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ALGERIA ECONOMIC UPDATE

Hydrocarbon Revenues and Fiscal Resilience



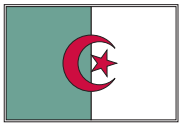
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Algeria
Economic Update

Hydrocarbon Revenues and Fiscal Resilience

Fall 2026



Middle East and North Africa Region

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LIST OF ACRONYMS

ALNAFT	National Agency for the Valorization of Hydrocarbon Resources
ARH	Hydrocarbon Regulatory Authority
BADR	Bank of Agriculture and Rural Development
BEA	External Bank of Algeria
BNA	National Bank of Algeria
BoA	Bank of Algeria
CPA	People's Credit Bank of Algeria
CPI	Consumer Price Index
DZD	Algerian Dinar
EPE	Economic public enterprises
EPT	Algeria's administrative regions
EU	European Union
EUR	Euro
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FRR	Revenue Regulation Fund
GDP	Gross domestic product
H1	First half of the year
H2	Second half of the year
IMF	International Monetary Fund
JODI	Joint Organisations Data Initiative
Kb/d	Thousands of barrels per day
LMICs	Low- and middle-income countries
LNG	Liquefied natural gas
M2	Aggregate money supply (banknotes, demand and term deposits)
MENA	Middle East and North Africa
MTEP	Million tonnes of oil equivalent
NAEM	National Agency for Employment
NASA	National Aeronautics and Space Administration
NEER	Nominal Effective Exchange Rate
ONS	National Office of Statistics
OPEC	Organization of the Petroleum Exporting Countries
OPEC+	OPEC and non-OPEC partner countries
PPI	Producer Price Index
PSC	Production Sharing Contract
REER	Real Effective Exchange Rate
SAIDAL	SAIDAL Industrial Group
SONATRACH	National Company for the Exploration, Production, Transportation, Processing and Marketing of Hydrocarbons
US$	United States Dollar
VA	Value Added
VAT	Value-Added Tax
WB	World Bank

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This Algeria Economic Update reports on the main recent economic developments and policies. It places them in a global and longer-term context and assesses the implications of these developments for Algeria's economic prospects. The report is aimed at a wide audience, including policymakers, business leaders, economic actors, and the community of analysts and professionals working in/on Algeria. The report is divided into three chapters. Chapter 1 presents macroeconomic developments in Algeria during 2025 and the first half of 2026, Chapter 2 describes the short- and medium-term outlook for the Algerian economy and Chapter 3 discusses effective hydrocarbon revenue management for fiscal sustainability. **The deadline for data entry and finalization of the projections used in this report was September 10, 2026.**

The Algeria Economic Update is a product of the Middle East and North Africa (MENA) section of the World Bank Group's Economic Policy Global Practice. It was prepared by Amel Henider, Daniel Prinz, Sabiha Tiguercha and Nourat Al Hayat Guigma, under the direction of Jasmin Chakeri and Abdoulaye Sy. The box on the entrepreneurship ecosystem was prepared by Menan Omar, Rania Dourai, and Apoorv Karmakar. The box on forecast uncertainty was prepared in collaboration with Florent McIsaac.

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EXECUTIVE SUMMARY

The Algerian economy grew by an estimated 3.8 percent in 2025 supported by substantial public investment. Official national accounts data are available only through the first half of 2025, and growth in the second half of the year is therefore estimated. Growth was driven by resilient non-hydrocarbon activity, which expanded by an estimated 4.2 percent, while the hydrocarbon sector grew by an estimated 1.5 percent. Growth was supported by strong domestic demand, underpinned by substantial public investment and robust private consumption.

High-frequency indicators confirm the resilience of non-hydrocarbon activity in 2025 while pointing to a gradual moderation in growth momentum in early 2026. Satellite-based nighttime light data indicate broad-based and sustained growth across non-hydrocarbon sectors throughout 2025 before slowing in early 2026. At the same time, alternative vessel-tracking data suggests a recovery in hydrocarbon exports in the second quarter of 2026, consistent with the gradual increase of oil production quotas and higher global prices, while import volumes continued to increase but remained below their 2025 levels.

Inflation declined markedly in 2025, although underlying price pressures persisted and inflation accelerated during the first half of 2026. Average inflation fell to 1.4 percent in 2025, mainly reflecting lower food prices (–3.0 percent) and relatively stable service prices. However, non-food inflation remained elevated, driven by rising manufactured goods prices (+7.4 percent in 2025). Inflation accelerated to 5.3 percent year-on-year during the first half of 2026, primarily due to a 10.4 percent increase in manufactured goods prices, while food prices rose more moderately by 2.2 percent year-on-year.

A decline in hydrocarbon exports combined with investment-driven import growth placed significant pressure on the external balance in 2025. The current account deficit widened to US$25.3 billion, equivalent to 8.8 percent of GDP. Strong domestic demand fueled import growth, while hydrocarbon export revenues declined due to lower international prices and weaker export volumes. With foreign direct investment at around US$1.5 billion, the deficit was financed mainly through foreign exchange reserves, which fell by US$16 billion to US$52.5 billion. The widening external imbalance underscores Algeria's continued vulnerability to fluctuations in hydrocarbon prices and export performance.

