans owed by SOEs for a total amount of DZD 2,080 billion in 2021 and DZD 520 billion in 2022, under the financial scheme including the PSR.
5/ Includes proceeds from sales of state-owned assets.

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Table 3b. Algeria: Summary of Central Government Operations, 2021–2031 [1/]

						Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	(In percent of GDP)										
Budget revenue and grants	26.2	29.7	31.9	23.8	26.3	25.4	23.9	22.8	23.3	23.4	23.4
Hydrocarbon revenue 2/	10.4	17.7	19.1	11.4	9.8	12.0	10.1	8.8	8.9	8.9	8.7
Nonhydrocarbon revenue	15.8	12.1	12.8	12.3	16.5	13.4	13.8	14.0	14.4	14.6	14.7
Tax revenue	11.0	9.3	10.4	10.0	11.3	11.1	11.2	11.4	11.8	11.9	12.0
Nontax revenues	4.8	2.7	2.4	2.3	5.2	2.4	2.6	2.5	2.6	2.7	2.7
o/w Fees	0.8	0.9	1.0	1.5	1.3	1.2	1.3	1.3	1.3	1.3	1.3
BA dividends and interests	3.6	1.6	1.4	0.7	2.5	0.6	1.0	0.9	0.9	0.9	0.9
Other	0.4	0.3	0.1	0.2	1.4	0.5	0.4	0.4	0.4	0.4	0.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure (incl. net lending and special accounts)	32.5	32.7	37.4	37.8	36.8	35.0	34.1	32.8	32.3	32.2	32.1
Current expenditure	21.8	24.0	28.1	27.8	26.4	24.9	25.1	24.5	24.5	24.6	24.7
Current non-interest	21.2	22.8	26.9	26.6	24.6	23.2	22.9	22.2	22.1	22.1	22.0
Personnel expenditure	9.5	8.2	9.4	9.8	10.4	10.3	10.4	10.3	10.3	10.3	10.3
Mudjahidins' pensions	1.1	0.8	0.7	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.5
Material and supplies	0.7	0.7	1.1	1.0	0.9	0.8	0.8	0.9	0.9	0.9	0.9
Current transfers	9.9	13.2	15.8	15.2	12.7	11.4	11.1	10.6	10.5	10.4	10.4
Interest payments	0.6	1.1	1.2	1.1	1.8	1.7	2.2	2.3	2.4	2.5	2.7
Capital expenditure	7.8	7.0	8.0	9.7	10.4	9.0	8.0	7.1	6.7	6.5	6.4
Net lending and special Treasury accounts net operations	3.0	1.7	1.3	0.3	0.0	1.1	1.1	1.1	1.1	1.1	1.1
Budget balance 3/	-3.3	-1.3	-4.2	-13.7	-10.5	-8.5	-9.1	-8.9	-7.9	-7.7	-7.7
Overall balance	-6.3	-3.0	-5.5	-14.0	-10.5	-9.6	-10.2	-10.0	-9.0	-8.7	-8.7
Primary overall balance	-5.7	-1.8	-4.3	-12.9	-8.7	-7.9	-8.0	-7.7	-6.6	-6.2	-6.1
Nonhydrocarbon balance	-16.7	-20.6	-24.6	-25.5	-20.3	-21.6	-20.3	-18.8	-17.9	-17.6	-17.4
Nonhydrocarbon primary balance (excl. BA dividends)	-19.7	-21.0	-24.8	-25.0	-21.1	-20.5	-19.1	-17.4	-16.4	-16.0	-15.7
Net financing	6.3	3.0	5.5	14.0	10.5	9.6	10.2	10.0	9.0	8.7	8.7
Domestic	6.3	3.0	5.5	14.0	10.5	9.6	10.3	10.1	9.0	8.8	8.8
Bank 4/	13.0	1.9	-0.6	11.1	3.6	5.7	8.0	8.3	7.8	7.7	7.8
o/w gross central bank financing	2.1	-0.1	-0.7	-1.1	3.7	5.5	-0.7	-1.4	-0.4	0.0	0.0
Nonbank 5/	-6.6	1.1	6.2	3.0	7.0	3.9	2.3	1.8	1.2	1.1	1.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of non-oil GDP)										
Budget revenue and grants	31.5	40.0	39.4	28.6	30.8	30.8	28.1	26.5	27.0	26.8	26.7
Hydrocarbon revenue 2/	12.5	23.8	23.6	13.8	11.5	14.6	11.8	10.2	10.3	10.1	9.9
Nonhydrocarbon revenue	19.0	16.2	15.8	14.8	19.3	16.3	16.2	16.3	16.7	16.7	16.8
Tax revenue	13.2	12.5	12.8	12.1	13.2	13.4	13.2	13.3	13.7	13.6	13.7
Nontax revenues	5.8	3.7	3.0	2.8	6.1	2.9	3.1	3.0	3.0	3.1	3.1
Fees	1.0	1.2	1.2	1.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Bank of Algeria dividends and interests	4.3	2.1	1.7	0.8	3.0	0.7	1.1	1.0	1.0	1.0	1.0
Other	0.5	0.4	0.1	0.2	1.6	0.7	0.4	0.4	0.5	0.5	0.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure (incl. net lending and special accounts)	39.1	44.0	46.2	45.5	43.0	42.5	40.1	38.2	37.4	36.9	36.7
Current expenditure	26.2	32.2	34.7	33.4	30.9	30.2	29.5	28.6	28.3	28.2	28.2
Current non-interest	25.5	30.7	33.3	32.1	28.8	28.2	26.9	25.9	25.6	25.3	25.2
Personnel expenditure	11.5	11.0	11.6	11.8	12.1	12.6	12.2	12.0	11.9	11.8	11.8
Mudjahidins' pensions	1.3	1.0	0.9	0.8	0.8	0.7	0.6	0.6	0.6	0.6	0.5
Material and supplies	0.8	0.9	1.3	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Current transfers	12.0	17.7	19.5	18.3	14.8	13.9	13.1	12.3	12.1	11.9	11.9
Interest payments	0.7	1.5	1.5	1.4	2.1	2.0	2.6	2.7	2.8	2.9	3.1
Capital expenditure	9.4	9.5	9.8	11.7	12.1	11.0	9.3	8.3	7.8	7.5	7.3
Net lending and special Treasury accounts net operations	3.6	2.3	1.7	0.4	0.0	1.3	1.3	1.3	1.3	1.2	1.2
Budget balance	-4.0	-1.7	-5.2	-16.5	-12.2	-10.3	-10.7	-10.4	-9.1	-8.8	-8.8
Overall balance	-7.6	-4.0	-6.8	-16.9	-12.3	-11.6	-12.0	-11.7	-10.4	-10.0	-10.0
Primary overall balance	-6.9	-2.4	-5.4	-15.5	-10.1	-9.6	-9.4	-9.0	-7.6	-7.2	-6.9
Nonhydrocarbon balance	-20.1	-27.7	-30.4	-30.7	-23.8	-26.2	-23.9	-21.9	-20.7	-20.2	-19.9
Nonhydrocarbon primary balance (excl. BA dividends)	-23.7	-28.3	-30.6	-30.1	-24.6	-24.9	-22.4	-20.3	-19.0	-18.3	-17.9
Net financing	7.6	4.0	6.8	16.9	12.3	11.6	12.0	11.7	10.4	10.0	10.0
Domestic	7.6	4.0	6.9	16.9	12.3	11.7	12.1	11.7	10.4	10.1	10.0
Bank 4/	15.6	2.6	-0.8	13.3	4.2	7.0	9.4	9.6	9.0	8.8	8.9
o/w central bank	2.5	-0.2	-0.9	-1.4	4.4	6.7	-0.8	-1.6	-0.5	0.0	0.0
Nonbank 5/	-8.0	1.5	7.7	3.6	8.1	4.7	2.7	2.1	1.4	1.2	1.1
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ On cash basis.
2/ Including Sonatrach dividends.
3/ The budget balance excludes the "Net lending and special Treasury accounts net operations".
4/ Bank financing includes domestic debt issuance and a drawdown of the oil stabilization fund and other government deposits at the central bank. It includes the repurchase of syndicated loans owed by SOEs for a total amount of DZD 2,080 billion in 2021 and DZD 520 billion in 2022, under the financial scheme including the PSR.
5/ Includes proceeds from sales of state-owned assets.

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Table 4. Algeria: Monetary Survey, 2021–2031

						Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	(In billions of Algerian dinars at end of period)										
Net foreign assets	6,592	8,582	9,459	11,290	9,855	9,055	8,768	8,015	7,434	6,197	6,592
of which: Bank of Algeria	6,434	8,427	9,301	11,167	9,714	8,901	8,671	7,926	7,350	6,094	6,471
Foreign assets (BA)	6,656	8,754	9,510	11,393	9,766	9,105	8,773	7,980	7,370	6,206	6,475
Foreign liabilities (BA)	2	2	2	2	2	2	2	2	2	2	3
Foreign assets (commercial banks)	94	101	121	98	114	113	141	149	116	164	171
Foreign liabilities (commercial banks)	157	169	170	162	242	170	144	114	50	71	56
Net domestic assets	13,467	14,213	14,612	15,241	18,214	22,570	25,601	29,905	33,841	37,038	42,372
Domestic credit	21,259	21,805	21,944	24,390	28,470	32,129	36,023	41,536	46,902	51,899	57,245
Credit to government (net) 1/	11,296	11,319	10,741	13,049	16,004	18,491	22,077	26,027	29,986	34,080	38,520
Credit to the economy	9,964	10,486	11,203	11,341	12,466	13,638	13,946	15,509	16,916	17,819	18,725
of which: Private sector	5,700	5,842	6,047	6,063	7,351	8,170	8,727	9,321	9,935	10,624	11,362
Other items net	7,793	7,592	8,733	9,151	9,756	9,560	10,744	11,630	12,939	13,261	14,872
Money and quasi-money (M2)	20,059	22,795	24,351	26,529	28,069	31,635	34,047	37,917	41,281	44,935	48,967
Excluding Sonatrach deposits	10,143	21,361	22,254	24,506	26,522	29,073	32,438	35,875	39,087	42,614	46,423
of which: Money	11,916	13,140	13,119	14,488	16,561	21,164	21,547	24,041	26,134	28,614	31,649
Reserve money	8,143	9,219	9,478	10,29	10,779	11,925	13,093	14,341	15,652	17,039	18,547
	(In percent change over 12 months period)										
Money and quasi-money (M2)	13.2	14.3	6.8	9.0	5.8	11.3	9.5	9.4	8.9	8.8	8.5
Credit to the economy 2/	12.1	5.2	6.8	5.0	7.8	9.6	6.7	6.6	6.6	5.5	6.3
of which: Private sector	4.4	2.5	5.6	6.7	7.8	11.9	6.7	6.8	6.8	7.7	6.5
Memorandum items:											
Credit to the economy/GDP	39.6	32.1	32.4	32.0	33.3	31.7	32.3	32.5	32.8	33.0	33.0
Credit to the economy/NHGDP	47.6	43.2	42.0	38.5	38.0	38.5	37.0	37.9	37.9	37.8	37.2
Credit to private sector/NHGDP	27.2	24.1	24.1	21.2	21.1	23.1	23.2	22.8	22.8	22.6	22.6

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Net credit to government excludes Treasury postal account ("dépôts CCP") deposited at the BA.
2/ The decline in credit to the economy in 2021 reflects the effect of a debt buyback operation by the Treasury which reduced banks' claims on state-owned enterprises (the public sector).

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Table 5. Algeria: Financial Soundness Indicators, 2013–2025

(In percent)

Source: Banque d'Algérie.

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Annex I. Implementation of Past IMF Recommendations

Recommendation	Implementation Status
Monetary/Exchange Rate and Financial Policies and Operations	
The accommodative stance is assessed as adequate, but the Bank of Algeria should use all available tools to attain price stability.	In response to receding inflation till September 2025, the required reserve ratio and the policy rate have been lowered to respectively 1 percent (from 3 percent) and 2.5 percent (from 3 percent). Inflation rose in the second half of 2025, driven mainly by food and jewelry prices, while the outdated CPI basket complicates the assessment of broader underlying pressures. The BA should tighten monetary policy if broader inflationary pressures accelerate.
Abstain from any monetary financing scheme and enhance BA's independence and ability to defend price stability by establishing price stability as the primary objective of monetary policy in future revision of *Loi Monétaire et Bancaire* (LMB) or its implementation.	In 2025, the BA supported the financing of the public deficit through a large dividend transfer and bond purchases related to gold revaluation gains. The regulatory framework has not been updated to clarify the primary objective of the monetary policy, and the 2026 Budget Law raises the ceiling on BA advances to 20 percent of budgetary resources and lengthens their maturity, increasing risks of monetary financing.
Allow for greater flexibility of the exchange rate (to enhance its role as a shock absorber) and develop the interbank FX market (that would also help reduce the parallel exchange rate premium).	The BA targets a real effective exchange rate that is derived from an econometric model that considers various variables. The buy/sell spread of the BA's transactions in FX is very narrow (e.g., 0.15 DZD on U.S. dollar transactions). The authorities increased the FX allocation for international travel last year to reduce FX demand on the parallel market, but the parallel FX premium has remained sizable.
Given the strong economic and financial interlinkages between the central government, SOBs and SOEs, posing systemic risks, use all available tools to monitor the solvency and the liquidity risks of the banking sector, ensure that prudential rules are followed and assess risks regularly.	The authorities are pursuing efforts to upgrade the supervisory framework for monitoring financial sector risk. However, risks from high NPLs and the government–SOE–SOB nexus remain significant, and continued vigilance is needed to monitor liquidity and solvency risks, enforce prudential requirements, and strengthen NPL resolution.

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Recommendation	Implementation Status
Fiscal Policies and Operations	
Proceed with a gradual but immediate fiscal rebalancing, anchoring it on stabilizing central government debt by 2028.	Despite large one-off revenues in 2025, the government deficit remained elevated, and the 2026 Budget Law continues to envisage large deficits for 2026–28. The authorities assume lower spending execution over this period, but a credible medium-term consolidation plan has not yet been adopted.
Over the medium term, adopt a fiscal framework guided by a rules-based fiscal framework, to enhance the resilience of public finances and safeguard macroeconomic stability.	The authorities include three-year projections in their budget documents, but these are not yet anchored in a rules-based fiscal framework or a clear debt/savings anchor.
Consider updating the medium-term revenue mobilization strategy (MTRS) to support consolidation efforts.	The authorities have made significant progress in digitalization to strengthen taxpayers' services and compliance They have requested technical assistance on VAT exemptions, mining taxation, carbon taxation and will implement a Tax Administration Diagnostic Tool (TADAT) self- assessment.
Implement reforms to rationalize inefficient spending, including through a fuel subsidy reform, and improve public investment efficiency.	The 2020 Budget Law envisaged gradually phasing out universal subsidies and replacing those with a targeted compensation mechanism to support households. The authorities are collaborating with the World Bank on identifying appropriate compensatory measures, building on a household survey. With the support of the World Bank, they are also working on a communication plan supported by opinion surveys. The PIMA mission has been delayed at the authorities' request.
Strengthen public financial management and enhance fiscal transparency, including by (i) finalizing the 'Etat D' by including a credible financing plan of the budget as prescribed in the Organic Budget Law; (ii) strengthening cash and debt management; (iii) publishing of in-year budget execution reports, SOE financial statements and regular updates on extrabudgetary entities; and (iv) establishing a contingency planning framework to help address	Implementation of the Organic Budget Law is well advanced, especially with the adoption of program budgeting and the gradual move toward performance-based budgeting. However, the deployment of new FMIS is lagging. The implementation decree for the new Public Procurement Law has been adopted, and a new online procurement portal has been launched. However, the financing side of the Budget is still not

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Recommendation	Implementation Status
structural risks from pension system deficits and climate change.	specified in *Etat D* ("Annex D") of the 2026 Budget Law. Further efforts are needed to strengthen cash and public debt management, transparency on budget execution and SOEs oversight and accountability.
Structural Reforms	
Create an economic environment conducive for the private sector, enhance competitiveness, and stimulate economic diversification, including through more trade openness, avoiding generalized import compression policies, and reforms in product and labor markets; and reducing the size of the public sector by shedding non-strategic and loss-making SOEs.	The authorities adopted the implementation decree of the new Procurement Law in 2025 to enhance transparency and competition. They are pursuing diversification of (nonhydrocarbon) exports and are exploring new export markets. A new Mining Law was adopted in August 2025 which improved the investment climate for the sector, easing some ownership restrictions. However, SOE dominance and new import declaration procedures continue to weigh on competition and private-sector development.
Governance and Vulnerabilities to Corruption	
Pursue ongoing efforts to address AML/CFT deficiencies and facilitate Algeria's removal from the FATF's list of jurisdictions under increasing monitoring.	Algeria was removed from the FATF list of jurisdictions under increased monitoring less than two years after its listing, reflecting substantial reform efforts and strong institutional commitment. Continued effective implementation of the strengthened AML/CFT framework would help consolidate this progress and address remaining MENAFATF priorities.
Data Provision	
Prioritize actions to improve the quality and availability of macroeconomic data, including efforts to improve the timely provision of data to the IMF such as data on budget outturns.	Although data provision remains broadly adequate for surveillance, but data gaps persist, including outdated CPI weights, missing labor-market data, and delays in budget-execution and national-accounts data. The ONS has requested IMF technical assistance to address the CPI, national accounts, labor-market, and fiscal statistics.

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Annex II. Risk Assessment Matrix[1]

Risks	Likelihood	Economic Impact	Policy Response
Conjunctural risks			
Energy Price Volatility. A reescalation of geopolitical tensions and tighter inventories increase energy prices and volatility, with potential nonlinearities. A smoother reopening of the Strait of Hormuz eases these pressures, supporting stronger growth and lower inflation.	**High**	**High.** Algeria's economy is highly dependent on hydrocarbon exports. The war in the Middle East has resulted in significantly higher energy prices while a resolution of the conflict would lower them. The impact of commodity price volatility would transmit via the current account (and international reserves), the budget (hydrocarbon revenues, food and energy subsidies), inflation, and economic growth.	Reduce procyclicality of the budget including by saving hydrocarbon windfalls in the FRR, diversifying nonhydrocarbon revenue and financing sources, and rebuilding fiscal and external buffers when hydrocarbon prices are high. Allow the exchange rate to play the role of shock absorber. Continue reforms to diversify the economy.
Geopolitical Tensions and Intensification of Conflicts. Intensified geopolitical tensions and weaker multilateralism raise risks of military escalation and renewed conflict, including in the Middle East. Damage to key infrastructure, disruptions to trade routes and supply chains, higher refugee flows, financial frictions, and market volatility hurt growth and compound inflationary pressures.	**High**	**Low.** Algeria has limited direct exposure to ongoing conflicts in the Middle East and Ukraine. Indirect exposure could result from the impact of these conflicts on Algeria's trading partners, including Europe, and global commodity prices, including energy.	Reduce procyclicality of the budget and strengthen fiscal and external buffers. Continue reforms to diversify the economy and export markets. Allow the exchange rate to play its role as shock absorber.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

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Risks	Likelihood	Economic Impact	Policy Response
Protectionism and Trade Disruptions. Tariff increases and nontariff restrictions weigh on growth, and measures targeting upstream sectors or critical inputs generate supply bottlenecks impacting output and prices. Retaliatory measures amplify costs and disrupt global supply chains.	**High**	**Medium.** Algeria's exports are highly concentrated in hydrocarbons, fertilizers, cement, iron and steel. Thus far, energy products (90 percent of exports) have been exempted from higher tariffs and trade tensions. However, higher US tariffs on iron products and Europe's Carbon Border Adjustment Mechanism (CBAM) could affect Algeria's exports. In addition, an escalation of trade tensions could indirectly impact Algeria if it were to reduce global growth, particularly in Europe, and hydrocarbon prices.	Continue reforms to diversify exports and destination markets, improve competitiveness, reduce trade-related distortions, and support adoption of cleaner technologies and energy-efficiency improvements, including in sectors exposed to CBAM.
Structural risks (Global)			
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	**Medium**	**High.** Algeria is vulnerable, like other countries in North Africa, to climate shocks. In addition to the impact on lives and livelihoods, these shocks could negatively impact agriculture, add to inflationary pressures, and carry large fiscal costs.	Invest in climate-resilient infrastructure and agriculture; implement the authorities' Climate Action Plan. Accelerate economic diversification, including by harnessing the potential of renewable energies.
Domestic risks			
Rising fiscal and debt sustainability risks.	**High**	**High.** In the absence of fiscal consolidation, and despite higher hydrocarbon revenues, fiscal financing needs are projected to remain significant while central government debt increases markedly. With fiscal buffers depleted, financing the deficit will increase the risk of monetary financing, and deepen the sovereign-SOE-SOB nexus raising financial stability risks.	Implement a credible fiscal consolidation plan by mobilizing nonhydrocarbon revenue and reducing spending, within a medium-term fiscal adjustment plan. Strengthen fiscal and external buffers while energy prices are high. Reform SOB governance, focus their lending on profitable projects, and conduct asset quality review. Limit monetary financing.

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Risks	Likelihood	Economic Impact	Policy Response
Materialization of explicit/implicit contingent fiscal liabilities stemming from public banks or SOEs.	**Medium**	**High.** SOEs play a prominent role in Algeria's economy, with complex fiscal and financial linkages to the government. While some SOEs rely on state support—and some have required government bailouts in the past—they also perform quasi-fiscal functions that are not always fully compensated. The banking sector appears liquid and profitable but NPLs weigh on balance sheets, especially for public banks, and some of these are government guaranteed.	Monitor and manage fiscal risks. Strengthen SOE oversight and governance and condition state support on transparency, restructuring, and reforms. Develop a government shareholder policy focused on enhancing profitability and efficiency. Divest from non-core assets and open the capital of selected SOEs to the private sector, while strengthening transparency and governance.
Partial or delayed implementation of macroeconomic adjustment and necessary structural reforms.	**Medium**	**High.** Partial or delayed reform implementation could have significant costs to the budget and raise financing needs, especially in the event of sharply lower international gas prices, while yielding limited growth dividends, increasing the risk of policy inconsistency, and reform reversals.	Adopt a credible medium-term fiscal adjustment plan supported by coherent monetary and exchange rate policies. Sequence reforms carefully mitigate the social impact of reforms to low-income households through targeted cash transfers. Increase transparency about the state of the economy including through timely publication of economic data and communication.

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Annex III. Impact of Lower Oil Prices on Algeria's Macroeconomic Prospects

This annex assesses a downside scenario in which hydrocarbon price gains normalize faster than under the baseline, weakening fiscal and external balances and reinforcing the need to rebuild buffers, allowing greater exchange-rate flexibility, and advancing fiscal consolidation.

1. The baseline assumes hydrocarbon prices remain high in 2026 before gradually declining as global energy markets normalize. Brent oil prices in the baseline scenario average US$91.2 per barrel in 2026 and US$81.2 in 2027. The alternative scenario assumes faster normalization with Brent oil prices lower than in the baseline for the rest of 2026 and falling further in 2027 (US$80.2 per barrel in 2026, and US$63.1 in 2027, while global food prices are 3–5 percent below baseline. The shock is applied to Algeria's macroeconomic framework through fiscal revenues, exports, imports, inflation, and growth.

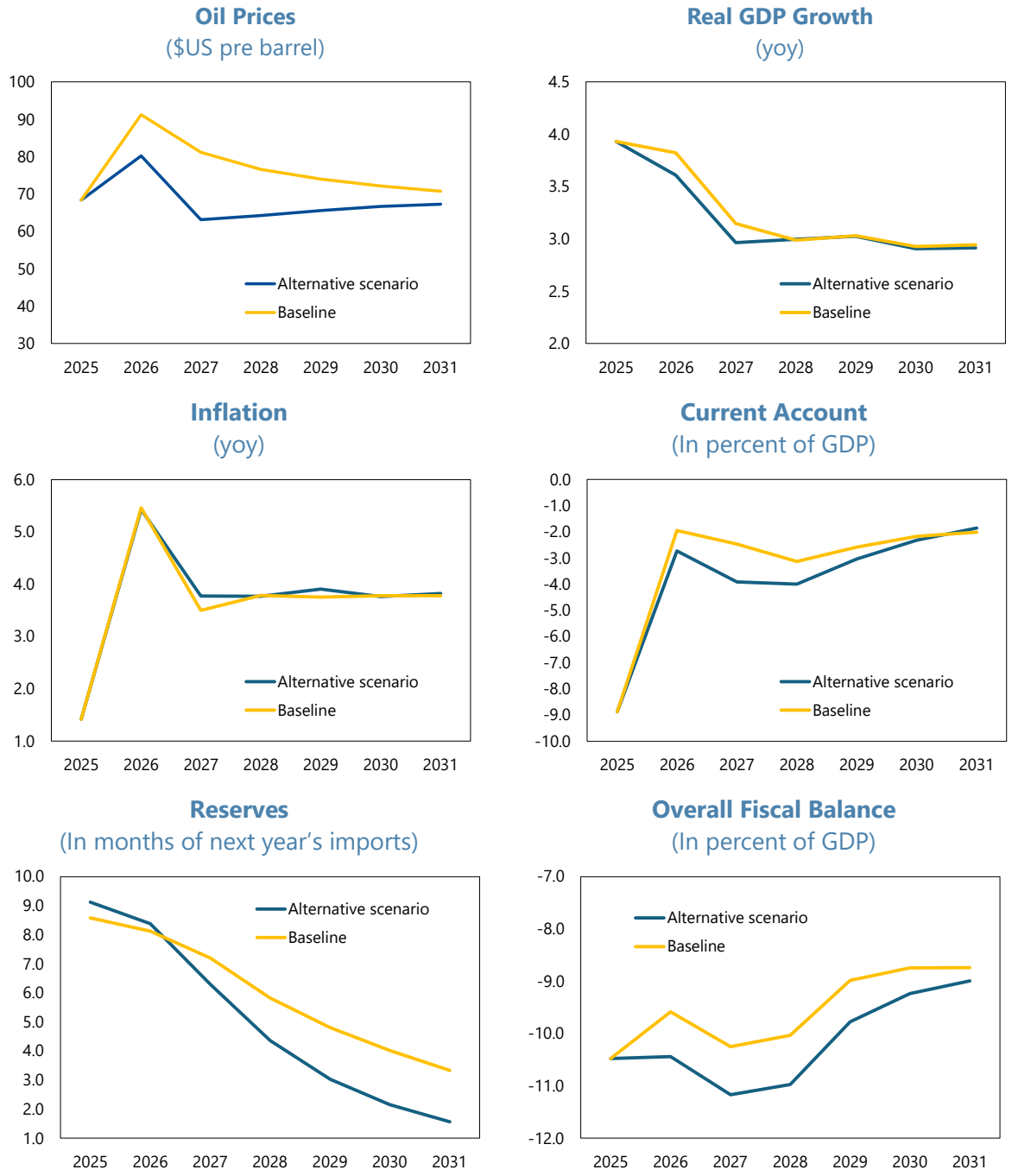
2. The largest effects would occur in 2026–27 (Figure 1). Real GDP growth would be about 0.2 percentage point lower in both years, mainly reflecting weaker domestic demand from lower public spending and tighter import constraints. The inflation impact would be limited, as lower imported inflation would be partly offset by a more depreciated exchange rate and administered prices.

3. External and fiscal impacts would be more significant. Hydrocarbon export values would decline by about US$7 billion in 2026 and US$11 billion in 2027 relative to baseline. The current account balance would deteriorate by almost 1-1.5 percent, reserves would fall well below 3 months of imports, and the fiscal balance would worsen by about 1 percent of GDP (Figure 1). However, disorderly adjustments often occur before the external buffers are fully exhausted. This highlights the urgency of macroeconomic adjustment to safeguard macroeconomic stability.

4. The scenario underscores the importance of beginning credible macroeconomic adjustment while the temporary hydrocarbon windfall provides a more favorable opportunity to rebuild buffers. Greater exchange-rate flexibility would strengthen the economy's capacity to absorb external shocks, while credible fiscal consolidation—supported by nonhydrocarbon revenue mobilization, gradual energy subsidy reform, stronger public financial and investment management, and limited monetary financing—would help safeguard fiscal and external stability.

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Annex III. Figure 1. Alternative Commodity Price Normalization Scenario



Source: IMF estimates and projections.

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Annex IV. External Sector Assessment

Overall Assessment: *The external position of Algeria in 2025 was weaker than the level implied by fundamentals and desirable policies. The current account gap, based on the results from the IMF EBA-lite current account model is estimated at -4.9 percent of GDP in 2025, representing a weakening of Algeria's external position relative to the -1.0 percent gap in 2024. The deterioration of the external position reflects higher imports—driven by large investment projects, normalization following earlier import compression, and strong domestic demand associated with fiscal expansion— as well as lower hydrocarbon exports, resulting in a current account deficit of 8.9 percent for 2025 compared to 1.1 percent in 2024. The large current account deficit in 2025 led to a significant decline in reserves. While foreign reserves remain above adequacy metrics in 2025, and temporarily higher hydrocarbon prices limit the current account deficit in 2026, reserves are expected to gradually decline toward the minimum adequacy level as the current account deficit widens over the medium term. Algeria's external debt remains low, reflecting the authorities' policy of limited external borrowing and the largely closed financial account, but could increase as the authorities start to consider external financing to alleviate domestic financing pressures.*

Potential Policy Responses: *Fiscal consolidation based on a credible medium-term fiscal framework, combined with a more flexible exchange rate and structural reforms to diversify the economy could help support external sustainability in the medium term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Algeria's external assets consist mostly of international reserves which are significantly larger than its FDI liabilities. Algeria's international reserves peaked in 2014 at USD 196bn (including SDR but excluding monetary gold) before oil prices collapsed. Since then, reserves have gradually declined, except in 2022H2-2023H1 when oil prices increased. International reserves reached USD 51bn at end-2025 (less than 9 months of imports).

Assessment. This trajectory of the NIIP, underlines the vulnerability of Algeria's external position to global hydrocarbon prices and policy constraints. Under our baseline scenario current account deficits are expected to be financed by international reserves. We expect limited capital inflows due to the closed financial account, and limited real effective exchange rate movements to help reduce current account deficits and safeguard external sustainability. International reserves are projected to decline to USD 19.8bn (3.3 months of imports) by 2031. Accordingly, the NIIP is projected to deteriorate to US$-12.1 bn billion (-3.5 percent of GDP) by 2031.

2025 (% GDP)	NIIP: 13.0	Gross Assets: 28.4	Debt Assets: 1.1	Gross Liab.: 15.4	Debt Liab.: 7.4

Current Account

Background. Algeria's current account is dominated by trade in goods. The share of hydrocarbon in goods exports, currently at 89 percent, is expected to fall gradually reflecting diversification efforts by the government. The current account deteriorated significantly in 2025, reaching -8.9 percent of GDP, compared to -1.1 in 2024. The deterioration reflected a surge in goods imports from 16.8 percent of GDP to 21.9 percent in 2025 and a decline in hydrocarbon exports from 16.7 percent of GDP to 14 percent in 2025 due to lower export prices and volumes.

_____

1/ The assessment uses the EBA-lite template from April 2026. The assessment is subject to considerable uncertainty given the sensitivity of model estimates to temporary import dynamics and Algeria's hydrocarbon-dominated export structure. See also IMF 20125. "The External Balance Assessment Methodology: 201 Update", IMF Working Paper 19/65.

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Under the baseline scenario, the current account deficit narrows significantly to 1.9 percent in 2026, due to the spike in hydrocarbon prices because of the conflict in the Middle East, and lower imports owing to the completion of large investment projects and import compression policies to protect FX reserves and reduce fraud. Over the medium term, the current account balance is expected to range between 2–3 percent of GDP, as oil prices normalize, nonhydrocarbon exports expand rapidly, while imports stabilize at a low level (in percent of GDP) due to compression and import-substitution policies.

Assessment. The IMF's regression based EBA-lite current account methodology suggests that Algeria's current account balance in 2025 is weaker than its norm implied by fundamentals and desirable policies, which translates into an overvaluation of the REER. Higher hydrocarbon prices in 2026 will likely reduce the gap, but it is expected to widen again as hydrocarbon prices moderate. Due to the strong historical correlation between fiscal and external deficits, fiscal consolidation would remain the main policy tool to help narrow the policy gap and bring the current account balance closer to its norm. Greater nominal exchange rate flexibility would also help reduce the current account gap.

Compared to the previous Article IV consultation, the estimated external gap widened significantly. This largely reflects the sharp increase in imports in 2025, updated assumptions underlying the EBA-lite framework, and the sensitivity of the model to Algeria's hydrocarbon-dominated export structure and trade elasticities. The import increase partly reflects temporary factors, including large investment projects, normalization following earlier import compression, and strong domestic demand associated with fiscal expansion. Accordingly, the change in estimated overvaluation should not be interpreted as evidence of a sudden deterioration in external competitiveness.

- The EBA-lite current account model suggests that the cyclically adjusted current account was below the current account norm implied by medium-term fundamentals and desirable policies in 2025. The current account is adjusted for the temporary surge in investment goods imports in 2025, lowering the adjusted current account deficit to 5.6 percent. The current account gap was estimated at -4.9 percent of GDP. Relative policy gaps explain most of the difference, including a large loss in reserve (instead of exchange rate flexibility) and a significant cyclically adjusted fiscal deficit. Given an assumed elasticity of the REER to the current account of -0.2, this translates into a medium-term overvaluation of the Dinar REER by 30.2 percent. However, this estimate is subject to considerable uncertainty, given the sensitivity of the results to assumptions on trade elasticities and the size of the cyclical adjustments.[2] As highlighted in previous assessments, the large and persistent parallel market premium suggests that external pressures may also reflect distortions in FX allocation and limited market-based price discovery, complicating the interpretation of model-based exchange rate estimates.
- Under the consumption allocation rules for exporters of exhaustible resources, the current account norm is estimated to be 7.8 percent of GDP. This is the size of the current account surplus that is consistent with intergenerational equity i.e. a current account that generates enough savings over the long term to sustain indefinitely (including after the depletion of oil and gas reserves) a constant non-oil current account deficit in real per capita terms. The norm compares to a projected cyclically adjusted current account of -2.0 percent of GDP, indicating that Algeria's current account trajectory is inconsistent with intergenerational equity.[3] Given the projected current account deficits, a significant current account gap of -9.8 percent remains over the medium term.

2/ For example, it is plausible that hydrocarbon exports (which account for a large share of exports) would only adjust marginally to real exchange rate movements, which would imply a smaller elasticity and a larger REER gap.
3/ Bems, R. and I. de Carvalho Filho. 2009. "Exchange Rate Assessments: Methodologies for Oil-Exporting Countries", IMF Working Paper 09/281.

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Algeria: EBA-lite Model Results, 2025		
	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-8.9**	
Cyclical contributions (from model) (-)	0.0	
Additional temporary/statistical factors (-) 2/	-2.9	
Natural disasters and conflicts (-)	-0.3	
Adjusted CA	**-5.6**	
CA Norm (from model) 3/	**-0.8**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-0.8**	
CA Gap	**-4.9**	**0.2**
o/w Relative policy gap	-3.7	
Elasticity	-0.2	
REER Gap (in percent)	**30.2**	**-1.2**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the temporary import surge.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The REER has appreciated by roughly 18 percent since mid-2022, following a sustained depreciation of around 15 percent over 2014 to 2022. To a large extent the fluctuations in the REER have reflected movement in the NEER, suggesting that differences between Algeria's inflation and its trading partners' have not contributed significantly to REER fluctuations. The appreciating REER reduces Algeria's nonhydrocarbon export competitiveness and undermines its efforts for diversification.

Assessment. The EBA REER model implies an undervaluation of the Dinar REER by 1.2 percent, while the CA model suggests a large overvaluation of 30.2 percent. Staff assessment gives more weight to the EBA-lite CA model in assessing the direction of the external imbalance, which has often proven to be more informative and reliable than the REER model. The latter tends to be a poor fit for many countries as it does not adequately capture country-specific characteristics (IMF, 2019).

Capital and Financial Accounts: Flows and Policy Measures

Background. Algeria's economy remains mostly closed to external capital flows. Inward FDI averaged 0.4 percent of GDP over the last five years and was mostly concentrated in the energy sector. In 2025, FDI inflows were only 0.4 percent of GDP. There are no portfolio flows.

Assessment. Algeria could attract more FDI by strengthening the business environment and governance, reducing the regulatory burden (including for imports), improving the functioning of product and labor markets and reducing price distortions, enhancing competition and leveling the playing field by reducing the state footprint in the economy, and facilitating greater integration into regional and global markets.

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FX Intervention and Reserves Level

Background. Algeria's de jure exchange rate arrangement is "managed floating", while the de facto exchange rate arrangement is a "stabilized" arrangement. The Bank of Algeria (BA) sets the official exchange rate on daily basis and makes foreign exchange available to banks at that rate on their request. The BA sets the buying and selling rates of the dinar against the US dollar in this market within a narrow margin of 0.15 dinar.

Despite higher hydrocarbon prices because of the Middle East conflict, Algeria's official reserves are projected to fall over the next five years due to current account deficits. Official reserves (excluding gold) in 2025 stood at USD 51bn or 8.6 months of next year's imports and are projected to fall to USD 19.8 or 3.3 months of next year's imports in 2031.

Assessment. Algeria's international reserves (including gold) are projected to decline from 235 percent of the IMF ARA metric in 2025 to slightly less than 100 percent by 2031.

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Annex V. Sovereign Risk and Debt Sustainability Analysis

Algeria faces a "High" risk of sovereign stress. The central government debt ratio is projected to increase over the medium term and beyond, driven by large projected primary deficits, including in 2025-26. Large uncertainty, especially from volatile hydrocarbon revenues, adds to medium- to long-term risks of sovereign stress. With limited alternative sources of financing, significant gross public financing needs could put pressure on the domestic banking system, crowd out private activity, and aggravate the sovereign-bank nexus. Staff recommends additional fiscal rebalancing to stabilize the debt ratio over the medium term, while considering external financing only as part of a broader debt management strategy. Staff also urges the Algerian authorities to expand the perimeter of available debt data, prepare a debt management strategy, and develop domestic debt markets.

1. Central government debt is almost entirely denominated in dinars, and a large share is non-marketable. As of 2024, nearly all the central government debt was held domestically and about 42 percent was held by the BA, reflecting the authorities' policy to avoid external borrowing and the legacy of monetization of the budget deficit during 2017–19. The reported data used for this SR-DSA do not capture all public-sector liabilities and fiscal risks, as they exclude some intra-government claims (e.g., use of post office and National Investment Fund deposits) and contingent liabilities, including future social security deficits.

2. The central government debt-to-GDP ratio is projected to increase over the medium to long term, in the absence of additional fiscal rebalancing. The primary deficit increased in 2024 to 12.9 percent of GDP (from 4.3 percent in 2023) but the use of all the funds accumulated on the Revenue Regulation Fund (FRR) to finance the deficit and negative real interest rates, limited the increase in the central government debt ratio to 48.1 percent of GDP (from 47.7 percent in 2023). Primary deficits for 2025 and 2026 are projected to narrow, supported in 2026 by higher hydrocarbon revenues, but would remain large and continue to push up central government debt. With the FRR depleted, further gradual reduction in fiscal deficits in the medium term would not be sufficient to stabilize the debt ratio under the baseline.