The fiscal deficit narrowed modestly in 2025 but remained elevated. The fiscal deficit stood at 10.4 percent of GDP, down from 14 percent of GDP in 2024. This improvement was driven mainly by stronger non-hydrocarbon revenues, including higher dividends from state-owned enterprises, while spending remained broadly stable. Public debt declined slightly, as resources accumulated in the Revenue Regulation Fund (FRR) financed most borrowing needs. Public financial management reforms also continued, including the rollout of program-

based budgeting, tax administration digitalization, and greater transparency in public procurement.

GDP growth is projected at 3.7 percent in 2026 amid heightened global energy market volatility and robust but moderate investment. This growth is driven by a modest recovery in hydrocarbon production in line with OPEC quotas increases while activity in the non-hydrocarbon sector moderates slightly. Higher hydrocarbon prices and production are expected to contribute to a narrowing of the current account and fiscal deficits due to growing domestic consumption of energy, high import growth related to public investment and substantial increases in public spending. Over the medium term, growth is expected to moderate to 3 percent, assuming global energy prices decline and market volatility eases. Higher growth and the creation of good jobs would require ambitious and well phased reforms to diversify the economy by strengthening fiscal management and discipline, the governance and performance of state-owned enterprises and strengthening the integration of the economy with international markets.

The special focus of this edition examines the performance of the Revenue Regulation Fund (FRR) as a fiscal stabilization instrument and benchmarks its design against international experience. Established in 2000, the FRR was designed to stabilize budget revenues by saving surplus oil and gas revenues when commodity prices were high and providing financing when prices fell. It was initially used to repay public debt, helping Algeria reduce its debt burden. After external debt declined substantially in the mid-2000s, the FRR had the potential to evolve into a sovereign wealth or intergenerational savings fund preserving hydrocarbon wealth for future generations while strengthening fiscal resilience. Its experience also offers an opportunity to refine the fund's operating rules so it can help manage revenue volatility while rebuilding savings over time. With a clearer balance between short-term budget support and longer-term saving, the FRR could play a stronger role in supporting fiscal stability and sharing Algeria's hydrocarbon wealth across generations.

The absence of binding fiscal rules and automatic saving and withdrawal mechanisms limited the FRR's ability to smooth hydrocarbon revenue volatility and preserve fiscal buffers over time. Drawing on the experiences of countries such as Norway, Chile, and Kazakhstan, the Special Focus shows that a stronger rules-based fiscal framework, supported by transparent natural resource revenue management arrangements, could help delink public spending from commodity price cycles, rebuild fiscal buffers, and strengthen the resilience and credibility of Algeria's public finances over the medium term.

RÉSUMÉ ANALYTIQUE

L'économie algérienne a enregistré une croissance estimée à 3,8 % en 2025, soutenue par un niveau élevé d'investissement public. Les comptes nationaux officiels n'étant disponibles que jusqu'au premier semestre 2025, la croissance du second semestre est estimée. L'activité a été portée par la résilience du secteur hors hydrocarbures, dont la croissance est estimée à 4,2 %, tandis que le secteur des hydrocarbures aurait progressé de 1,5 %. Cette performance a été soutenue par une demande intérieure dynamique, alimentée par l'investissement public et une consommation privée robuste.

Les indicateurs à haute fréquence confirment la solidité de l'activité hors hydrocarbures en 2025, tout en signalant un ralentissement progressif du rythme de croissance au début de 2026. Les données satellitaires sur l'intensité lumineuse nocturne indiquent une croissance généralisée et soutenue des secteurs hors hydrocarbures tout au long de 2025, avant un ralentissement au début de 2026. Dans le même temps, les données alternatives de suivi maritime suggèrent une reprise des exportations d'hydrocarbures au deuxième trimestre 2026, cohérente avec l'augmentation progressive des quotas de production pétrolière et la hausse des prix mondiaux, tandis que les volumes d'importation ont continué d'augmenter mais sont restés inférieurs à leurs niveaux de 2025.

L'inflation a fortement reculé en 2025, bien que les pressions inflationnistes sous-jacentes soient restées présentes et que l'inflation ait accéléré au premier semestre 2026. L'inflation moyenne est tombée à 1,4 % en 2025, principalement grâce à la baisse des prix alimentaires (–3,0 %) et à la relative stabilité des prix des services. Toutefois, l'inflation hors alimentation est demeurée élevée, portée par la hausse des prix des produits manufacturés (+7,4 % en 2025). L'inflation a ensuite accéléré pour atteindre 5,3 % en glissement annuel au premier semestre 2026, principalement en raison de l'augmentation de 10,4 % des prix des produits manufacturés, tandis que les prix alimentaires n'ont progressé que de 2,2 %.

La baisse des exportations d'hydrocarbures combinée à la forte progression des importations liée à l'investissement a exercé une pression importante sur la balance extérieure en 2025. Le déficit du compte courant s'est creusé pour atteindre 25,3 milliards de dollars, soit 8,8 % du PIB. La vigueur de la demande intérieure a stimulé les importations, tandis que les recettes d'exportation d'hydrocarbures ont diminué sous l'effet du recul des prix internationaux et de la baisse des volumes exportés. Les investissements directs étrangers étant restés à environ 1,5 milliard de dollars, le déficit a été principalement financé par les réserves de change. Celles-ci ont diminué de 16 milliards de dollars pour atteindre 52,5 milliards de dollars. Cette dégradation de l'équilibre extérieur souligne la vulnérabilité persistante de l'Algérie aux fluctuations des prix et des exportations d'hydrocarbures.

Le déficit budgétaire s'est légèrement réduit en 2025, mais demeure élevé. Il s'est établi

à 10,4 % du PIB, contre 14 % en 2024. Cette amélioration est principalement attribuable à la hausse des recettes hors hydrocarbures, notamment des dividendes versés par les entreprises publiques, tandis que les dépenses sont restées globalement stables. La dette publique a légèrement diminué, les ressources accumulées dans le Fonds de régulation des recettes (FRR) ayant couvert l'essentiel des besoins de financement. Les réformes de gestion des finances publiques se sont également poursuivies, notamment à travers la généralisation de la budgétisation par programmes, la digitalisation de l'administration fiscale et le renforcement de la transparence dans la commande publique.

La croissance du PIB devrait s'établir à 3,7 % en 2026 dans un contexte de forte volatilité des marchés mondiaux de l'énergie et d'un investissement toujours robuste mais plus modéré. Cette croissance serait soutenue par une reprise progressive de la production d'hydrocarbures conformément à l'augmentation des quotas de l'OPEP, tandis que l'activité hors hydrocarbures ralentirait légèrement. La hausse des prix et de la production d'hydrocarbures devrait contribuer à une réduction des déficits courant et budgétaire. Toutefois, cette amélioration serait limitée par la progression de la consommation intérieure d'énergie, le niveau élevé des importations lié à l'investissement public et l'augmentation des dépenses publiques. À moyen terme, la croissance devrait ralentir autour de 3 %, à mesure que les prix mondiaux de l'énergie diminuent et que la volatilité des marchés s'atténue. Une croissance plus forte et davantage créatrice d'emplois nécessiterait des réformes ambitieuses et graduelles visant à diversifier l'économie, à renforcer la gestion et la discipline budgétaires, à améliorer la gouvernance et la performance des entreprises publiques et renforcer l'intégration de l'économie aux marchés internationaux.

Le focus spécial de cette édition examine la performance du Fonds de régulation des recettes (FRR) en tant qu'instrument de stabilisation budgétaire et compare sa conception aux expériences internationales. Créé en 2000, le FRR a été conçu pour stabiliser les recettes budgétaires en mettant en réserve les excédents de recettes pétrolières et gazières lorsque les prix des hydrocarbures étaient élevés, et en fournissant des ressources de financement lorsque les prix baissaient. Il a initialement été utilisé pour rembourser la dette publique, contribuant ainsi à réduire le poids de la dette de l'Algérie. Après la forte diminution de la dette extérieure au milieu des années 2000, le FRR aurait pu évoluer vers un fonds souverain ou un fonds d'épargne intergénérationnelle, permettant de préserver la richesse issue des hydrocarbures au bénéfice des générations futures tout en renforçant la résilience budgétaire. L'expérience du FRR offre également l'occasion d'affiner ses règles de fonctionnement afin de mieux gérer la volatilité des recettes tout en reconstituant progressivement l'épargne. Un équilibre plus clair entre le soutien budgétaire à court terme et l'épargne à plus long terme permettrait au FRR de jouer un rôle accru dans le renforcement de la stabilité budgétaire et dans le partage de la richesse issue des hydrocarbures entre les générations. **L'absence de règles budgétaires contraignantes et de mécanismes automatiques d'épargne et de retrait a limité la capacité du FRR à atténuer la volatilité des recettes hydrocarbures et à préserver des marges budgétaires dans la durée.** En s'appuyant sur les expériences de pays tels que la Norvège, le Chili et le Kazakhstan, le focus spécial montre qu'un cadre budgétaire davantage fondé sur des règles claires, accompagné de mécanismes transparents de gestion des revenus issus des ressources naturelles, pourrait contribuer à découpler les dépenses publiques des cycles des matières premières, à reconstituer les réserves budgétaires et à renforcer la résilience ainsi que la crédibilité des finances publiques algériennes à moyen terme.

الملخص التنفيذي

سجّل الاقتصاد الجزائري نمواً يُقدّر بنحو 3.8 بالمائة في عام 2025، مدعوماً باستثمارات عمومية كثيفة. ونظراً إلى أن بيانات الحسابات القومية الرسمية لا تتوفر إلا لغاية النصف الأول من عام 2025، فإن نمو النصف الثاني من العام يظل تقديرياً. وقد استند النمو إلى متانة النشاط خارج قطاع المحروقات، الذي يُقدّر أنه توسع بنسبة 4.2 بالمائة، في حين نما قطاع المحروقات بنحو 1.5 بالمائة. وقد دعم هذا الأداءَ قوةُ الطلب المحلي، مدفوعاً بالاستثمارات العمومية الكبيرة ومتانة الاستهلاك الخاص.