3. Staff assesses Algeria's overall risk of sovereign stress as "High" while the near-term risk of sovereign stress is assessed as "Moderate". The decline in hydrocarbons revenues and the depletion of the FRR have sharply reduced fiscal buffers, but the large share of non-marketable debt and the near absence of external central government debt remain important mitigating factors. However, risks build over the medium term as the central government debt ratio is not projected to stabilize, gross financing needs remain sizable, and the fiscal path is subject to high uncertainty from volatile hydrocarbon revenue. Stress tests suggest that an illustrative banking crisis shock would worsen central government debt and gross financing needs, underscoring the risks of reliance on domestic bank financing and the sovereign-SOB nexus. The SR-DSA also triggered two (illustrative) long-run risk modules: (i) significant gross financing needs in the next years would push large amortizations falling due over the long term; these would need to be rolled over and their costs would further fuel the increase in the central government debt ratio; and (ii) in the absence of significant discoveries of new hydrocarbon fields, and possibly because of shifting global demand

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during the energy transition, a gradual decline in hydrocarbon production (and associated fiscal revenue) would increase public deficits and result in additional debt build-up.

4. Staff recommends more ambitious fiscal consolidation, together with stronger debt management. The authorities should expand the perimeter of available debt data, prepare a comprehensive debt management strategy, and develop domestic debt markets. Ongoing diversification of financing sources efforts through Islamic and external financing should be embedded in a comprehensive debt-management strategy and complement—not substitute for—fiscal adjustment.

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Annex V. Figure 1. Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**High**	Staff assesses the overall risk of sovereign stress as 'High'. While Algeria has almost no external public debt, fiscal buffers have shrinked and medium-term projections indicate a 'high' risk of sovereign stress and significant increase in public debt. A more prudent fiscal stance would help stabilize the debt ratio (per staff's policy scenario).
Near term 1/			
Medium term	**High**	**High**	Staff assesses medium-term risks of sovereign stress as 'High', consistent with the mechanical signal, reflecting the baseline's non-stabilization of public debt over the medium term, the risks from volatile hydrocarbon revenues (which contribute to the wide range of possible outcomes over a five-year horizon), and elevated gross financing needs. A banking sector shock, natural disasters and/or the realisation of contingent liabilities could significantly add to financing constraints.
Fanchart	**High**	...	
GFN	**High**	...	
Stress test	Bank. Crisis Comm. Prices Cont. Liabty. Nat. Diast.	...	
Long term	...	**High**	Staff assesses long-term risks of sovereign stress as 'High', as pressures from social security deficits would add to pressures on public debt on top of the factors that result in the assessment of 'High' medium-term risk of sovereign stress. Transition and physical risks from climate change add to long-term vulnerabilities.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Staff assesses Algeria's public debt to have a 'High' overall risk of sovereign stress. Large current and projected primary deficits and associated debt service will increase the public debt level and Gross Financing Needs (GFNs) significantly. Accordingly, staff projects that public debt will not stabilize in the baseline scenario. The fiscal path is also subject to large uncertainty, reflecting the dependence on volatile hydrocarbon revenue. Medium-term risks are also high because of large (re)financing needs in a context of heavy reliance on domestic bank financing. Important mitigating factors remain however including the very small share of external public debt and the large share of non-marketable debt on favorable financing terms. A more prudent fiscal stance would help stabilize the debt ratio.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

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Annex V. Figure 2. Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					0	The civil servants' pension fund CNR is insolvent and requires large government transfers.

2. Subsectors included in the chosen coverage in (1) above:

		Subsectors captured in the baseline	Inclusion	
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
	2	Extra budgetary funds (EBFs)	No	Not applicable
	3	Social security funds (SSFs)	No	
	4	State governments	No	
	5	Local governments	No	
	6	Public nonfinancial corporations	No	
	7	Central bank	No	
	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	The government uses deposits with Algerie Poste and SOE deposits as funding sources. The resulting stock of liabilities is not reported by the authorities and not included in government debt.

	Basis of recording		Valuation of debt stock			
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	

5. Debt consolidation across sectors:	Consolidated	Non-consolidated	

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
	2	Extra-budget. funds									0
	3	Social security funds									0
	4	State govt.									0
	5	Local govt.									0
	6	Nonfin pub. corp.									0
	7	Central bank									0
	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

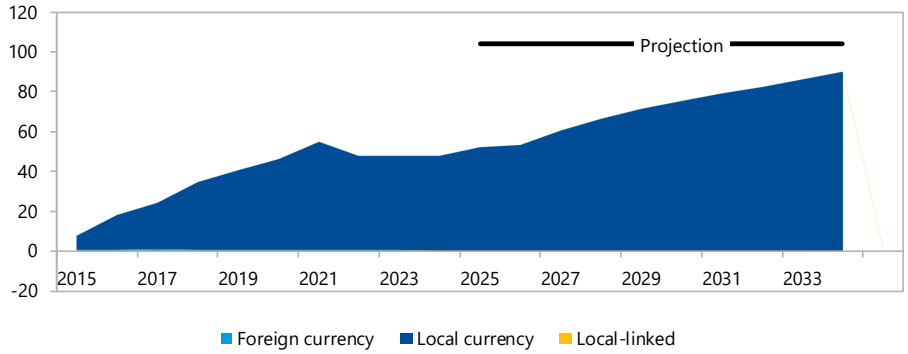
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Commentary: The fiscal data used in this SR-DSF cover the central government. Intra-public sector claims could add to the debt stock, as use of deposits of public entities (like those from the post office) have supported financing the deficit and are not recorded in the debt stock. Algeria will also face deficits in social security funds over the medium-to-long term, adding to contingent liabilities.

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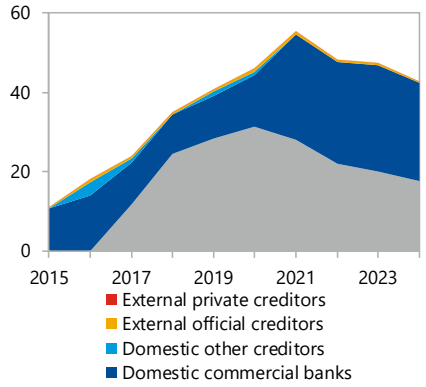
Annex V. Figure 3. Central Government Debt Structure Indicators

Debt by Currency (Percent of GDP)



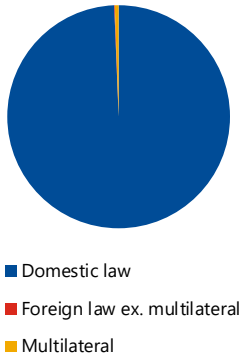
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



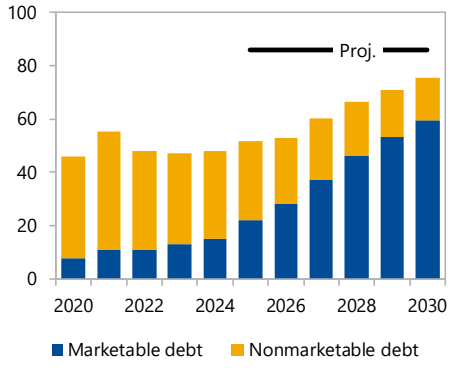
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2024 (percent)



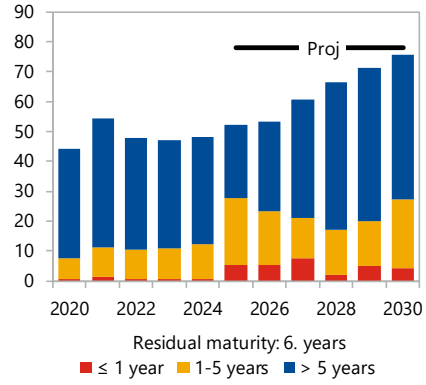
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Public debt is primarily domestic and owed to the central bank and commercial banks reflecting the authorities' policy of avoiding external borrowing and the run-up of non-marketable debt in recent years (including monetary financing). Around 99 percent of debt is held domestically and denominated in dinars. While this policy limits public debt foreign exchange rate exposure, it raises concerns regarding the domestic banking market capacity to absorb projected growing GFN.

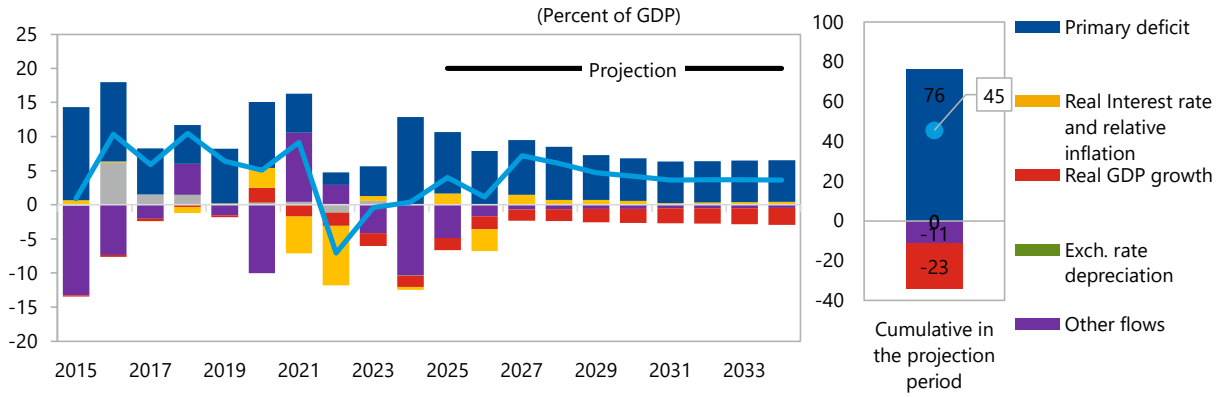
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Annex V. Figure 4. Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	48.1	52.1	53.2	60.4	66.5	71.2	75.4	79.0	82.7	86.3	90.0
Change in public debt	0.4	4.0	1.1	7.2	6.1	4.7	4.2	3.6	3.6	3.7	3.6
Contribution of identified flows	0.4	4.0	1.1	7.2	6.1	4.7	4.2	3.6	3.6	3.7	3.6
Primary deficit	12.9	9.0	7.9	8.0	7.7	6.6	6.2	6.1	6.1	6.1	6.1
Noninterest revenues	23.8	26.3	25.4	23.9	22.8	23.3	23.4	23.4	23.4	23.3	23.4
Noninterest expenditures	36.6	35.3	33.3	31.9	30.5	29.9	29.7	29.4	29.4	29.4	29.4
Automatic debt dynamics	-2.1	-0.2	-5.1	-0.2	-1.0	-1.3	-1.4	-1.9	-2.0	-2.0	-2.0
Real interest rate and relative inflation	-0.4	1.6	-3.2	1.5	0.7	0.7	0.6	0.2	0.3	0.4	0.4
Real interest rate	-0.4	1.6	-3.2	1.5	0.7	0.7	0.6	0.2	0.3	0.4	0.4
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.7	-1.8	-1.9	-1.6	-1.8	-2.0	-2.0	-2.2	-2.3	-2.4	-2.5
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-10.4	-4.8	-1.6	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-10.4	-4.8	-1.6	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4
Contribution of residual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	20.9	18.9	14.2	15.3	17.0	11.1	13.3	12.7	12.9	13.3	14.0
of which: debt service	8.1	9.9	6.3	7.3	9.3	4.5	7.1	6.6	6.8	7.2	7.9
Local currency	8.0	9.8	6.2	7.3	9.3	4.5	7.1	6.6	6.7	7.2	7.9
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	3.7	3.9	3.8	3.1	3.0	3.0	2.9	2.9	2.9	2.9	2.9
Inflation (GDP deflator; percent)	3.4	-0.4	10.8	1.5	2.7	2.7	2.8	3.4	3.4	3.4	3.4
Nominal GDP growth (percent)	7.2	3.6	15.1	4.7	5.8	5.8	5.8	6.5	6.4	6.4	6.4
Effective interest rate (percent)	2.5	3.1	3.7	4.4	4.0	3.8	3.7	3.8	3.8	3.9	4.0

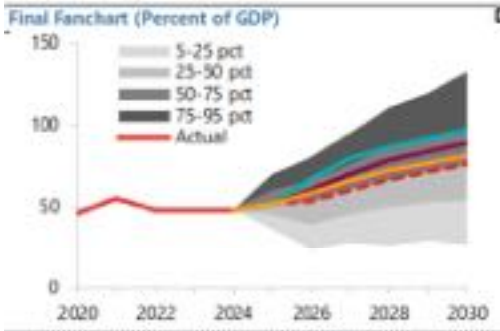
Contribution to Change in Public Debt



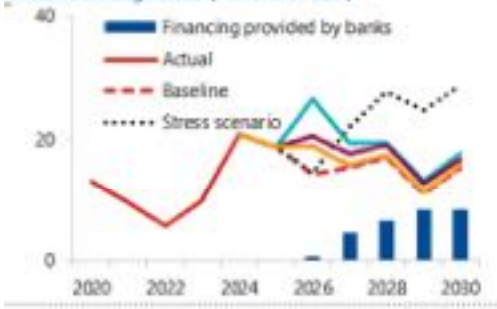
Commentary: Public debt is expected to rise over the forecast horizon in spite of a medium-term consolidation envisaged in the staff baseline scenario. A more ambitious fiscal adjustment would help stabilize the public debt path.

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Annex V. Figure 5. Medium-Term Risk Assessment



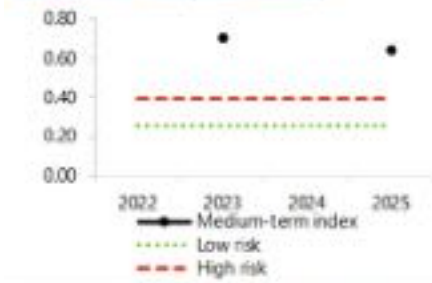
Debt fanchart module	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width (percent of GDP)	105.5	1.5	
Probability of debt non-stabilization (percent)	99.0	0.8	
Terminal debt-to-GDP x institutions index	61.0	1.3	
Debt fanchart index (DFI)		3.7	
Risk signal: 3/		High	



Gross financing needs (GFN) module	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN (percent of GDP)	15.3	5.2	
Initial Banks' claims on the gen. govt (pct bank assets)	34.4	11.1	
Chg. in banks' claims in stress (pct banks' assets)	23.5	7.9	
GFN financeability index (GFI)		24.2	
Risk signal: 4/		High	

Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	3.7	0.8	0.5	0.4
GFN financeability index	24.2	0.5	0.5	0.2
Medium-term index		0.6		
Risk signal: 5/		High		
Final assessment:		High		

Prob. of missed crisis, 2025-2030, if stress not predicted: 81.8 pct.

Prob. of false alarms, 2025-2030, if stress predicted: 2.3 pct.

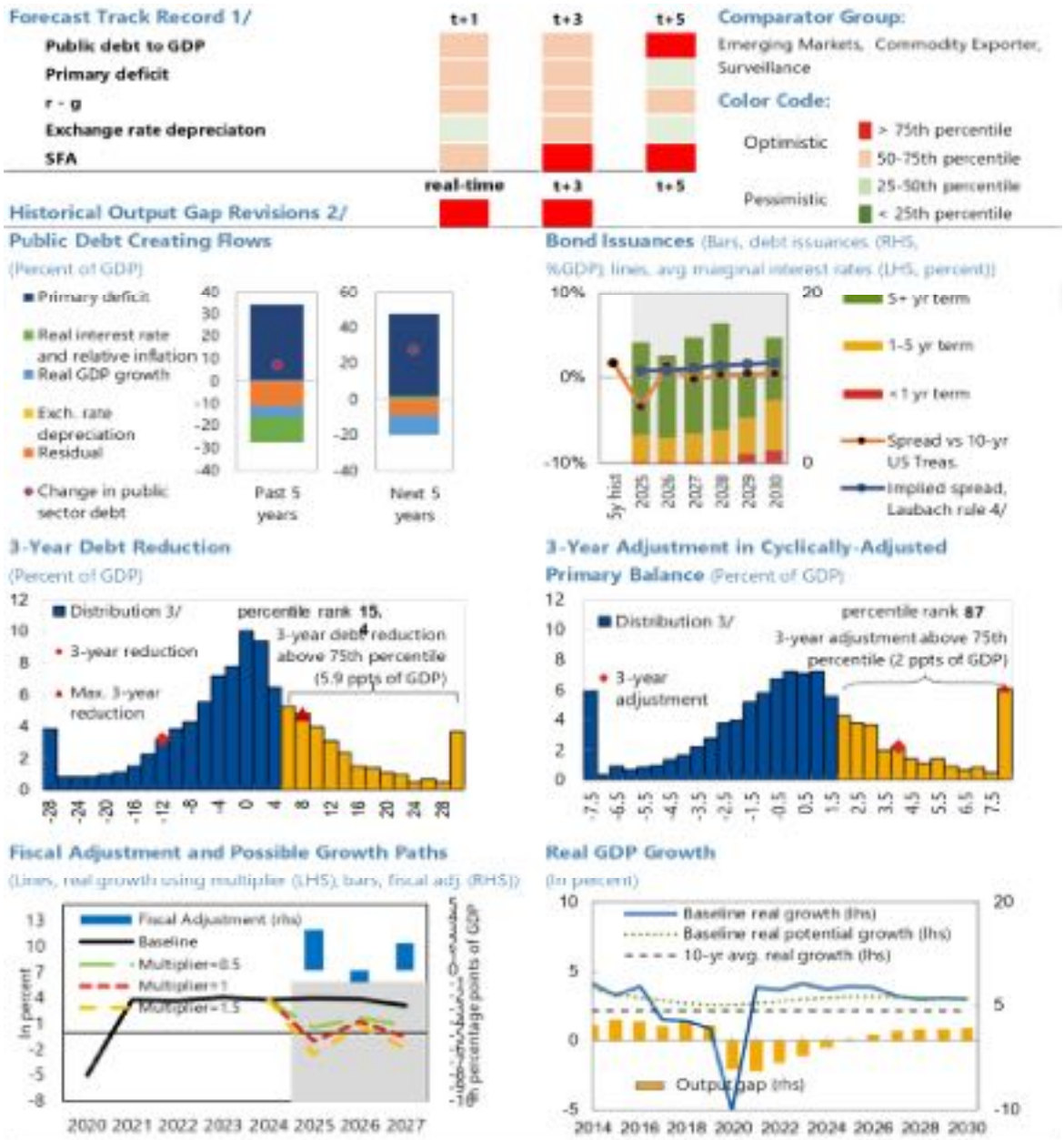
Commentary: Both the Debt Fan chart Module and Gross Financing Needs (GFN) Financeability Module suggest a 'High' risk of sovereign stress over the medium term. Stress tests indicate that Algeria's public debt path and associated GFNs would be impacted by an (illustrative) banking stress shock, which would push the public debt ratio to 97 percent of GDP by 2030. Such a shock illustrates the sovereign/bank nexus (ie., debt feedback loop) with would also challenge the government's ability to meet its funding needs given its nearly exclusive reliance on domestic financial markets. The impact of a commodity price shock would also be sizable, pushing the public debt ratio to 89 percent of GDP by 2030. The effects of a natural disaster shock and a contingent liability shock on debt are more moderate but they would also raise significant liquidity challenges with GFNs increasing by about 5 percentage points of GDP the year of the shock.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