تؤكد المؤشرات عالية التواتر متانة النشاط خارج قطاع المحروقات خلال عام 2025، مع الإشارة إلى تباطؤ تدريجي في زخم النمو مطلع عام 2026. وتشير بيانات الإضاءة الليلية المستمدة من الأقمار الصناعية إلى نمو واسع النطاق ومستدام في مختلف القطاعات خارج المحروقات طوال عام 2025، قبل أن يتباطأ في مطلع عام 2026. وفي الوقت نفسه، تشير بيانات بديلة لتتبع حركة السفن إلى تعافي صادرات المحروقات خلال **الربع** الثاني من عام 2026، بما يتماشى مع الزيادة التدريجية في حصص إنتاج النفط وارتفاع الأسعار العالمية، في حين واصلت أحجام الواردات ارتفاعها، لكنها ظلت دون مستوياتها المسجلة في عام 2025.

تراجع التضخم بشكل ملحوظ في عام 2025، رغم استمرار الضغوط التضخمية الأساسية وتسارع وتيرته خلال النصف الأول من عام 2026. فقد انخفض متوسط التضخم إلى 1.4 بالمائة في عام 2025، مدفوعاً بشكل أساسي بانخفاض أسعار المواد الغذائية بنسبة 3.0 بالمائة واستقرار أسعار الخدمات نسبياً. غير أن التضخم باستثناء المواد الغذائية ظل مرتفعاً، نتيجة زيادة أسعار السلع المصنعة بنسبة 7.4 بالمائة خلال عام 2025. وخلال النصف الأول من عام 2026، تسارع التضخم إلى 5.3 بالمائة سنوياً، مدفوعاً بزيادة أسعار السلع المصنعة بنسبة 10.4 بالمائة، في حين ارتفعت أسعار المواد الغذائية بوتيرة أكثر اعتدالاً بلغت 2.2 بالمائة سنوياً.

أدى تراجع صادرات المحروقات، بالتزامن مع نمو الواردات المدفوع بالاستثمار، إلى ضغوط كبيرة على التوازن الخارجي في عام 2025. فقد اتسع عجز الحساب الجاري بشكل ليبلغ 25.3 مليار دولار أمريكي، أي ما يعادل 8.8 بالمائة من الناتج المحلي الإجمالي. وأسهم الطلب المحلي القوي في زيادة الواردات، بينما تراجعت عائدات صادرات المحروقات نتيجة انخفاض الأسعار العالمية مع تراجع طفيف في أحجام الصادرات. ومع بقاء الاستثمار الأجنبي المباشر عند نحو 1.5 مليار دولار أمريكي، حيث جرى تمويل العجز بشكل أساسي من احتياطيات الصرف، التي تراجعت بمقدار 16 مليار دولار لتبلغ 52.5 مليار دولار. ويعكس تفاقم الاختلالات الخارجية مدى تأثر الاقتصاد الجزائري بتقلبات أسعار المحروقات وتراجع أداء صادراتها.

سجّل عجز الميزانية العمومية تراجعاً محدوداً في عام 2025، لكنه بقي مرتفعاً. فقد بلغ 10.4 بالمائة من الناتج المحلي الإجمالي، مقابل 14 بالمائة في عام 2024. ويُعزى هذا التحسن إلى ارتفاع الإيرادات خارج المحروقات، بما في ذلك زيادة توزيعات الأرباح من المؤسسات العمومية، في حين ظل الإنفاق مستقراً إلى حد كبير. كما تراجع الدين العمومي بشكل طفيف، إذ موّلت الموارد المتراكمة في صندوق ضبط الإيرادات معظم احتياجات الاقتراض. واستمرت كذلك إصلاحات إدارة المالية العمومية، بما في ذلك تعميم الميزانية القائمة على البرامج، ورقمنة الإدارة الجبائية، وتعزيز الشفافية في مجال الصفقات العمومية.

يُتوقع أن يبلغ نمو الناتج المحلي الإجمالي 3.7 بالمائة في عام 2026، في ظل تصاعد تقلبات أسواق الطاقة العالمية واستمرار الاستثمار عند مستوى قوي، وإن كان أكثر اعتدالاً. ويستند هذا النمو إلى تعافٍ محدود في إنتاج المحروقات، بما يتوافق مع زيادة حصص أوبك، في حين يُتوقع أن يتباطأ النشاط خارج قطاع المحروقات بشكل طفيف. ويُرجح أن تسهم زيادة أسعار المحروقات وإنتاجها في تقليص لعجزي الحساب الجاري والميزانية العمومية. غير أن تنامي الاستهلاك المحلي للطاقة، واستمرار نمو الواردات المرتبطة بالاستثمار العمومي، والزيادات الكبيرة في الإنفاق العام ستحد من هذا التحسن. وعلى المدى المتوسط، يُتوقع أن يتراجع النمو إلى نحو 3 بالمائة، بافتراض انخفاض أسعار الطاقة العالمية وانحسار تقلبات الأسواق. وسيتطلب تحقيق نمو أعلى وخلق فرص عمل جيدة تنفيذ إصلاحات طموحة ومتدرجة لتنويع الاقتصاد، من خلال تعزيز إدارة المالية العمومية والانضباط المالي، وتحسين حوكمة المؤسسات العمومية وأدائها، و تعزيز اندماج الاقتصاد في الأسواق الدولية.