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Annex V. Figure 6. Realism of Baseline Assumptions



Commentary: The realism analysis does not suggest any major concerns. Residuals for the next 5 years account for the other flow impacting the debt : in Algeria their negative forecasted contribution is due to the depletion of the FRR in 2024 to finance the budget. The 2025 consolidation is mostly due to large, one-off dividend payments from SOEs and the Bank of Algeria to the central government which are expected to have limited impact on growth in 2025.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

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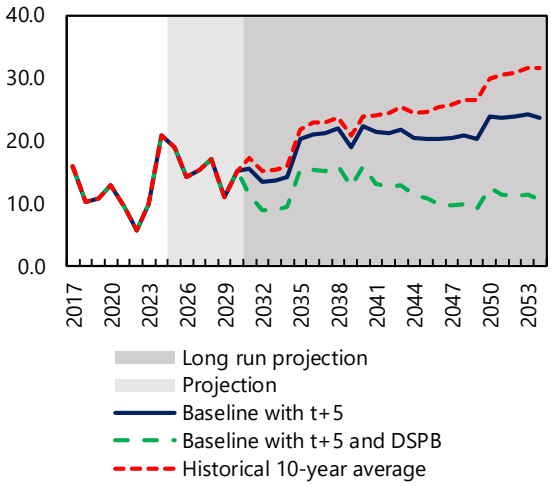
Annex V. Figure 7. Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	**Natural Resources**
	Health	Climate change: Mitigation	

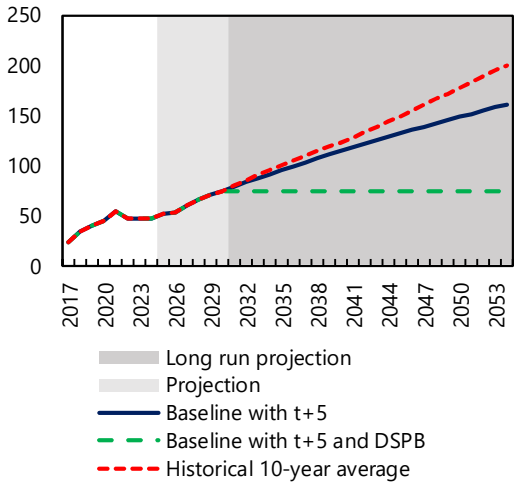
Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



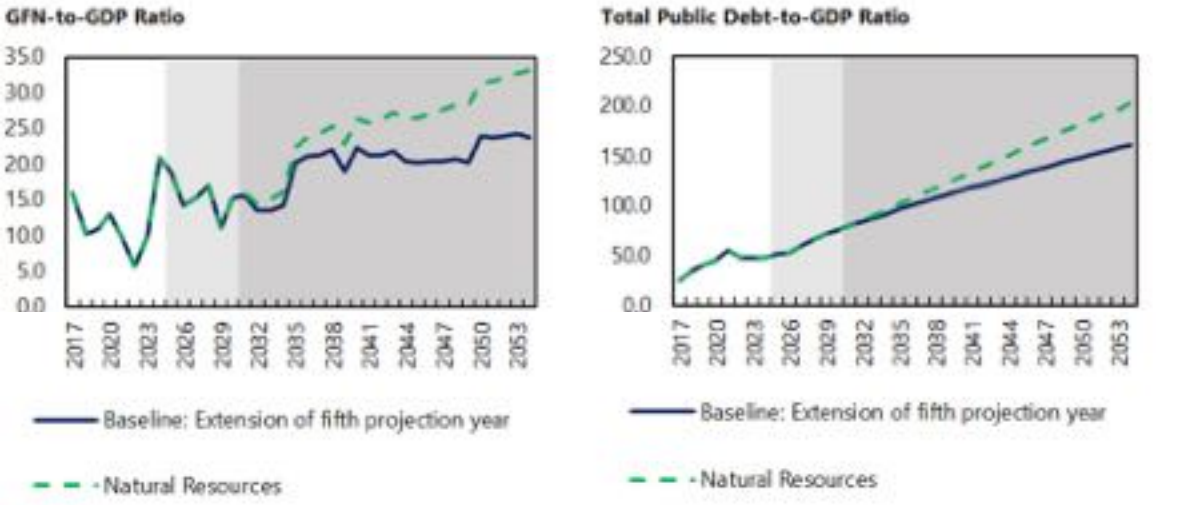
Total Public Debt-to-GDP Ratio



Commentary: Baseline long-term projections point to a "High" risk of sovereign stress with growing GFN (due to an increasing debt service) leading to a non-stabilized debt-to-GDP path. In the absence of reforms, pressures from social security deficits could add to fiscal vulnerabilities over the long term.

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Annex V. Figure 8. Natural Resources



Commentary: In the absence of new field discoveries, the progressive erosion of oil and gas reserves over the long term would weigh on hydrocarbons revenues, widening the GFN-to GDP ratio. However, the authorities current structural reforms to support the diversification of the economy could mitigate this risk.

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Annex VI. External Debt Analysis

Total external debt in Algeria remains very low and is expected to decline gradually over the medium term. However, the external debt trajectory is sensitive to current account shocks.

1. Algeria's external debt remains very low reflecting the authorities' policy of limited external borrowing and relatively closed financial account. External debt stood at 1.1 percent of GDP in 2025, and it is projected to decline to around 0.5 percent of GDP by 2030 (Annex VI, Table 1). Current account deficits are expected to be financed mainly through reserve drawdowns rather than additional external borrowing under the baseline. Stress tests suggest that external debt dynamics are subject to risks, most notably from an adverse current account shock (Annex VI Figure 2).

Annex VI. Table 1. Algeria: External Debt Sustainability Framework, 2021–2031

(In percent of GDP, unless otherwise indicate

	Actual					Projections						
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Debt-stabilizing non-interest current account 6/
Baseline: External debt	1.7	1.3	1.3	1.1	1.1	1.0	0.8	0.7	0.6	0.6	0.5	**-1.0**
Change in external debt	-0.4	-0.3	-0.1	-0.2	0.0	-0.1	-0.2	-0.1	-0.1	-0.1	0.0	
Identified external debt-creating flows (4+8+9)	1.7	-8.7	-3.2	0.5	8.3	1.2	1.5	2.1	1.6	1.2	1.0	
Current account deficit, excluding interest payments	2.4	-8.5	-2.7	1.0	8.9	1.9	2.5	3.1	2.6	2.2	2.0	
Deficit in balance of goods and services	1.3	-9.9	-3.4	0.6	9.0	1.1	2.2	3.1	2.5	2.0	1.8	
Exports	22.5	30.6	24.0	19.6	17.1	21.0	18.1	17.1	17.8	18.2	18.4	
Imports	23.8	20.7	20.6	20.2	26.1	22.1	20.2	20.2	20.2	20.2	20.2	
Net non-debt creating capital inflows (negative)	-0.5	0.0	-0.5	-0.4	-0.5	-0.7	-1.0	-1.0	-1.0	-1.0	-1.0	
Automatic debt dynamics 1/	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contribution from nominal interest rate	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contribution from real GDP growth	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contribution from price and exchange rate changes 2/	-0.2	-0.2	-0.1	-0.1	0.0	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-2.1	8.4	3.1	-0.8	-8.3	-1.3	-1.6	-2.2	-1.6	-1.2	-1.1	
External debt-to-exports ratio (in percent)	7.3	4.4	5.4	5.4	6.3	4.6	4.4	4.0	3.5	3.1	2.8	
Gross external financing need (in billions of US dollars) 4/	6.7	-17.0	-4.2	4.7	27.0	9.1	10.8	12.7	10.6	9.2	8.6	
in percent of GDP	3.6	-7.5	-1.7	1.7	9.5	2.8	3.2	3.8	3.1	2.7	2.5	
Scenario with key variables at their historical averages 5/						**1.0**	**4.4**	**7.3**	**10.8**	**14.7**	**18.7**	**-0.7**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	3.8	3.6	4.1	3.7	3.9	3.8	3.1	3.0	3.0	2.9	2.9	
GDP deflator in US dollars (change in percent)	8.7	17.2	5.6	4.6	1.7	9.5	1.7	-3.2	-2.4	-2.1	-1.5	
Nominal external interest rate (in percent)	3.8	5.9	9.8	8.5	1.0	0.8	0.7	0.7	0.7	0.8	0.9	
Growth of exports (US dollar terms, in percent)	68.0	65.0	-14.0	-11.1	-7.8	39.2	-9.6	-5.5	4.4	3.4	2.4	
Growth of imports (US dollar terms, in percent)	3.4	5.4	9.4	6.6	36.3	-3.8	-3.8	-0.5	0.7	0.8	1.4	
Current account balance, excluding interest payments	-2.4	8.5	2.7	-1.0	-8.9	-1.9	-2.5	-3.1	-2.6	-2.2	-2.0	
Net non-debt creating capital inflows	0.5	0.0	0.5	0.4	0.5	0.7	1.0	1.0	1.0	1.0	1.0	

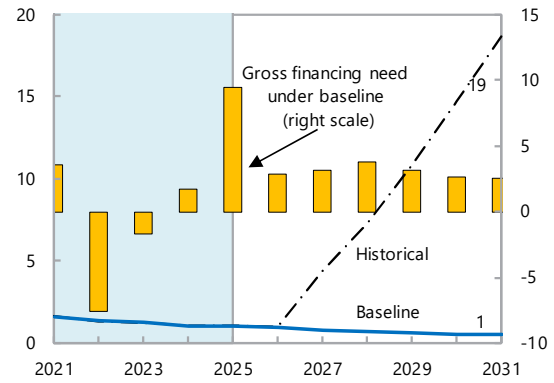
1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

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Annex VI. Figure 1. External Debt Sustainability: Bound Test 1/ 2/

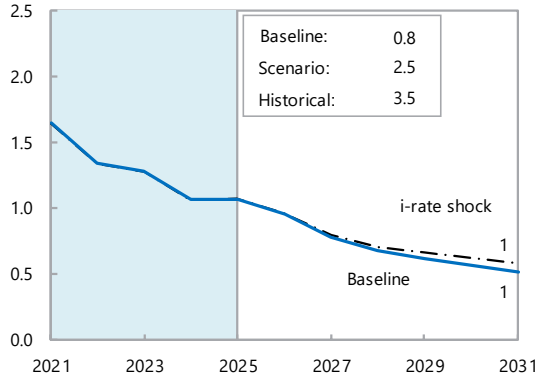
(External debt in percent of GDP)

Baseline and Historical Scenarios



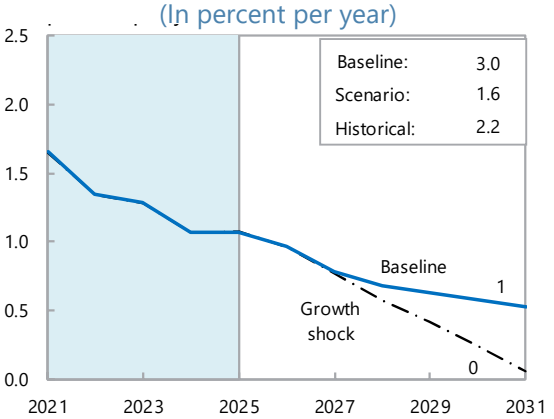
Interest Rate Shock

(In percent)



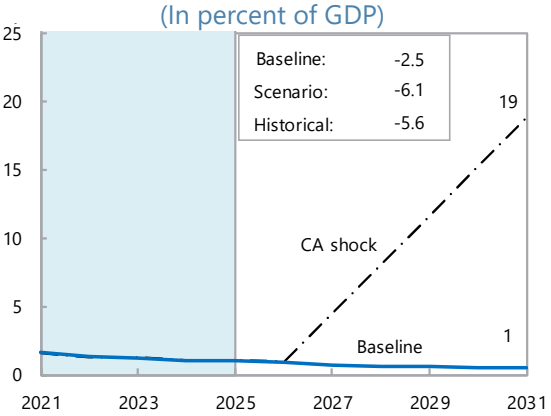
Growth Shock

(In percent per year)

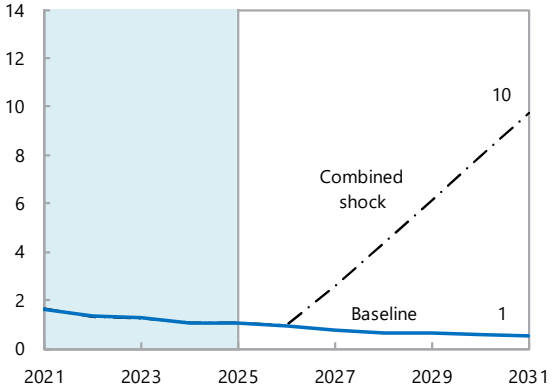


Non-interest Current Account Shock

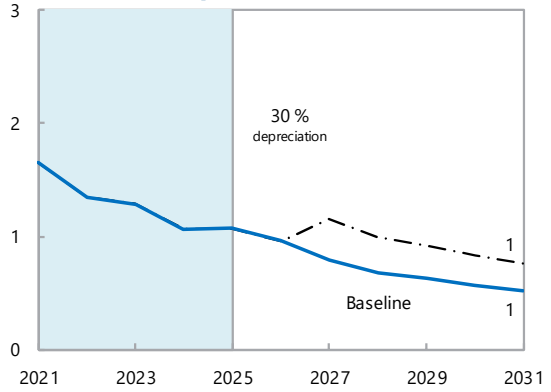
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



Sources: IMF, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2023.

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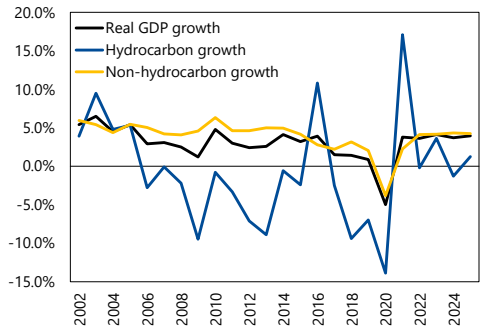
Annex VII. Algeria's Potential Growth

Estimating potential output and the output gap is important for calibrating macroeconomic policies and identifying reforms needed to support stronger and more sustainable long-term growth. This annex uses a range of techniques to estimate Algeria's potential output and finds that potential growth has decelerated over time, despite the post-COVID rebound. Raising medium-term growth prospects will require sustained structural reforms to boost productivity and improve resource allocation, including by strengthening human capital, improving the business environment, governance, and competition, reducing regulatory and trade distortions, leveling the playing field between the private sector and SOEs, and supporting diversification.

A. Introduction

1. Pre-COVID growth deceleration points to structural constraints that could weigh on medium-term growth (Annex VII. Figure 1 and Annex VII. Table 1). Nonhydrocarbon output growth slowed from 5.1 percent over 2002–07, to 4.9 percent over 2008–14 and 2.9 percent over 2015-19, before picking up to 4.2 percent over 2022–25, reflecting a rebound in domestic demand and fiscal loosening. Sustaining the post-COVID rebound will require recent and planned reforms to translate into stronger productivity, more efficient investment, and greater private-sector dynamism. Pre-COVID, the hydrocarbon sector had mostly been contracting, followed by a surge in 2021.

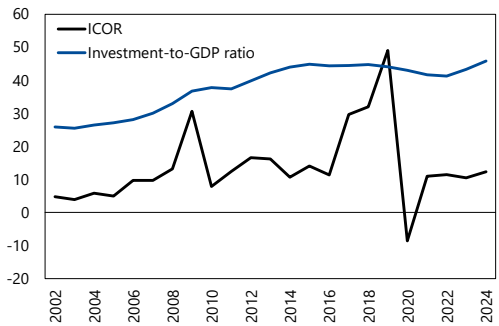
Annex VII. Figure 1. Real Output Growth



Sources: Algerian authorities; and IMF staff calculations.

2. Algeria's growth appears driven by an expansion of labor and capital inputs, rather than productivity. Employment growth mimicked the real GDP deceleration while investment remained robust (Annex VII. Table 1). High investment led to robust growth in the stock of fixed capital, but Algeria's high incremental capital-output ratio (ICOR) suggests that investment has translated into relatively modest growth gains. (Annex VII. Figure 2). Productivity growth, the main source of long-term growth, has been mostly negative since 2002 (Annex VII. Figure 3).[1] Growth has therefore been largely "extensive," relying on factor accumulation rather than more efficient use of inputs, productivity gains, and technology adoption (e.g., more "intensive").

Annex VII. Figure 2. Investment-to-GDP Ratio and ICOR



Sources: Algerian authorities, Penn World Table, and IMF staff calculations.

[1] Total factor productivity (TFP) is estimated using a production function approach.

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Annex VII. Table 1. Algeria: Selected Economic Indicators and Potential Output

	History					Projection
	2002-07	2008-14	2015-19	2020-21	2022-25	2026-2031[1/]
Real GDP growth	**4.6%**	**2.9%**	**2.2%**	**-0.6%**	**3.8%**	**3.1%**
Hydrocarbon growth	3.4%	-4.6%	-2.1%	1.6%	0.8%	1.3%
Non-hydrocarbon growth	5.1%	4.9%	2.9%	-0.8%	4.2%	3.4%
Employment growth	**4.5%**	**2.5%**	**2.0%**	**-3.9%**	**4.0%**	**1.6%**
Hours worked growth	-0.1%	-0.3%	0.5%	-1.2%	0.3%	0.0%
Human capital growth	0.8%	1.3%	1.7%	1.4%	1.2%	1.3%
Growth of capital stock	**4.2%**	**5.8%**	**5.3%**	**3.4%**	**4.3%**	**4.1%**
Hydrocarbon	7.2%	5.2%	2.9%	-0.1%	-1.0%	-1.0%
Non-hydrocarbon	3.7%	5.9%	5.7%	4.1%	5.1%	4.7%
TFP growth	**-0.1%**	**-1.6%**	**-2.5%**	**-0.4%**	**-1.1%**	**-0.3%**
Hydrocarbon TFP growth	-2.8%	-4.2%	-14.9%	1.0%	-1.1%	0.3%
Non-hydrocarbon TFP growth	0.6%	0.1%	-1.9%	-0.8%	-1.1%	-0.3%
Potential output growth						
Univariate filters[2/]						
Potential output growth	4.5%	3.0%	1.8%	1.0%	3.4%	3.2%
Hydrocarbon potential output growth	3.1%	-4.1%	-2.6%	-1.7%	1.6%	1.2%
Non-hydrocarbon potential output growth	5.0%	4.8%	2.5%	1.4%	3.6%	3.4%
Kalman filter						
Non-hydrocarbon potential output growth	5.0%	4.7%	2.4%	1.3%	3.3%	…
Production function approach						
Potential output growth	4.3%	3.0%	1.8%	0.9%	3.2%	3.2%
Labor contribution	3.0%	1.9%	1.2%	1.0%	2.0%	1.4%
Capital contribution	2.0%	2.7%	2.5%	1.6%	2.0%	2.0%
TFP contribution	-0.7%	-1.6%	-1.9%	-1.8%	-0.8%	-0.2%
Non-hydrocarbon potential output growth	4.8%	4.8%	2.5%	1.3%	3.5%	3.4%
Labor contribution	3.0%	1.9%	1.2%	1.0%	2.0%	1.4%
Capital contribution	1.7%	2.8%	2.7%	1.9%	2.4%	2.2%
TFP contribution	0.1%	0.1%	-1.3%	-1.6%	-0.9%	-0.3%

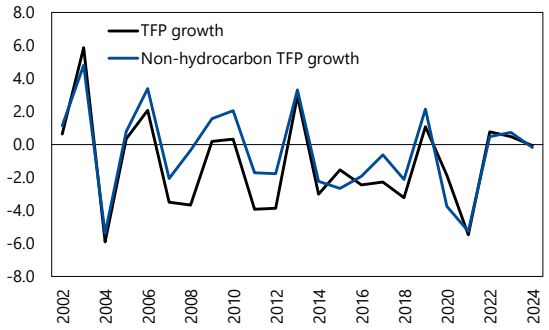
Source: Algerian authorities, ILO, Penn Word Table, and IMF staff calculations. See details in Table A2.
1/IMF staff projection.
2/ Average of four filters: Hodrick-Prescott (HP), Butterworth (BW), Baxter–King (BK), and Christiano–Fitzgerald (CF) filters.