تناول المحور الخاص في هذه الطبعة أداء صندوق ضبط الإيرادات (FRR) باعتباره أداة لتحقيق الاستقرار في المالية العامة، كما يقارن تصميمه بالتجارب الدولية. أُنشئ صندوق ضبط الإيرادات عام 2000 بهدف تحقيق الاستقرار في إيرادات الميزانية، من خلال ادخار فوائض عائدات النفط والغاز عندما تكون أسعار المحروقات مرتفعة، وتوفير التمويل عند انخفاض الأسعار. وقد استُخدم الصندوق في البداية لسداد الدين العمومي، مما ساهم في خفض عبء الدين في الجزائر. وبعد الانخفاض الكبير في الدين الخارجي في منتصف العقد الأول من الألفية، كان بإمكان صندوق ضبط الإيرادات أن يتطور ليصبح صندوقاً سيادياً أو صندوقاً للادخار بين الأجيال، بما يسمح بالحفاظ على الثروة المتأتية من المحروقات لفائدة الأجيال القادمة، مع تعزيز قدرة المالية العامة على الصمود. كما تتيح تجربة صندوق ضبط الإيرادات فرصة لتحسين قواعد تسييره، بما يمكّنه من المساهمة في إدارة تقلبات الإيرادات، مع إعادة تكوين المدخرات تدريجياً بمرور الوقت. ومن شأن تحقيق توازن أوضح بين دعم الميزانية على المدى القصير والادخار على المدى الطويل أن يعزز دور الصندوق في دعم استقرار المالية العامة وضمان استفادة الأجيال المختلفة من ثروة الجزائر من المحروقات.

حدّ غياب قواعد مالية ملزمة وآليات تلقائية للادخار والسحب المفرط من قدرة صندوق ضبط الإيرادات على التخفيف من تقلبات عائدات المحروقات والحفاظ على هوامش مالية وقائية بمرور الوقت. واستناداً إلى تجارب دول مثل النرويج وتشيلي وكازاخستان، يبيّن المحور الخاص أن اعتماد إطار مالي أقوى قائم على قواعد واضحة، تدعمه ترتيبات شفافة لإدارة عائدات الموارد الطبيعية، يمكن أن يساعد على فك الارتباط بين الإنفاق العمومي ودورات أسعار السلع الأولية، وإعادة بناء الهوامش المالية الوقائية، وتعزيز متانة المالية العمومية في الجزائر ومصداقيتها على المدى المتوسط.

1

RECENT ECONOMIC DEVELOPMENTS

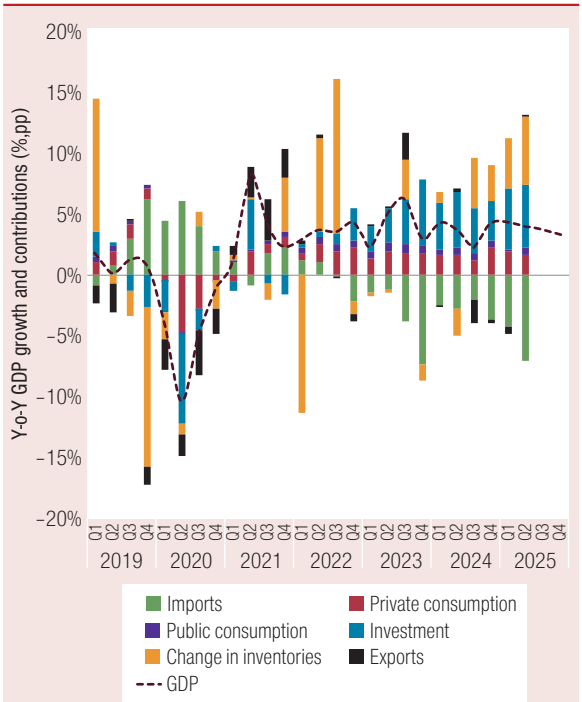
Non-Hydrocarbon Growth Remained Robust in 2025

Growth remained robust in 2025, estimated at 3.8 percent year-on-year. As official national accounts data are available only through H1-2025, full-year estimates are based on observed first-half trends and the World Bank's annual macroeconomic projections. Growth for the second half of the year is inferred from the annual GDP estimate produced by the World Bank's macroeconometric model, then allocated across quarters using average quarterly weights. These estimates are also checked against alternative indicators of economic activity, particularly satellite-based nightlights data. Based on this approach, non-hydrocarbon GDP is estimated to have grown by 4.2 percent in 2025, while hydrocarbon GDP is estimated to have grown by 1.5 percent. Strong domestic demand was largely met through higher imports, while export growth remained constrained by weaker hydrocarbon exports and a challenging external environment.

Alternative indicators point to a sustained expansion of non-hydrocarbon economic activity in 2025, although growth momentum appears to have moderated entering Q1-2026. Satellite-based nighttime light data suggest robust and broad-based growth across non-hydrocarbon sectors throughout 2025. Nighttime light intensity increased by more than 13 percent year-on-year in the first half of 2025, before decelerating to 7.4 percent in the second half of the year. Growth remained positive in the first quarter of 2026 but slowed further, with nighttime light intensity rising by 3.5 percent year-on-year. These trends suggest that non-hydrocarbon activity was strongest in the first half of 2025, before gradually moderating through the remainder of the year and into early 2026.