3. Estimating potential output can inform cyclical macroeconomic policies and structural policies to strengthen long-term growth. The rest of the annex discusses different techniques used to estimate potential output and its drivers, and policy recommendations.

B. Estimating Potential Output

4. Potential output is estimated using multiple approaches: univariate filters, a production function, and a multivariate Kalman filter. Given limited data available in Algeria, a simple univariate approach is first estimated. The production approach may be more informative in terms of the drivers of potential growth, but it is also more data intensive (see Annex VII. Table 2 for a detailed description of the data). The multivariate Kalman filter uses inflation developments to help assess the cyclical position of the economy and potential output (see Annex X).

Annex VII. Figure 3. Total Factor Productivity (TFP) Growth



Sources: Algerian authorities, ILO, Penn World Table, and IMF staff calculations.

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5. Univariate filters suggest that nonhydrocarbon potential growth has rebounded after COVID (2022–25) but remains weaker than in earlier periods. Four types of filters are estimated: Hodrick-Prescott (HP), Butterworth (BW), Baxter–King (BK) and Christiano–Fitzgerald (CF) filters.[2] The results are very similar across all filters (Annex VII. Figure 1). Potential output growth (nonhydrocarbon potential output growth) is estimated at 3.2 percent (3.5 percent) in 2022-25. For nonhydrocarbons, potential growth in 2022-25 is much lower than in 2002-07 and 2008-14. The filters point out to a mild excess demand in 2025-26 (real GDP is higher than potential output), suggesting that the economy is operating somewhat above estimated potential and generating inflationary pressures. Kalman filter estimates of nonhydrocarbon potential output and the output gap are very close to the univariate filters.

6. The production approach provides similar results in terms of the evolution of potential growth and confirms that productivity growth is weak in Algeria (Annex VII. Box 1). Potential output estimates should be interpreted with caution, given structural breaks, commodity-price shocks, policy-induced volatility, and the large informal sector which complicate the measurement of employment, productivity, and productive capacity. Nonhydrocarbon potential output growth in 2022–25 is weaker than in 2002–14. This is mostly due to the negative contribution of TFP to growth. World Bank and Haouas et al (2021) also find weak TFP in Algeria.[3] Weak TFP may reflect inefficient use of production inputs including limited efficiency in translating high investment into growth, due to economic distortions, a still challenging business environment, inefficient SOEs, and tepid innovation and technology adoption. The 2025 output gap is estimated to be +0.3 percent, suggesting that the economy may be operating above estimated potential, but remains highly uncertain given structural distortions, administered prices, and data limitations.

7. Potential output growth is expected to moderate over the medium term. Employment growth is expected to slow, after the post COVID bounce, and be more in line with population growth over the projection. Investment and capital accumulation are expected to remain robust. TFP growth is expected to improve gradually, conditional on continued diversification and structural reforms that raise investment efficiency, private sector dynamism, support digitalization, and facilitate technology adoption.

[2] The filters are applied to actual data and IMF staff projections; although applying filters only to official data through 2025 does not materially change the results over history.

[3] See World Bank. 2025. "Algeria Economic Update, Spring 2025: Accelerating Productivity Gains for Diversified and Resilient Growth". See also Amine Haouas, Anis Ochi and Mohamed Ali Labidi. 2021. "Sources of Algeria's economic growth, 1979–2019: Augmented growth accounting framework and growth regression method".

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Annex VII. Box 1. The Production Approach

The production approach is based on a simple Cobb-Douglas production function. It explains real output (Y) as a relation between the use of labor (L), capital (K), a total factor productivity (TFP), output elasticity of labor (α). Assuming constant return to scale, the production function is:

$$Y = TFP * L^{\alpha} * K^{1-\alpha}$$

$$\ln(Y) = \ln(TFP) + \alpha * \ln(L) + (1-\alpha) * \ln(K)$$

In this analysis, the labor input (L) is assumed to reflect total employment, average annual hours worked, and a measure of the quality of human capital, alpha is the labor income share in GDP, and capital (K) is an estimate of the stock of capital in the economy. TFP is initially estimated as a residual.

$$\ln(TFP) = \ln(Y) - \alpha * \ln(L) - (1-\alpha) * \ln(K)$$

Trend TFP (TFP_trend) and the trend labor input (L_trend) are estimated by applying HP filters. Potential output (Y_potential) is:

$$\ln(Y_potential) = \ln(TFP_trend) + \alpha * \ln(L_trend) + (1-\alpha) * \ln(K)$$

As in many standard production-function approaches, capital is assumed to be fully utilized due to the lack of reliable utilization-rate data, which may bias the level of measured TFP downward if excess capacity exists. This specification implies that the output gap reflects only difference between TFP and trend TFP, and labor input and trend labor input. Qualitative results are robust to different measures of capital and labor income share.

C. Policy Recommendations

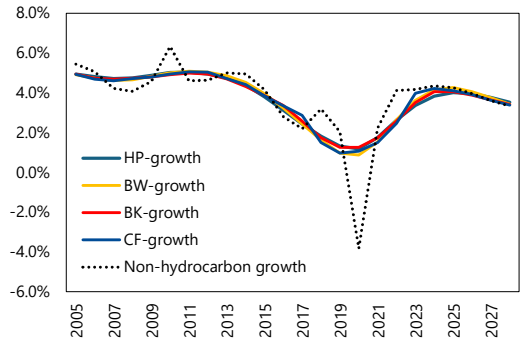
8. Potential output growth has weakened over time, but appropriate policies could support stronger long-term growth. More flexible labor markets, active labor market policies, and improving education, skills and training could strengthen human capital and help individuals find higher-paying jobs in more productive sectors. Public investment efficiency would benefit from an IMF Public Investment Management Assessment (PIMA) covering investment including planning, allocation, and implementation.

9. Boosting productivity and fostering more "intensive" growth will require broad-based structural reforms. Priorities include improving the business environment, strengthening governance and competition, reducing regulatory, trade, and price distortions, and leveling the playing field between the private sector and SOEs. Reforms to improve access to intermediate inputs, strengthen private-sector participation, facilitate technology adoption and digitalization, and support integration into regional and global value chains would further raise productivity growth and support economic diversification.

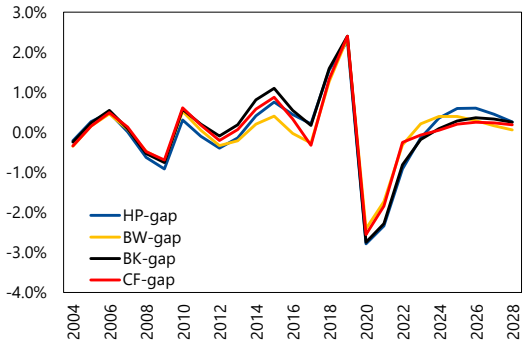
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Annex VII. Figure 4. Potential Output and Output Gap

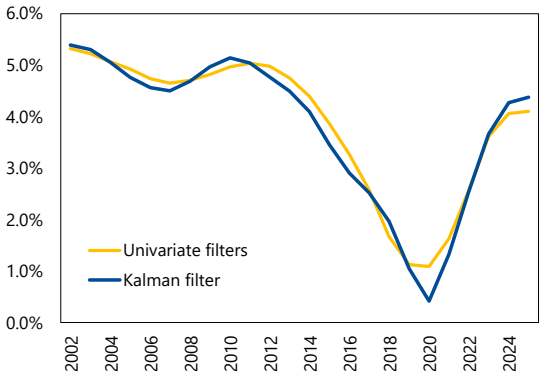
Nonhydrocarbon Potential Output Growth
(Univariate Filters)



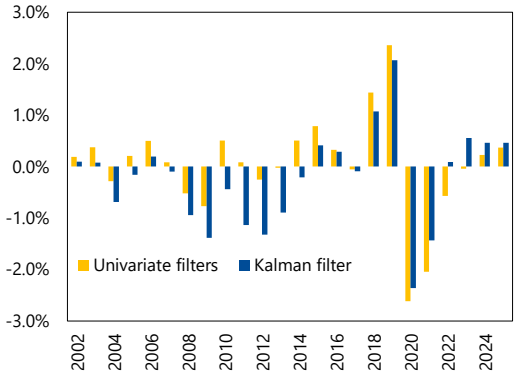
Nonhydrocarbon Output Gap
(Univariate Filters)



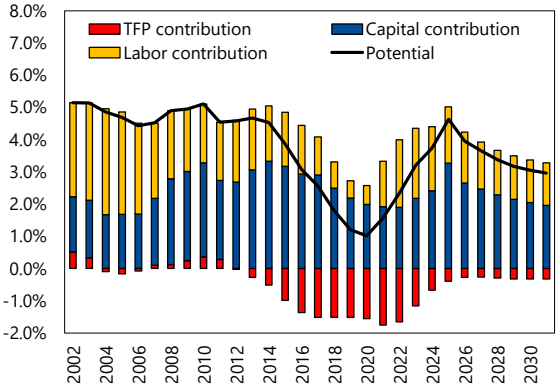
Nonhydrocarbon Potential Output Growth



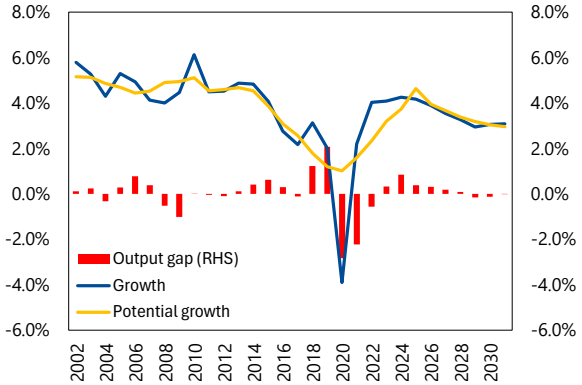
Nonhydrocarbon Output Gap



Nonhydrocarbon Potential Output Growth
(Production approach)



Nonhydrocarbon Output Growth and Output Gap
(Production approach)



Source: See Annex VII. Table 2 for details.

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Annex VII. Table 2. Algeria: Data Description[1/]

Variable	Description	Source
Real GDP, and real hydrocarbon GDP and real nonhydrocarbon GDP	Real GDP, Real hydrocarbon sector output, and Real nonhydrocarbon sector output	Algerian authorities
Total employment	Total employment. For 2001-19, authorities and IMF staff calculations. For 2020-2025, growth rate of employment from ILO model estimate is applied.	Algerian authorities, International Labor Organization, and IMF staff calculations
Employment in nonhydrocarbon sector	Nonhydrocarbon employment is estimated by applying ILO's share of nonhydrocarbon employment to IMF staff estimate of total employment.	Algerian authorities, International Labor Organization, and IMF staff calculations
Employment in hydrocarbon sector	Difference between total and nonhydrocarbon employment.	Algerian authorities, International Labor Organization, and IMF staff calculations
Hours worked	Average annual hours worked by persons	Penn World Table version 11.0.
Human capital	Human capital index	Penn World Table version 11.0.
Income share of labor	The minimum, average and maximum income share of labor come from Penn World for nonhydrocarbon producers in the region (Tunisia and Morocco).	Penn World Table version 11.0.
Total stock of capital	The 2001 capital-output-ratio comes from PWT. It is applied to staff estimates of real GDP in 2001. Thereafter, capital accumulates using staff real fixed investment and PWT depreciation rate.	Penn World Table version 11.0. Algerian authorities, and IMF staff calculations.
Stock of nonhydrocarbon sector capital	The total stock of capital for 2001 is prorated to estimate the stock of the nonhydrocarbon sector capital. The minimum, average, and maximum share of nonhydrocarbon real investment in total investment over 2001-24 are used to prorate the stock of capital. Thereafter, nonhydrocarbon capital accumulates using staff real fixed nonhydrocarbon investment and PWT depreciation rate.	Penn World Table version 11.0. Algerian authorities, and IMF staff calculations.

1/ Data used here is compliant with the IMF rules on the use of third-party indicators in IMF reports.

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Annex VIII. Policy Reform Scenario: Fiscal Consolidation

This Annex presents a policy reform scenario with an additional fiscal adjustment of five percentage points of nonhydrocarbon GDP over 2026–29 to rebuild fiscal buffers and support macroeconomic stability. The adjustment would stabilize central government debt at about 63 percent of GDP by 2029, with additional windfalls saved in the FRR. Lower public borrowing would also ease pressure on the banking system and create more space for private sector credit.

1. The large erosion of fiscal buffers and still-elevated deficits in 2025–26 call for sizable fiscal adjustment. With the FRR depleted and financing pressures rising, large deficits pose serious financing challenges and increase sovereign-stress risks (Annex V). In line with previous advice (see 2025 AIV), staff proposes a credible and gradual fiscal consolidation to contain fiscal vulnerabilities and anchor central government debt over the medium term.

2. The policy reform scenario illustrates the effects of additional fiscal measures of 5 percentage points of NHGDP over 2026–29 relative to the baseline. This adjustment would stabilize central government debt at about 63 percent of GDP by 2029 (Annex VIII. Table 1 and Annex VIII. Figure 1. A) and limit public borrowing from the banking sector, leaving more space for private sector credit. The proposed scenario could serve as a transition toward a rules-based fiscal framework, with debt kept below staff's proposed debt limit of 70 percent while financial buffers are gradually rebuilt.[1]

3. The consolidation scenario combines nonhydrocarbon revenue mobilization and spending rationalization. The adjustment would be obtained through additional revenue mobilization (1.5 pp of NHGDP over three years, acknowledging limited time to implement significant fiscal reforms in 2026) and spending restraints (3.5 pp of NHGDP spread over 4 years). The additional revenues could come from eliminating inefficient VAT exemptions,[2] reforming mining sector taxation, strengthening compliance, improving tax debt recovery and reducing informality through digitalization, stronger controls, and reform of the simplified tax regime. Spending measures of 3.5 pp of NHGDPs could include gradual energy subsidy reform closer to cost-recovery levels over five years (partially compensated by targeted cash transfers to vulnerable households),[3] better targeting of social benefits, and limiting transfers to SOEs including by strict enforcement of performance contracts. Prioritizing projects according to readiness, expected returns, financing availability, and implementation capacity would help contain capital expenditure while limiting the impact on growth.

[1] See the 2022 Article IV Selected Issues Paper and Annex IX for the updated illustrative calibration.

[2] A partial list of tax expenditures included in the "Etat H" of the 2026 budget law amounts to DZD 588.6 billion, 1.4 percent of GDP.

[3] See the 2023 Algeria Article IV Consultation Staff Report and Selected Issues paper for Algeria for additional discussions of the reform.

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Annex VIII. Table 1. Algeria: Alternative Fiscal Scenario
(With central government debt stabilization), 2025–2029

	2025	2026	2027	2028	2029	Δ2025–29
	(In percent of GDP, unless otherwise indicated)					
Baseline Scenario						
Total revenue	**26.3**	**25.4**	**23.9**	**22.8**	**23.3**	**-3.0**
Nonhydrocarbon revenue (% Nonhydro GDP)	19.3	16.3	16.2	16.3	16.7	-2.6
Nonhydrocarbon tax revenue (% Nonhydro GDP)	13.2	13.4	13.2	13.3	13.7	0.4
Total expenditure	**36.8**	**35.0**	**34.1**	**32.8**	**32.3**	**-4.5**
Total expenditure (% Nonhydro GDP)	43.0	42.5	40.1	38.2	37.4	-5.7
Current expenditure (% Nonhydro GDP)	30.9	30.2	29.5	28.6	28.3	-2.5
o.w. Transfers (% Nonhydro GDP)	15.6	14.6	13.7	12.9	12.7	-3.0
Capital expenditure (% Nonhydro GDP)	12.1	11.0	9.3	8.3	7.8	**-4.4**
Overall balance	**-10.5**	**-9.6**	**-10.2**	**-10.0**	**-9.0**	**1.5**
Nonhydrocarbon balance (% Nonhydro GDP)	-23.8	-26.2	-23.9	-21.9	-20.7	3.1
Gross government debt	**52.1**	**53.2**	**60.4**	**66.4**	**71.2**	**19.1**
Policy Scenario						
Total revenue	**26.3**	**25.4**	**24.4**	**23.7**	**24.7**	**-1.6**
Nonhydrocarbon revenue (% Nonhydro GDP)	19.3	16.3	16.7	17.3	18.2	-1.1
Nonhydrocarbon tax revenue (% Nonhydro GDP)	13.2	13.4	13.7	14.3	15.2	1.9
Total expenditure	**36.8**	**34.6**	**32.9**	**30.7**	**29.3**	**-7.5**
Total expenditure (% Nonhydro GDP)	43.0	42.0	38.7	35.8	33.9	-9.1
Current expenditure (% Nonhydro GDP)	30.9	30.2	28.9	27.2	26.2	-4.7
o.w. Transfers (% Nonhydro GDP)	15.6	14.6	13.0	11.5	10.5	-5.1
Capital expenditure (% Nonhydro GDP)	12.1	10.5	8.5	7.3	6.5	-5.7
Overall balance	**-10.5**	**-9.2**	**-8.5**	**-7.0**	**-4.5**	**5.9**
Nonhydrocarbon balance (% Nonhydro GDP)	-23.8	-25.8	-22.0	-18.5	-15.7	8.0
Gross government debt	**52.1**	**52.8**	**58.6**	**62.0**	**62.7**	**10.7**
Additional fiscal measures (% Baseline NHGDP)		**0.5**	**1.5**	**1.5**	**1.5**	**5.0**
Nonhydrocarbon tax revenue			0.5	0.5	0.5	**1.5**
Transfers			0.7	0.8	0.7	**2.2**
Capital expenditure		0.5	0.3	0.2	0.3	**1.3**

Source: IMF staff estimates and projections.

4. Staff estimates that the proposed measures would have a modest impact on economic activity, given Algeria's relatively low fiscal multipliers.[4] Real GDP growth would be lower by about 0.3 percentage point per year, on average, over 2026-2029 (Annex VIII. Figure 1), but lower gross financing needs would reduce pressure on bank financing, support private-sector credit, narrow the current account deficit, and slow the erosion of international reserves.

[4] See Elkhadari, M., Souissi M. and Jewell A, 2018. Empirical Estimation of Fiscal Multipliers in MENA Oil-Exporting Countries with an application to Algeria, IMF Working paper 18/24.

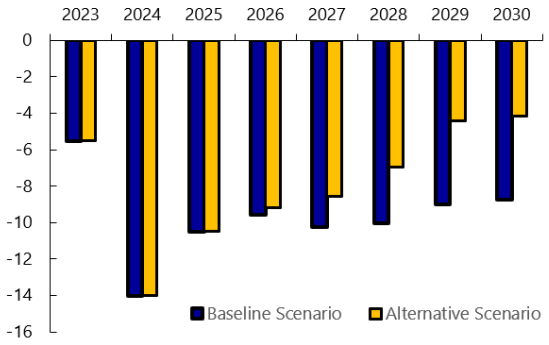
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Annex VIII. Figure 1. Policy Reform Scenario

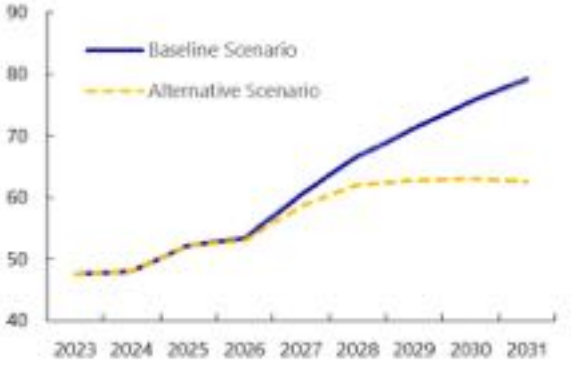
A more ambitious fiscal adjustment would stabilize central government debt at about 63 percent of GDP by 2029…

…with only a modest impact on real GDP growth and positive effects on credit and reserves.

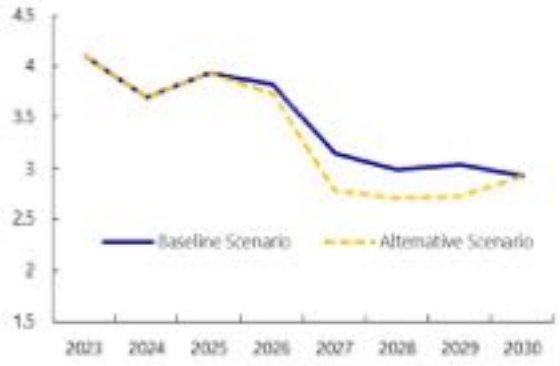
A. Overall Budget Balance
(In percent of GDP)



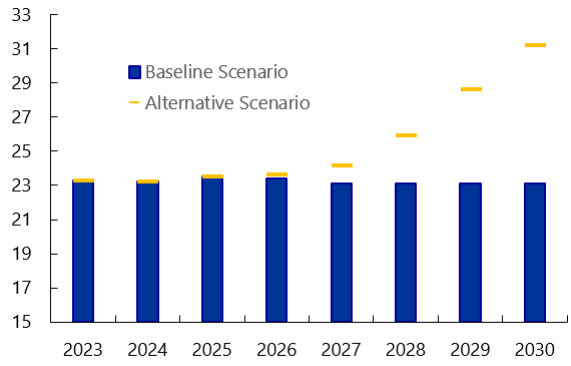
B. Gross Government Debt, Excl. Guarantees
(In percent of GDP)



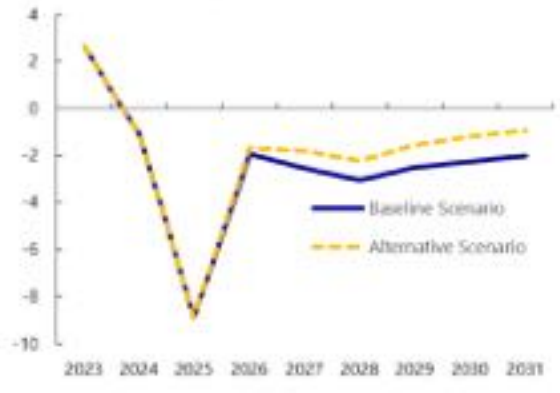
C. Real Growth
(Percent change, yoy)



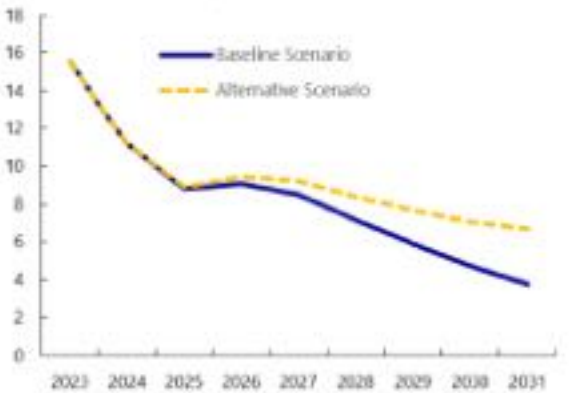
D. Credit to Private Sector
(Percent of nonhydrocarbon GDP)



E. Current Account Balance
(In percent of GDP)



F. Gross International Reserves
(In percent of GDP)



Source: IMF staff estimates and projections.

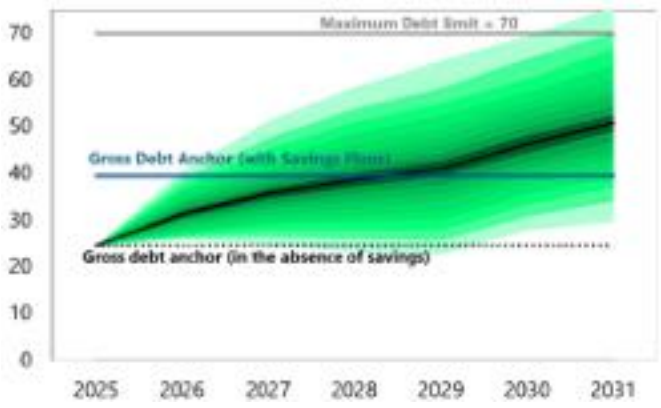
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Annex IX. Strengthening Algeria's Fiscal Framework Through Rules-Based Anchors

The rapid depletion of the FRR and large deficits over the projection period that would increase central government debt to close to 80 percent of GDP by 2031 underscore the need to strengthen the fiscal framework. Adopting a rules-based framework could support fiscal discipline, reduce procyclicality, rebuild fiscal buffers, and strengthen Algeria's resilience to hydrocarbon price shocks.

1. The 2022 Article IV Selected Issues Paper proposed a rules-based framework based on two complementary pillars: (i) a gross debt anchor set sufficiently below a maximum debt limit to accommodate adverse macroeconomic shocks; and (ii) a savings floor, defined as a minimum stock of liquid financial assets held in the FRR to cushion the budget against hydrocarbon price volatility. Together, the debt safety margin (the gap between the maximum debt limit and the debt anchor) and the savings floor constitute the aggregate buffer needed to preserve medium-term fiscal sustainability.

Annex IX. Figure 1. Illustrative Updated Calibration of the Rules-Based Fiscal Framework



Source: IMF staff estimates

2. An updated calibration of this framework points to the need for larger fiscal buffers than previously estimated, reflecting the deterioration in the fiscal position, depletion of the FRR, and increased exposure to adverse shocks. Keeping the maximum debt limit unchanged at 70 percent of GDP, revised estimates call for an aggregate buffer of about 46 percent of GDP, an increase of about 7 percentage points of GDP relative to the 2022 estimate. With a savings floor calibrated at 15 percent of GDP, the operational gross debt anchor would be about 39 percent of GDP. These estimates should be interpreted as long-run guideposts for the framework rather than immediate fiscal targets. Given the current starting point, with debt around 52 percent of GDP in 2025, the FRR depleted, and large fiscal deficits, the transition to the framework would need to be gradual. Staff's recommended a credible and gradual fiscal consolidation path over 2026–29 could provide an initial step toward stabilizing debt and reducing financing pressures.

3. Successful implementation would also require stronger fiscal institutions, including enhanced macro-fiscal forecasting, greater fiscal transparency, clear governance arrangements for the FRR, and a firm legal basis for the fiscal rules. The medium-term fiscal framework would need to translate the anchors into a credible debt path and annual operational targets, supported by transparent rules for FRR deposits and withdrawals. The calibration should also be reviewed periodically as macroeconomic conditions evolve.

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Annex X. Algeria's Natural Interest Rate

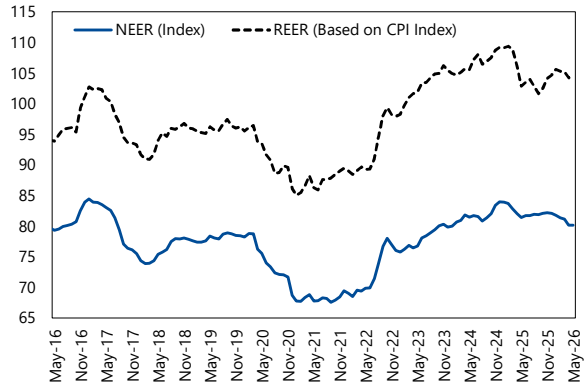
Assessing the monetary stance is important to conduct monetary policy and achieve price stability. The stance is typically measured by comparing the real policy rate with the neutral rate—the unobserved rate that neither restricts nor stimulates the economy. We find that the Algeria's monetary stance has recently been broadly neutral. With robust economic activity and rising inflationary pressures, the BA should tighten monetary policy if broader inflationary pressures accelerate. Strengthening the monetary framework would enhance policy effectiveness.

A. Introduction

1. Monetary policy generally strives to maintain price stability, but monetary policy objectives can differ across countries. Some central banks focus on price stability through an inflation target or range, others focus more on exchange rate stability, or economic growth. Clear objectives, strong operational frameworks, effective instruments, and central bank independence help strengthen credibility, transparency, and policy effectiveness.

2. Algeria's monetary policy has broadly maintained price stability. The 2023 Monetary and Banking Law states four main objectives of the BA: (i) ensure price stability, (ii) create and maintain the most favorable conditions for sustained economic development, (iii) ensure monetary and financial stability to safeguard the safety and soundness of the banking system and finally, and (iv) support financial inclusion. The BA targets a medium-term equilibrium real effective exchange rate (with day-to-day transactions occurring within a narrow buy/sell band, and a headline inflation target of 4-5 percent. Having two price stability objectives may create tensions in the conduct of monetary policy. Monetary policy has broadly kept price and exchange rate stability (Annex X. Figures 1 and 2), although underlying inflation pressures, including CPI excluding food, and core inflation, as well as q/q annualized inflation, have picked up significantly recently driven mostly by jewelry prices and the use of a CPI basket reference year that should be updated.

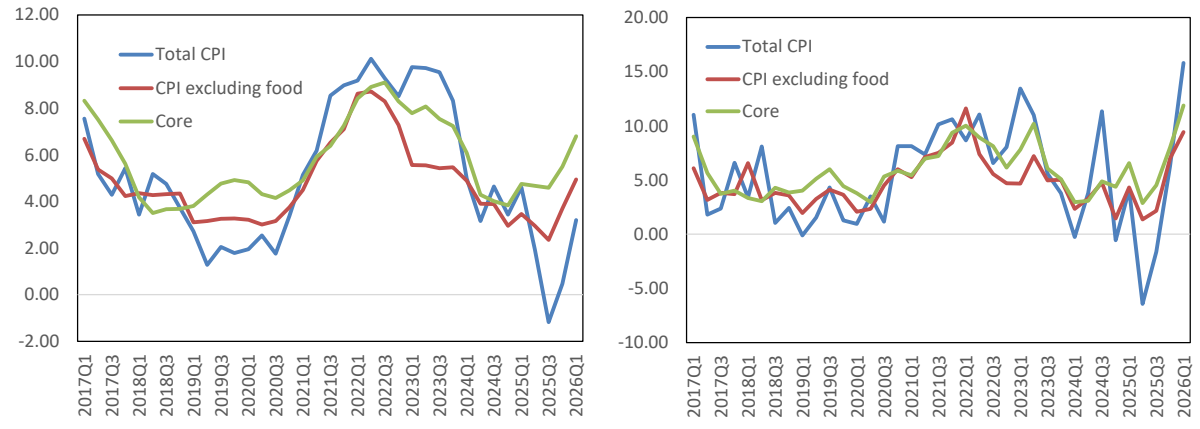
Annex X. Figure 1. Exchange Rate



Source: IMF staff calculations

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Annex X. Figure 2. Inflation



Source: Algerian authorities and IMF staff calculations.

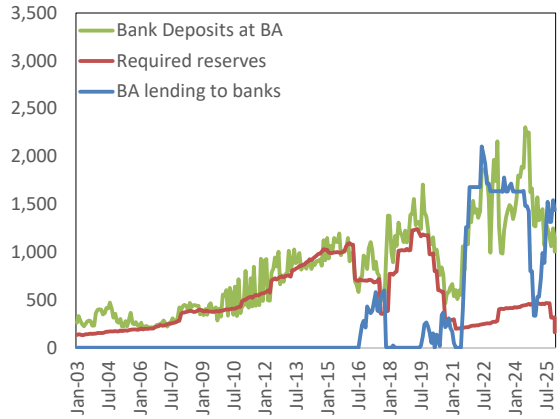
3. Price stability in Algeria was achieved despite changes in policy framework and weak monetary policy transmission. In the past, the BA used reserve requirements to limit excess reserves (Annex X. Figure 3). Following the decline in oil prices in 2015 which led to a decline in banks' deposits at the BA, and the introduction of a policy rate in 2017, the BA became more active at managing liquidity in the banking system while trying to enhance the role of interest rates in monetary policy. In a banking system characterized by uneven liquidity distribution, the interbank rate has remained mostly below the policy rate, while the transmission to the broader economy has remained weak.[1]

[1] For more information on monetary policy transmission in Algeria, please see Plebani and Gbohoui. 2025. "Enhancing Monetary Policy Transmission in Algeria". IMF Selected Issues Paper SIP/2025/131. This earlier work highlights the still-limited pass-through from policy rates to credit and broader financial conditions.

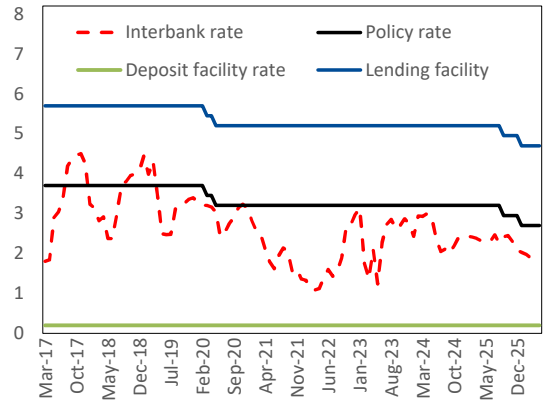
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Annex X. Figure 3. Monetary Policy

Banks' Deposits and Reserve Requirements



Policy Rate and Interbank Rate



Source: Algerian authorities and IMF staff calculations.

4. As the monetary policy transmission gradually improves, assessing the monetary stance becomes increasingly important. The stance can be summarized by comparing the actual real policy rate with the neutral real rate—the rate that neither stimulates nor restrains economic activity—where the neutral rate (often called r-star) is unobservable and therefore must be estimated. The next section summarizes the model and results, before presenting the policy implications.

B. Model and Results[2]

5. The neutral rate is estimated using the semi-structural framework developed in the May 2023 MCD REO.[3] The model combines information from output, inflation, interest rates, exchange rates, foreign interest rates, commodity prices, and country-risk premia to infer the unobserved neutral real interest rate. For Algeria, the framework is adapted in three ways: nonhydrocarbon GDP is used to measure domestic activity; core inflation excludes fresh food and administered prices; and the interbank rate is used as the main policy-rate proxy, given the relatively recent introduction of the policy rate and still-developing monetary transmission.

6. The model is estimated using quarterly data from 2000Q1 to 2026Q1 with a Kalman filter and Bayesian methods. Observable variables include real nonhydrocarbon GDP, core CPI inflation, the interbank interest rate, and an inflation target, proxied by real-time 5-year-ahead inflation projections. Foreign observable variables are US CPI inflation, the Fed funds rate, the US natural real policy interest rate (based on the most recent estimates from Holston, Laubach, and Williams 2017), and IMF estimates of global commodity price inflation. The real exchange rate is

[2] Troy Matheson provided support to estimate the model.

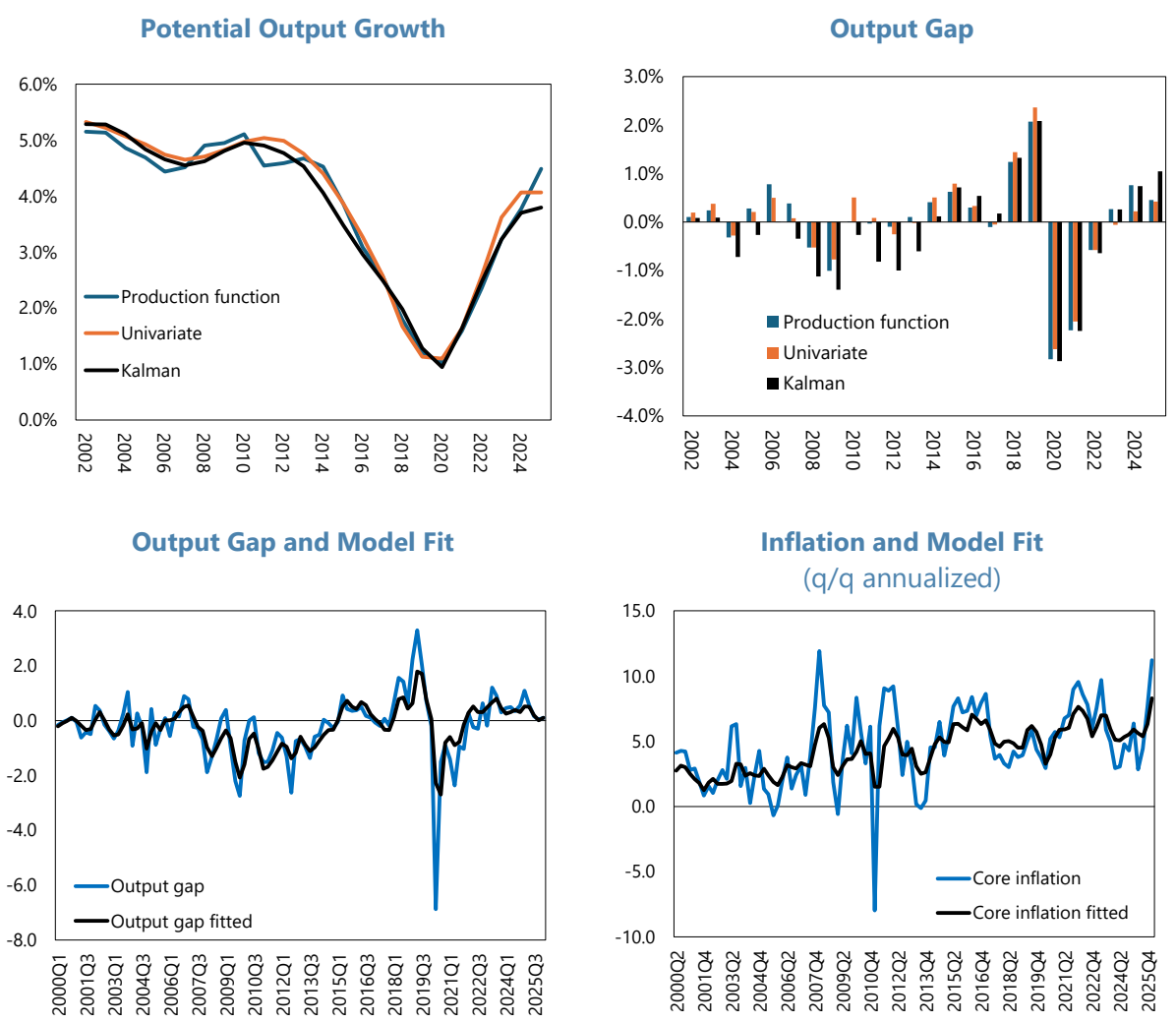
[3] See IMF 2023. IMF Middle East and Central Asia Department, Regional Economic Outlook, Chapter 2: Monetary Policy: Where Does the Middle East and Central Asia Stand? and online annex.

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measured using the bilateral exchange rate against the US dollar. Missing data are replaced with quarterly interpolations from the latest WEO database.