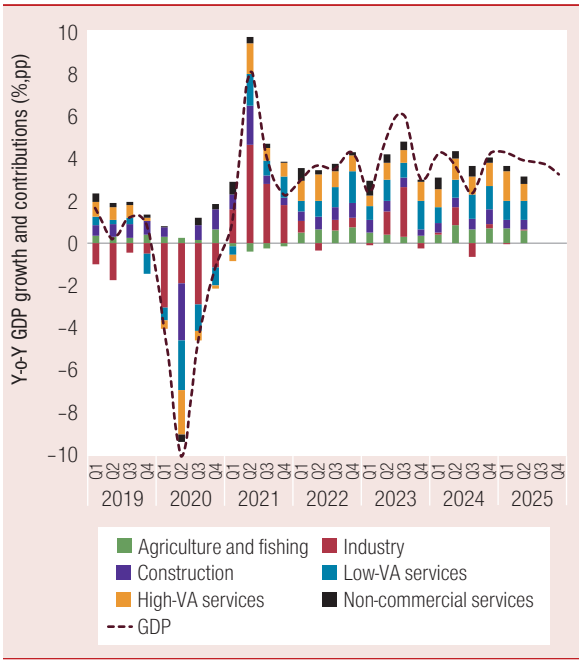
Alternative trade data point to a pickup in hydrocarbon exports in Q2-2026, while import volumes remain below their 2025 levels. Alternative vessel-tracking data suggest that export volumes were relatively strong in the first half of 2025 before declining during the second half, with the downward

FIGURE 1 • Robust investment stimulated imports…



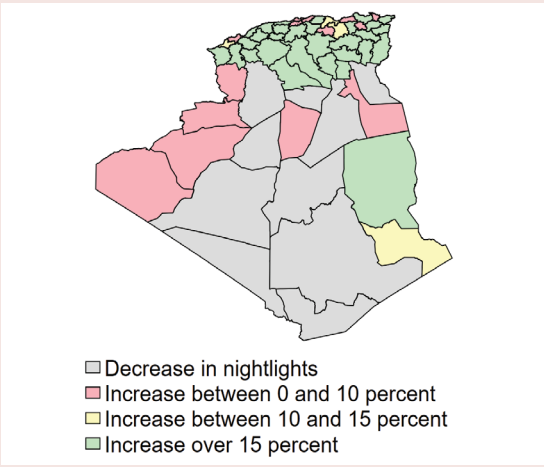
Source: National Office of Statistics (ONS) & World Bank (WB) staff estimates.
Note: Due to the lack of data on changes in inventory volumes, the volumes for this aggregate have been estimated using the investment deflator, which may result in the components not adding up to the total.
The GDP figures for the third and fourth quarters of 2025 were estimated based on the World Bank's annual GDP growth forecast for 2025 and the average quarterly distribution observed in previous years.

FIGURE 2 • …while household consumption supported services and agricultural production remained resilient



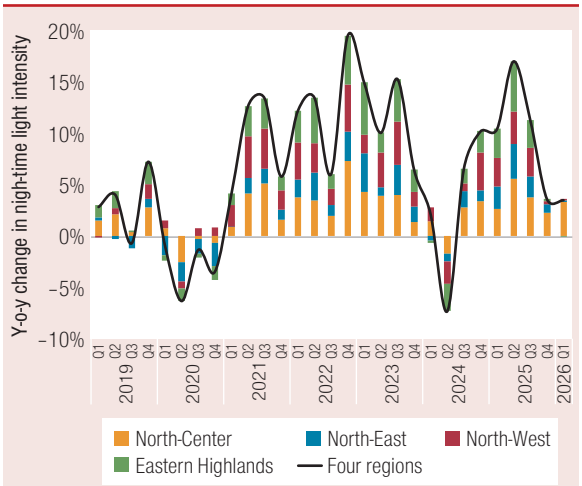
Source: ONS & WB staff estimates.
Note: Low-value-added (VA) services include trade, hotels and restaurants. High-VA services include transport and communications, finance, real estate, and business services. The figures do not show taxes on imports and taxes net of subsidies on products.
The GDP figures for the third and fourth quarters of 2025 were estimated based on the World Bank's annual growth forecast for 2025 and the average quarterly pattern observed in previous years.

FIGURE 3 • Satellite data on nighttime lights indicating inter-regional dynamism during 2025…



Source: World Bank staff estimates based on National Aeronautics and Space Administration (NASA) data.
Note: The map uses the administrative division into 58 wilayas.

FIGURE 4 • …with the North-Central region being the primary contributor to non-hydrocarbon growth



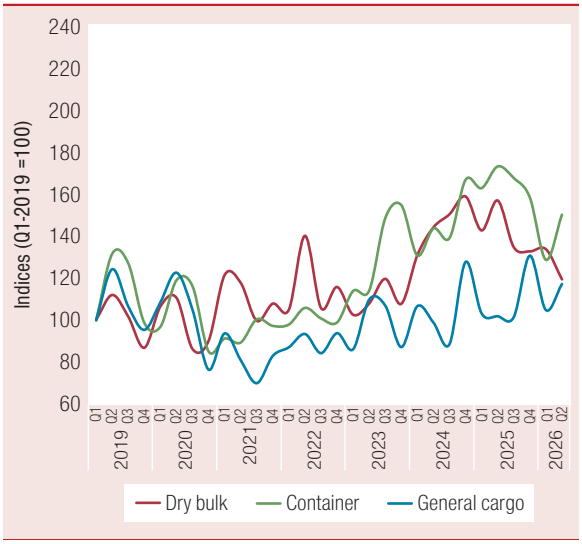
Source: World Bank staff estimates based on National Aeronautics and Space Administration (NASA) data.
Note: The regions correspond to the Territorial Programming Areas (EPT).

FIGURE 5 • Ship tracking data suggests that export volumes remain subdued…



Source: International Monetary Fund (IMF).

FIGURE 6 • …while the expansion of imports has continued



Source: IMF.

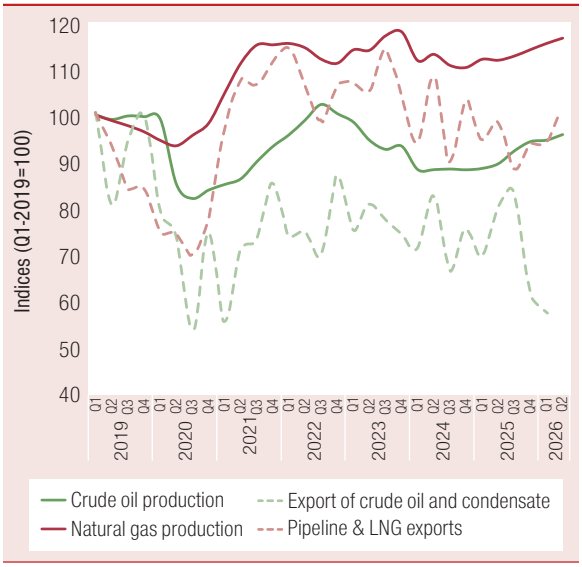
trend extending into early 2026. However, Q2-2026 data indicate a divergence between tankers and other exports: tanker export volumes increased, while other exports continued to decline. This pattern points to a pickup in hydrocarbon exports, broadly consistent with recent quota revisions and developments related to the Middle East conflict. On the import side, volumes increased more sharply in the first half of 2025 and at a more moderate pace thereafter. Available data for the first half of 2026 indicate that import volumes remained above their 2019–2024 average, while still below the levels recorded in 2025.

Crude Oil Production Rose Slowly in 2025 and Declining Gas Exports Weighed on Revenues

After a moderate increase of 2.6 percent in 2025, crude oil production accelerated significantly over the first five months of 2026, in line with the increase in OPEC production quotas. Following the first quota increase since January 2022 in April 2025, Algeria's crude oil production quota rose progressively to 970 kb/d by December 2025. In line with these adjustments, crude oil production increased by 2.6 percent in 2025 according to OPEC data. Growth accelerated further in 2026, with production rising by 6.9 percent year-on-year over the first five months of the year as additional quota increases took effect. Oil prices remained subdued throughout most of 2025, with Sahara Blend averaging 68.6 US dollars per barrel, reflecting weaker global demand and rising supply. In early 2026, heightened geopolitical tensions pushed Sahara Blend prices to around 133 US dollars per barrel in April 2026 before easing to 109 US dollars per barrel in May. This temporary price surge, combined with higher production volumes, provided support to hydrocarbon export and fiscal revenues. Looking ahead, Sonatrach announced a 52 billion-euro investment program for 2026–2030, with 75 percent allocated to exploration and production and an additional 6 billion euros dedicated to petrochemical development, supporting the sector's medium-term outlook. Beyond domestic investments, the company also plans to initiate drilling operations at the Kafra field in Niger in 2026.

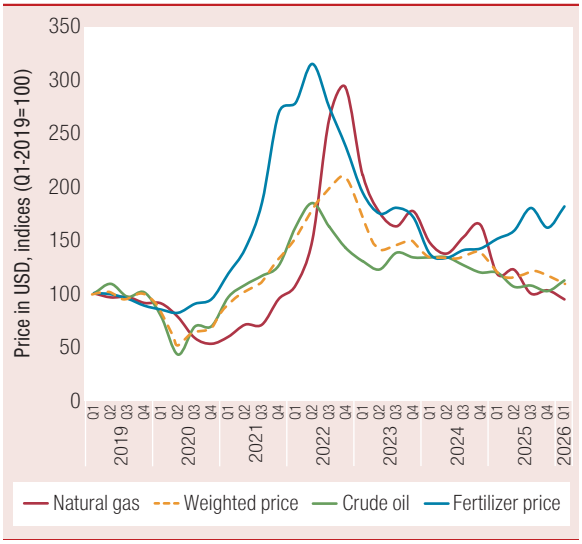
Despite higher natural gas production, rising domestic demand and a shift from LNG to pipeline exports are reshaping Algeria's gas export outlook. Following an increase of 3.5 percent in 2025, natural gas production expanded by a further 4.3 percent year-on-year in the first semester of 2026. Despite higher production, natural gas exports increased by only 0.3 percent, as stronger domestic consumption absorbed part of the

FIGURE 7 • Oil production rose slowly with quota increases…



Source: Joint Organizations Data Initiative (JODI) for gas, Bank of Algeria (BoA) for exports until 2024, OPEC for crude oil production, and WB estimates.
Note: Gas data are presented as a four-quarter moving average. Estimates of crude oil and condensate exports are based on IMF PortWatch tanker tracking data.