7. The model broadly replicates Algeria's macroeconomic developments (Annex X. Figure 4). Estimated nonhydrocarbon potential growth and the output gap are consistent with alternative approaches, including univariate filters and the production approach (see Annex VII). The output gap and Phillips curve equations capture historical movements in the output gap and core inflation reasonably well.

Annex X. Figure 4. Model Results: Selected Macroeconomic Indicators

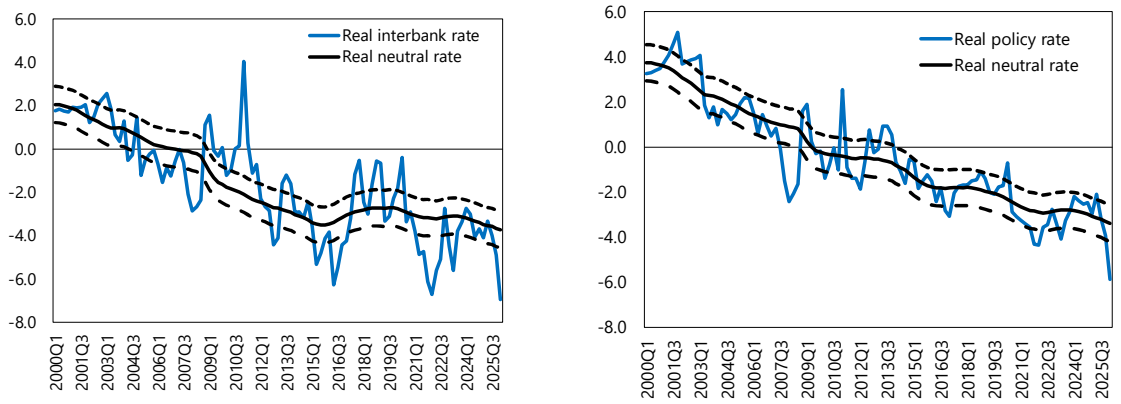


Source: Algerian authorities and IMF staff calculations.

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8. Estimates suggest that the Algerian monetary policy stance has recently been broadly neutral, though uncertainty is large (Annex X. Figure 5).[4] The estimated real neutral and actual real interbank rate have both been negative for much of the sample, reflecting low nominal rates relative to inflation. Using model-implied inflation expectations, the estimated real interbank rate lies below the neutral-rate range. However, this result is driven largely by the sharp increase in measured core inflation associated with jewelry prices and CPI measurement issues. Using the upper bound of the BA's inflation objective as an alternative expectation measure, the estimated monetary stance is broadly neutral. Given this sensitivity, the assessment of the stance is subject to substantial uncertainty. For robustness, estimates of the real neutral rate based on the policy and discount rates would lead to a similar conclusion.

Annex X. Figure 5. Real Neutral Policy Rate and Monetary Stance



Source: Algerian authorities and IMF staff calculations.

C. Recommendations

9. The estimates suggest that monetary policy should be tightened if broader inflationary pressures accelerate. Core inflation excluding fresh food and administered prices rose in the second half of 2025 (Annex X. Figure 2), driven by jewelry prices and technical issues. It is expected to remain temporarily elevated, reflecting base effects, higher food-price assumptions, robust demand, and risks from liquidity conditions and monetary financing. In this macroeconomic context, the estimated broadly neutral monetary policy stance calls for the BA to tighten monetary policy if broader inflationary pressures accelerate. Further improvements in liquidity management would help align the interbank rate more closely with the policy rate and strengthen monetary policy transmission. Over the medium term establishing low inflation as a clear nominal anchor, reinforcing the BA's operational independence, limiting monetary financing, and strengthening monetary operations, and advancing the implementation of the FPAS, with IMF support, would help enhance the credibility and effectiveness of the framework.

[4] Estimates of the neutral rate are shown with a 95 percent confidence interval to highlight that results should be interpreted with caution.

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Annex XI. Capacity Development Strategy

CD Activity	Provider	Status	Comments
Macroeconomic Frameworks			
Developing a forecasting and Policy Analysis System (FPAS) at the BA.	ICD	Ongoing	
Revenue Administration			
Pre-TADAT Training	METAC	Completed	
STX Customs (missions in 2027 and 2028)	METAC	Planned	
Tax activity (missions in 2027 and 2028)	METAC	Planned	
Tax Policy			
VAT reforms (follow-up) and simplified tax regime	FAD	Completed	
Carbon taxation	FAD	Planned	
Public financial management			
Implementation of Organic Budget Law: Implementation of performance-based budgeting and Medium-term fiscal framework	METAC	Completed	
Fiscal risks management	METAC	Completed	A follow-up can be planned, pending confirmation with the authorities.
Implementation of Organic Budget Law: IFMIS roll-out	METAC	Planned	
Public Investment Management Assessment	FAD	Postponed	Postponement at the request of the authorities

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CD Activity	Provider	Status	Comments
Financial supervision and regulation			
Enhancing onsite inspection manual	METAC	Completed	
Developing Regulation on operational risks	METAC	Completed	
Review regulation on capital, large exposure and loan classification	METAC	Completed	
Review regulation on capital framework	METAC	Completed	
Developing framework for domestic systemically important banks (DSIBs)	METAC	Completed	
Developing supervisory framework for payment service providers	METAC	Completed	
Central Bank operations			
Development of an in-house credit assessment system (follow up)	METAC	Completed	
Liquidity forecasting	FAD/METAC	Completed	
Broadening the collateral	METAC	Planned	
Payments and infrastructure			
Payment service providers and payment systems supervision and oversight	MCM	Completed	
Debt management			
Training on Sukuk	METAC	Planned	
Domestic debt market development	METAC	Planned	

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CD Activity	Provider	Status	Comments
MAC- SRDSF training	METAC	Planned	
AML/CFT			
Implementing key recommendations of the MENAFATF report	LEG	Ongoing	
Statistics			
Compilation of Energy & Air Emission Accounts	STA	Planned	
Additional CD topics to consider (for discussion)			
Diagnostic mission to identify needs and priorities	STA	For consideration	
Update of the CPI	STA	Suggested by ONS	
Implementing intermediate households survey	STA	Suggested by ONS	
Informal sector assessment	STA	Suggested by ONS	
Government finance statistics	STA	For consideration	
Public policy assessment	FAD/METAC	Suggested by MOF	

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Annex XII. Data Issues

Annex XII. Table 1. Algeria: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating[1]

C

Questionnaire Results[2]

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Intersectoral Consistency	Median Rating
	C	C	C	B	B	C	C

Detailed Questionnaire Results

Data Quality Characteristics

Coverage	C	D	D	A	B	
Granularity[3]	B		C	B	B	
			C		C	
Consistency			C	B		C
Frequency and Timeliness	C	A	D	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
[1] The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
[2] The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
[3] The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported monetary and financial statistics, while the bottom cell shows staff's assessment of financial soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment**.** In staff's view, the coverage and timeliness of some key macroeconomic statistics should be improved to facilitate surveillance and better assess fiscal risks. Key weaknesses include: Price data. CPI weights are based on a 2000 household survey and severely outdated. This may lead to material measurement errors, particularly when relative prices change sharply, and complicates the assessment of underlying inflation and the calibration of monetary policy. GFS. Institutional coverage of government statistics remains limited to the budgetary central government. Data on budget execution are transmitted with significant delays and are not published. Some government expenditures remain unallocated even in budget execution reports. In addition, financing is not fully reconciled with the monetary accounts. Financial statistics lack granularity (especially regarding the financial soundness indicators), which can hamper the assessment of liquidity risks, given the specific characteristics of the Algerian banking sector– Labor market statistics. Unemployment and labor force participation data have not been published since 2019, hampering analysis of employment trends and the assessment of social vulnerabilities. The lack of reconciliation between fiscal and monetary statistics can hamper the assessment of fiscal risks given the strong financial interlinkages between the government, SOEs, and SOBs. On the other hand, national accounts were rebased in December 2023, with 2001 as a base year, and now follow the 2008 SNA recommendations. Quarterly data in the new base are now available, and the granularity of sectoral coverage has been expanded. A breakdown of fixed capital formation between the public and private sectors would facilitate reconciliation with fiscal statistics and strengthen investment analysis.

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Annex XII. Table 1. Algeria: Data Adequacy Assessment for Surveillance (Concluded)

Changes since the last Article IV consultation. GFS and SNA data have been delayed significantly in 2026 due to institutional changes and technical issues.
Corrective actions and capacity development priorities. Updating the CPI basket and improving the coverage and timeliness of government finance statistics remain key priorities. The gradual deployment of a new integrated IT system covering the full expenditure chain should improve the quality and timeliness of government finance statistics in the coming years. The ONS has indicated interest in IMF technical assistance on the CPI and other statistical weaknesses, and possible support is under discussion. The IMF Statistic Department stands ready to provide technical assistance on price, national accounts, and labor market government finance, and public sector debt statistics.
Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data or estimates in the staff report as substitutes for available official statistics.
Other data gaps. Other data gaps remain, including data on wages (the last survey was published in 2022) and informal sector activity. On climate, the authorities plan to step up data collection to better monitor climate-related risks.

Annex XII. Table 2. Algeria: Data Standards Initiatives

Algeria participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in April 2009 but has yet to disseminate the data recommended under the e-GDDS.

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Annex XII. Table 3. Algeria: Table of Common Indicators Required for Surveillance

(As of July 14, 2026)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Committed Frequency[8]	Expected Timeliness[6,7]	Committed Timeliness[8]
Exchange Rates	05/2026	06/2026	M	M	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	05/2026	06/2026	M	M	M	...	1W	...
Reserve/Base Money	01/2026	02/2026	M	M	M	M	2W	1M
Broad Money	01/2026	02/2026	M	M	M	M	1M	3M
Central Bank Balance Sheet	01/2026	02/2026	M	M	M	M	2W	1M
Consolidated Balance Sheet of the Banking System	02/2026	04/2026	M	M	M	M	1M	3M
Banks' Financial Soundness Indicators	2025	06/2026	Q	I	Q	...	1Q	3M
Residential Real Estate Prices	NA	NA	NA	NA	...	...	1Q	...
Total assets of other depository corporations[1]	02/2026	04/2026	M	M	M	M	1M	3M
Total credit from other depository corporations[1]	02/2026	04/2026	M	M	M	M	1M	3M
Sectoral Breakdown of Credit from Other Depository Corporations[1]	NA	NA	NA	NA	M	M	1M	3M
Domestic vs. Foreign Currency Breakdown of Other Depository Corporations' Assets and Credit, Total and by Sector[1]	02/2026	04/2026	M	M	M	M	1M	3M
Interest Rates[2]	05/2026	06/2026	M	M	D	M	...	1D
Consumer Price Index	04/2026	06/2026	M	M	M	M	1M	15D
Revenue, Expenditure, Balance and Composition of Financing[3]-General Government[4]	NA	NA	NA	NA	A	...	2Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]-Central Government[4]	12/2025	06/2026	I	I	M	M	1M	1Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2025	06/2026	I	I	Q	A	1Q	3M
Total stock of General Government Debt[5]	12/2025	06/2026	I	I	Q	...	4M	...
External Current Account Balance	2026Q1	06/2026	Q	I	Q	A,Q	1Q	40D,6M
Exports and Imports of Goods and Services	2026Q1	06/2026	Q	I	M	M	8W	20D
GDP/GNP	Q2 2025	11/2025	Q	I	Q	A	1Q	3Q
Gross External Debt	2026Q1	06/2026	Q	I	Q	Q	1Q	3M
International Investment Position	2024Q4	06/2025	Q	I	Q	...	1Q	...

[1] Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic non-bank financing.
[4] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

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Annex XIII. Algeria's Exposure to Carbon Border Adjustment Mechanism

This annex assesses Algeria's exposure to the EU Carbon Border Adjustment Mechanism (CBAM). CBAM could raise costs for Algeria's carbon-intensive exports to the EU, especially given high emissions intensity in some sectors and low export prices partly linked to low domestic energy prices. Model-based estimates point to potentially significant but highly uncertain effects. While one model suggests first-round losses in all covered exports, a general equilibrium analysis produces mixed—and for some products positive—effects under different assumptions. The results should therefore be interpreted as illustrative comparative-static estimates rather than as forecasts.[1]

1. The European Union (EU)'s Carbon Border Adjustment Mechanism (CBAM) became effective in January 2026, following a transitional phase during October 2023-December 2025. CBAM applies to selected EU imports—aluminum, iron and steel, cement, fertilizers, hydrogen, and electricity—based on the carbon intensity of production at source. During this phase, importers had to report embedded greenhouse gas (GHG) emissions of covered products without financial obligations. The mechanism aims to mitigate carbon leakage, preserve EU competitiveness, and encourage greener production practices among trading partners.

2. CBAM could raise the cost of Algeria's exports to the EU in covered sectors. The EU is an important destination market for these exports (Annex XIII. Figure 1.a). Estimated CBAM-induced tariff equivalents vary from 2.4 percentage points for fertilizers to around 67 percentage points for cement and iron and steel exports (Annex XIII. Figure 1.b), generally higher than for regional peers, particularly for cement, iron and steel, and fertilizers. This reflects relatively high emissions intensity in some sectors and low producer prices partly associated with low domestic energy prices.

3. Model-based estimates point to potentially large first-round effects on Algeria's CBAM-covered exports that could be more than offset once trade reallocation and changes in relative competitiveness are incorporated. A partial equilibrium model capturing the direct bilateral trade costs of the CBAM and an EU supply shock induced by the phasing-out of free EU ETS allowances suggests that exports would initially decline in all covered sectors. The shock would particularly affect sectors with higher tariff-equivalent increases and weaker relative cost-competitiveness, such as iron and steel, while losses would remain modest for fertilizers. A general equilibrium model points to more positive results: under assumptions of global market reallocation, unchanged global demand and continued phase-out of free EU ETS allowances, cement and iron and steel exports could rise by about 54 percent and 25 percent, respectively, partly reflecting Algeria's relatively low producer prices.[2] These results are illustrative and sensitive to assumptions on emissions intensity, carbon prices, pass-through, and trade reallocation.

[1] Eliakim Kakpo provided the model-based analysis.

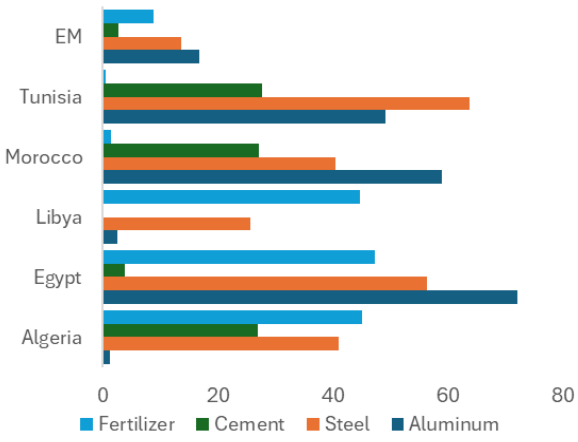
[2] Based on Assem, H., Gerling K. and Kakpo, E., "Trade Reallocation under the EU Carbon Border Adjustment Mechanism: Why Sectoral Outcomes Differ Across Countries," forthcoming IMF Working Paper.

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4. Diversifying export markets and decarbonizing production would help reduce Algeria's exposure to CBAM-related costs. Scaling up renewables, improving energy efficiency, strengthening emissions monitoring and reporting, and introducing carefully calibrated carbon-pricing instruments could lower emissions intensity and reduce the CBAM burden. Gradually reforming energy subsidies would also help align incentives for cleaner production while reducing fiscal costs.

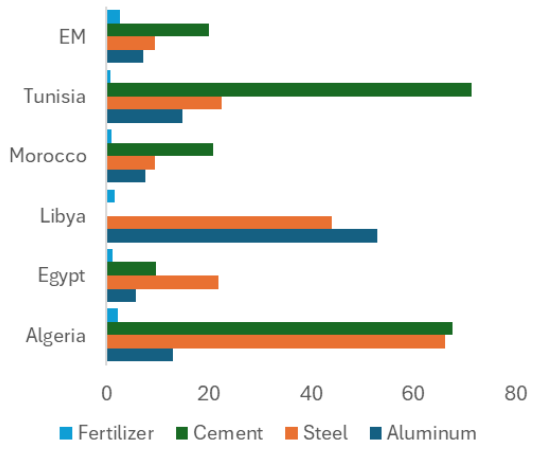
Annex XIII. Figure 1. Algeria's Exposure to the EU CBAM

a. EU Share of Exports in CBAM-Covered Sectors
(Percent, 2022)



Sources: WTO and IMF staff calculations.

b. Implied CBAM Tariff Equivalent
(ppt)

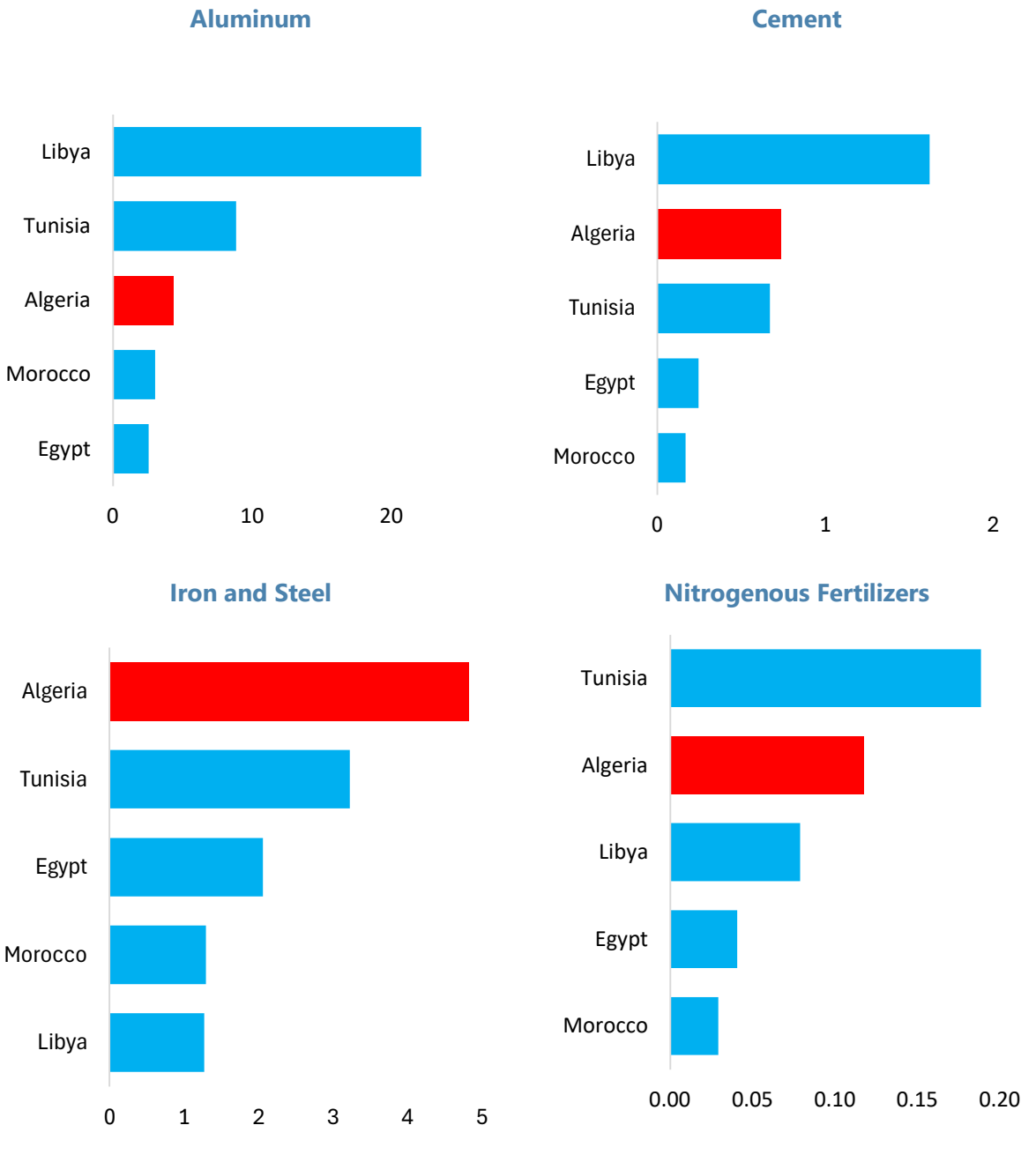


Source: Dudu et. al. (2025)

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Annex XIII. Figure 2. Emissions Intensities in CBAM-Covered Sectors

(kg CO_2e per USD)



Sources: GLORIA, and Dudu et al. (2025)

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INTERNATIONAL MONETARY FUND

ALGERIA

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 26, 2026

Prepared By

Middle East and Central Asia Department in consultation with the Statistics Department

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RELATIONS WITH THE FUND

As of June 30, 2026

Membership Status: Joined September 26, 1963; Article VIII.

General Resources Account	SDR Million	Percent of Quota
Quota	1,959.90	100.00
Fund holdings of currency	1,447.59	73.86
Reserve position in Fund	512.32	26.14

SDR Department	SDR Million	Percent of Quota
Net cumulative allocation	3,076.66	100.00
Holdings	3,167.12	102.94

Outstanding Purchases and Loans: None

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	5/22/1995	5/21/1998	1,169.28	1,169.28
Stand-by	5/27/1994	5/22/1995	457.20	385.20
Stand-by	6/03/1991	3/31/1992	300.00	225.00

Projected Obligations to Fund

(SDR Million; based on existing use of resources and present holding of SDRs):

		Forthcoming			
	2026	2027	2028	2029	2030
Principal		0.00	0.00	0.00	0.00
Interest/Charges		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

Implementation of HIPC Initiative	Not applicable
Implementation of Multilateral Debt Relief Initiative	Not applicable
Implementation of Catastrophe Containment and Relief	Not applicable

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Exchange Rate Arrangement

Algeria's de jure exchange rate arrangement is "managed floating", while the de facto exchange rate arrangement is a "stabilized" arrangement. From January 21, 1974, to October 1, 1994, the exchange rate of the dinar was determined on the basis of a fixed relationship with a basket of currencies, adjusted occasionally. On October 1, 1994, the Bank of Algeria introduced a managed float for the dinar through daily fixing sessions that included six commercial banks. This system has been replaced by an interbank foreign exchange market as of January 2, 1996. On July 8, 2024, the average of the buying and selling rates for the U.S. dollar was US$1 = DZD 129.5, equivalent to SDR 1 = DZD 186.9. No margin limits are imposed on the buying and selling exchange rates in the interbank foreign exchange market, except for a margin of DA 0.015 between the buying and selling rates of the Bank of Algeria for the dinar against the U.S. dollar. Algeria has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreements, and maintains an exchange system that is free from restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultation

Algeria is on a 12-months consultation cycle. The last Article IV consultation was concluded by the Executive Board on September 18, 2025 (IMF Country Report 25/270). The discussions for the 2026 Article IV consultation were held in Algiers from June 16–30, 2026.

Technical Assistance

MCM	Financial stability and macroprudential policy framework	April 2016
MCM	Liquidity management	May 2016
FAD	Public financial management	July 2016
FAD	Tax administration	October 2016
MCM	Debt market development	October 2016
FAD	Tax administration	November 2016
MCM	Upgrading banking regulations	March 2017
MCM	Forward market development	March 2017
FAD	Tax administration	April 2017
MCM	Collateral framework	July 2017
METAC	Banking supervision	October 2017
FAD	Tax administration	November 2017
FAD	Medium-term budget framework and fiscal risk management	November 2017
MCM	Forward market development (workshop)	November 2017
FAD	Custom administration	December 2017
STA	External sector statistics	January 2018
FAD	Tax policy (local government)	March 2018

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METAC	National accounts	March 2018
MCM	Monetary policy and risks to financial stability	March 2018
FAD	Tax administration	September 2018
FAD/METAC	Implementation of organic budget law	January 2019
FAD	Tax policy (local administration)	July 2019
STA	Government Finance Statistics	July 2019
LEG	Anti-money laundering regulations	September 2019
METAC	Tax arrears management	October 2019
FAD	Pension reform	November 2019
FAD	Tax administration (IT systems)	January 2020
FAD	Tax administration and Covid-19	June 2020
FAD	Fiscal risk management and program budgeting	November 2020
METAC	Public investment management	January 2021
METAC	Tax arrears management	January 2021
METAC	Program budgeting	March 2021
METAC	Post-crisis tax administration	June 2021
METAC	Program budgeting	July 2021
METAC	Management of PPPs	October 2021
METAC	Tax arrears management	October 2021
MCM	Monetary policy operations and liquidity management (long-term expert resident)	October 2016-October 2018
METAC	Follow-up mission on Supervisory Review and Evaluation Process	November 2019
METAC	Follow-up mission on SREP	April 2020
METAC	Implementation of Basel II & III standards	May 2020
METAC	Implementation of Basel II & III standards	June 2020
METAC	Implementation of Basel II & III standards	October 2020
MCM	Analysis of domestic government securities markets	August 2021
MCM	Debt Management Framework	October 2021
FAD	Workshop on energy subsidies	November 2021
MCM	Liquidity forecasting	March 2022
FAD/METAC	Medium-Term Budget Framework and Program-Based Budgeting	February 2022
METAC	Regulation on Accounting and Valuation of Financial Market Instruments	July 2022
METAC	Program-Based Budgeting	July 2022
MCM	Parallel FX Market	July 2022
MCM	Emergency Liquidity Assistance	July 2022
METAC	Enhancing the risk rating framework	November 2022
FAD	Program-based budgeting	July 2022
FAD	Implementation of program-based budgeting	October 2022
FAD	Cash and debt management	October 2022
FAD	VAT tax expenditures and implementation in the digital sector	November 2022

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FAD	Strengthening mining tax administration	November 2022
METAC	Liquidity Forecasting	October 2022
MCM	In-house Credit Assessment System	December 2022
METAC	Development of Strategies to Improve On-time Payment	Janvier 2023
METAC	In-house Credit Assessment System	June 2023
ICD	Macroeconomic Frameworks	June 2023
METAC	Regulating Outsourcing Activities	July 2023
METAC	Risk Rating Framework and Developing Early Intervention Measures	October 2023
METAC	Central bank collateral framework	February 2024
ICD	Macroeconomic Frameworks	July 2024
LEG	Enhancing AML/CFT Framework	November 2024
METAC	Payments and infrastructure	November 2024
METAC	Financial Supervision and Regulation	December 2024
FAD	Tax policy – mining sector taxation	December 2024
METAC	PFM implementation of organic budget law	January 2025
LEG	Enhancing AML/CFT Framework	February 2025
ICD	Macroeconomic Frameworks	April 2025
METAC	Financial Supervision and Regulation	April 2025
METAC	Debt management	April 2025
LEG	PSP and payment system supervision and oversight	May 2025
METAC	Tax policy – VAT tax expenditure	May 2025
METAC	Central bank collateral framework	May 2025
METAC	Fiscal risks management	July 2025
METAC	Financial Supervision and Regulation	September 2025
ICD	Macroeconomic Frameworks	October 2025
METAC	Financial Supervision and Regulation	December 2025
FAD	Tax policy – VAT and simplified tax regime	March 2026
METAC	PFM implementation of performance-based budgeting	April 2026
METAC	Financial Supervision and Regulation – Domestic systematically important banks	May 2026
METAC	Building supervisory capacity for PSP	June 2026
METAC	PFM – IFMIS roll-out	July 2026

Financial Sector Assessment Program

Algeria first participated in the FSAP in 2003. The FSAP was updated in 2007 and in 2013. A Financial System Stability Assessment was conducted in 2019 and 2020 and was concluded by the Executive Board on a lapse-of-time basis in July 2020 (Press Release 20/316).

Resident Representative

None.

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RELATIONS WITH THE WORLD BANK GROUP

Algeria collaborates with the World Bank Group. Further information can be obtained at:

World Bank: https://www.worldbank.org/en/country/algeria

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Statement by Bahador Bijani, Executive Director for Algeria
and Kamel Badsi, Senior Advisor to Executive Director
September 11, 2026

On behalf of our Algerian authorities, we thank staff for the candid engagement during the 2026 Article IV consultation and for the informative consultation reports, including the Selected Issues Paper. The authorities appreciate the Fund's policy advice and sustained capacity development support to Algeria over the years. Our authorities broadly concur with the thrust of staff's assessment, including the inherent risks associated with large fiscal deficits in the context of volatile hydrocarbon prices; the appropriateness of the monetary policy stance; the need to further safeguard financial stability; and to continue with broad-based structural reforms to enhance the economy's resilience and competitiveness and lift its potential growth over the medium term. Within this broad consensus on policy thrust, however, there are points of departure between the views of staff and the authorities which are flagged below.

Context and Outlook

Despite heightened global uncertainty stemming from the war in the Middle East and the ensuing sharp hike in energy and fertilizer prices, and from other geo-political tensions in other regions affecting global trade, Algeria's economic activity has remained robust, with the 2026 real growth estimated at close to 4 percent. Growth has been supported by increased domestic and foreign investment with tangible gains already evident in areas such as manufacturing. Over 2026–2029, the authorities project annual growth to average about 4 percent—a full percentage point higher than the staff's projections—underpinned by recent foundational investment projects (about 70 percent already completed) and promotional production and export policies in the nonhydrocarbon sector. In line with this policy, the growth model is gradually shifting towards nonhydrocarbon activities, particularly agriculture and industry which are expected to expand by around 5 percent in 2026.

Over the medium term, structural reforms and large-scale strategic investments in mining, phosphates, cement, fertilizers, iron, and steel, and related infrastructure, are expected to promote nonhydrocarbon exports, reduce import dependence, and strengthen external resilience. The expansion of nonhydrocarbon sectors is expected to generate additional jobs and incomes and further improve citizens' welfare. The outlook is expected to improve materially after 2028, as major infrastructure projects are completed and growth and revenue gains begin to materialize. The authorities are of the view that staff's lower medium-term growth projections do not adequately account for the positive spillovers and externalities from the recent large-scale investment projects that are near completion. Against this background, policy priorities remain focused on strengthening macroeconomic resilience, while promoting inclusive growth, ensuring social protection and food security, improving the quality and efficiency of public services, and modernizing public administration.

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Fiscal Policy

The authorities are fully cognizant of the risks associated with elevated fiscal deficits and intend to address them by pursuing a measured and well-sequenced medium-term consolidation plan, while safeguarding key public investment projects and ensuring social protection. Public administration digitalization is expected to strengthen domestic revenue mobilization; complemented by additional measures to support tax arrears recovery—reduce tax expenditures following a full assessment—lower labor and business informality; and broaden the tax base. Current expenditure prioritization will continue and sustained close monitoring of capital spending will ensure that investment implementation remains aligned with the absorptive capacity and within prudent fiscal parameters. The authorities will further prioritize enhanced governance and further progress on performance-based budgeting as the reform framework enters its fourth year. The authorities do not envisage revising the 2026 budget nor changing the budget's macro-fiscal assumptions because of the recent spike in energy prices which they view as temporary. Still, Algeria stands to benefit from higher energy prices because of its unhindered access to its export markets. The authorities intend to save any hydrocarbon revenue windfall and strengthen buffers.

The Algerian authorities do not foresee an immediate need for an additional fiscal tightening as suggested by staff to stabilize the public debt ratio but would welcome greater granularity in the staff's recommendations of 1.5 percent of NHGDP of revenue and 3.5 percent of NHGDP of expenditure measures over the medium term for possible consideration. The authorities believe that their higher growth trajectory will deliver higher revenue and help mitigate the debt pressure. The authorities' expenditure projections are also lower than those of staff. Capital expenditures have historically underperformed budgeted amounts. In the baseline scenario (policy scenario), staff projections assume that the capital budget execution rate will fall from 80.5 percent in 2026 to 79.7 percent (74.3 percent) percent in 2028, for a total expenditure of 32.8 percent (30.7 percent) of GDP in 2028. The 2026 Finance Law already envisage a greater effort to control spending with a budget execution rate of only 70.0 percent and a total expenditure of 29.0 percent of GDP in 2028. The authorities always maintain the flexibility to prioritize capital spending if hydrocarbon revenue underperform.

Inflation, Monetary and Exchange Rate Policies, and Reserve Adequacy

Monetary policy remains appropriately neutral and data dependent. The 50-basis points policy rate cut in 2025 was warranted by the sustained disinflation observed over the preceding two years. The rise in the headline CPI inflation since September 2025 has been largely driven by the sharp increase in jewelry and gold prices alongside a modest rebound in food prices after a period of deflation. As such, the projected 5.0-5.5 percent headline inflation in 2026 is more a reflection of methodological deficiencies in the CPI calculation and a temporary phenomenon, rather than any sustained, broad-based underlying price pressures. Excluding gold and jewelry, inflation is expected to remain in the 3.0–3.5 percent range consistent with the Bank of Algeria's policy target. As such, monetary policy tightening would not be warranted at this stage, but should clear evidence of inflationary pressures emerge once the temporary effects are dissipated,

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the Bank of Algeria stands ready to tighten its monetary policy to the extent required to ensure price stability.

The authorities are mindful of the negative effects of monetary financing on liquidity. It is worth emphasizing in this connection that the Bank of Algeria's Treasury-related operations, including advances, dividends, and purchases of treasury bills were conducted in accordance with the standing legal framework. These advances declined in 2026 to 13.9 percent of the applicable statutory ceiling, which is fixed by law at 20 percent of total budget revenue of the previous year. With Fund technical assistance, the Bank of Algeria is modernizing its monetary policy framework and has developed an analytical platform to support evidence-based and forward-looking policymaking.

The Bank of Algeria remains committed to preserving exchange rate flexibility in line with market developments as the key buffer, together with its ample reserves, against external shocks. The bulk of Algeria's foreign exchange transactions are conducted through the official market. The parallel market premium nonetheless remains elevated despite the recent sizable increases in foreign exchange allowances for travel, official missions, and other eligible purposes. The authorities believe that high parallel market premium in part reflects their strong AML/CFT efforts and measures to curb import over-invoicing and other fraudulent activities that could be pushing transactions to the parallel market. Recognizing the importance of addressing these issues, the authorities have requested IMF technical assistance from LEG and MCM, which is expected to begin this month.

The staff report makes repeated references to the need for "sufficient foreign exchange availability for current international transactions in line with the IMF's Article VIII obligations," apparently suggesting deliberate import compression by restricting access to foreign exchange. The authorities confirm that sufficient foreign exchange is provided to private and public importers for all lawful imports in accordance with the existing official regulations and guidelines on foreign trade and payments. Indeed, the Bank of Algeria's foreign exchange sales for imports of goods and services rose from US$54.4 billion in 2024 to US$74.2 billion in 2025. The authorities are stepping up efforts to streamline foreign trade procedures while strengthening safeguards against fraudulent practices, including over- and under-invoicing.

The authorities consider their current level of reserves (at over eight months of forward imports) as adequate despite their sharp decline in 2025 reflecting higher capital imports and weaker hydrocarbon exports. As indicated earlier, most of the foundational investment projects with high import content are expected to be completed by 2028 with imports tapering off thereafter. Yet, the staff's medium-term baseline scenario continues to project high levels of imports (averaging 40 percent per annum higher in 2028-31 than 2022-2024, before the 2025-26 surge) and that seems to be the key driver behind staff's projection of a sharp reduction in foreign reserves. The staff's projected high level of imports from 2027 (17 percent of GDP) also seems inconsistent with the projected steady drop in capital spending from the recent 2025 peak of 10.4 percent of GDP to 6.4 percent of GDP in 2031. Higher private imports probably could not explain the difference.

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Financial Sector Policies

The authorities agree with staff on the importance of further strengthening financial regulations and supervision to safeguard stability of the financial system. According to financial soundness indicators, the banking sector remains well capitalized, liquid, and profitable. The elevated NPL ratio of public banks is, however, overstated, reflecting legacy loans that remain insufficiently provisioned because they are covered by Treasury guarantees or cannot be written off under the current regulatory framework. Ongoing reforms are reinforcing the prudential and regulatory frameworks, including through work on risk weights and alignment with Basel III standards. Progress has also been made in developing sovereign sukuk and Islamic finance, with sukuk issuance helping absorb part of the currency in circulation. The 2024–2025 regulatory update spans several key areas, including establishment and licensing of banks, financial institutions, and payment service providers; minimum capital requirements; senior management licensing; AMF/CFT requirements, including the 2024 regulation amended in 2025 and related instructions; Islamic finance, including its accounting framework and money market; financial inclusion and customer protection; and monetary policy instruments, including emergency liquidity assistance under the 2025 regulation and amendment.

Algeria's removal from the FATF grey list in record time is a testament to the authorities' strong commitment to fighting financial fraud and illegal activities. With IMF technical assistance, the FATF action plan has been fully implemented, supported by strong national coordination led by the Bank of Algeria. Algeria has also been invited to share its experience with the Joint Group.

Structural Reforms, Social Protection, and Energy Policy

The authorities are committed to advancing economic diversification, creating conditions to promote private sector activity, and strengthening governance and legal frameworks. They believe, however, that reforms should be well-sequenced and carefully calibrated, taking due account of their social impact, sectoral spillovers, and implementation capacity.

Algeria's deeply entrenched social policy will continue to protect the population's welfare through both explicit and implicit subsidies, while minimizing waste and improving efficiency and targeting. The subsidy reform agenda is advancing with World Bank support, focusing on operational tools, communication, risk management, monitoring and evaluation, and fraud prevention. Consultations with relevant stakeholders are in progress to finalize the household targeting mechanism.

Improving SOE efficiency and self-reliance is also a policy priority. The authorities are continuing to assess and support public entities in high-potential sectors, including mining and phosphates, while gradually restructuring others. This strategy aims to reduce public enterprises' reliance on public bank financing and create more space for credit to the private sector.

The authorities reaffirm their commitment to strengthening Algeria's role as a reliable supplier of natural gas to Europe while deepening overall international partnerships in the field of energy. To this end, Algeria's medium-term strategy aims to sustain and gradually raise hydrocarbon

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production through large investments in upstream and downstream infrastructure in oil, gas, and petrochemicals. Concurrently, domestic energy transition is being advanced through accelerated renewable electricity generation, with a view to reducing reliance on gas-fired power thus conserving gas for exports, and lowering carbon emissions. This initial phase is financed primarily through public resources, as the legal and economic frameworks are being developed to facilitate the participation of independent power producers.

Cooperation with European partners through the SouthH2 Corridor further supports Algeria's long-term green hydrogen ambitions and its objective of increasing the share of renewables, including hydrogen, to around 30 percent of the energy mix by 2040, as part of a broader agenda for industrial decarbonization and economic diversification.

The authorities are also addressing Algeria's serious water stress—a reflection of broader global climate challenges—through an ambitious desalination program, currently covering about 40 percent of the national demand that is expected to reach 60 percent by 2028, while also helping to develop domestic industrial capabilities. In parallel, Algeria is voluntarily strengthening environmental efforts through annual programs, with the World Bank assistance, to promote low-carbon processes and reduce methane emissions and gas flaring.

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