FIGURE 8 • …and prices remained relatively low in 2025



Source: BoA, oilprice.com and WB for fertilizer prices.
Note: The hydrocarbon price index uses the Bank of Algeria's dollar export values to weight each type of hydrocarbon. For the period 2025, the oil, gas, and weighted price indices are estimated using changes in oil quotas and prices, changes in JODI gas exports, and international gas prices.

additional supply. The weaker export performance was driven by lower LNG exports (–15.1 percent), partly offset by growth in pipeline exports (+5.8 percent), which accounted for 78 percent of total gas exports. Growing domestic energy demand continues to limit the translation of higher gas production into export growth. While heightened geopolitical tensions in the Middle East may support demand and prices in the short term, Algeria's medium-term export outlook remains constrained by rising domestic consumption and the gradual diversification of Europe's energy mix. Domestic demand for electricity, nearly all generated from natural gas, tripled between 2011 and 2025.[1] In the second quarter of 2025, Algeria ranked as the EU's fourth-largest LNG supplier, providing about 6 percent of European LNG imports. Russia's war on Ukraine has benefited Algeria's gas exports, which may also benefit from the conflict in the Middle East. However, as the EU has recently increased its natural gas imports, the United States and Norway have become more important suppliers, while Algeria's share has decreased slightly. In the longer term, Europe's ongoing energy transition could lead to a gradual shift in demand for natural gas. In this context, Algeria could build on its comparative advantages, particularly its proximity to European markets and the development of new forms of energy cooperation, to support these transformations and seize emerging opportunities in new energy value chains.

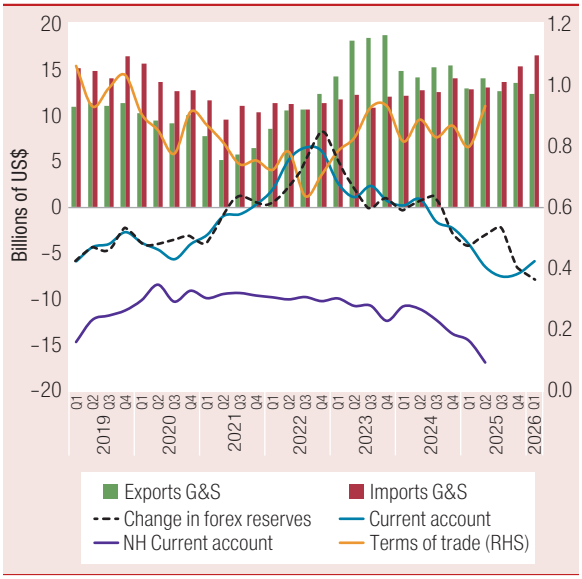
The current account reflected investment-driven imports and lower hydrocarbon prices in 2025

The current account recorded a deficit in 2025, reflecting lower hydrocarbon export revenuesand imports associated with investment activity. The deficit reached US$ 25.3 billion in 2025,[2] reflecting a combination of lower hydrocarbon exports and strong import growth (36 percent). In the first quarter of 2026, the current account continued to record a deficit of US$5.6 billion, driven by

[1] In response to rapidly growing electricity demand, the authorities have launched a range of renewable energy, energy efficiency, and power mix diversification initiatives to gradually reduce reliance on natural gas-fired electricity generation.

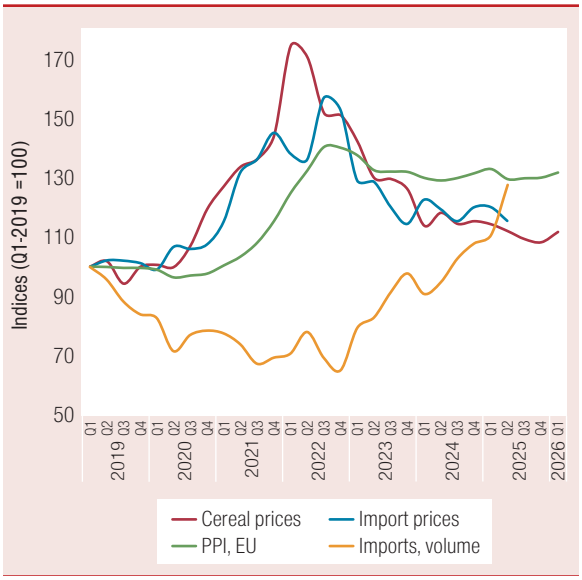
[2] According to IMF data.

FIGURE 9 • Investment growth has boosted import volumes…



Source: BoA(for the non-hydrocarbon current account), International Monetary Fund (IMF), ONS, and WB estimates.

FIGURE 10 • …while prices have fallen slightly



Source: ONS, Food and Agriculture Organization of the United Nations (FAO), Eurostat and World Bank estimates.
Note: PPI, EU = European Union Producer Price Index.

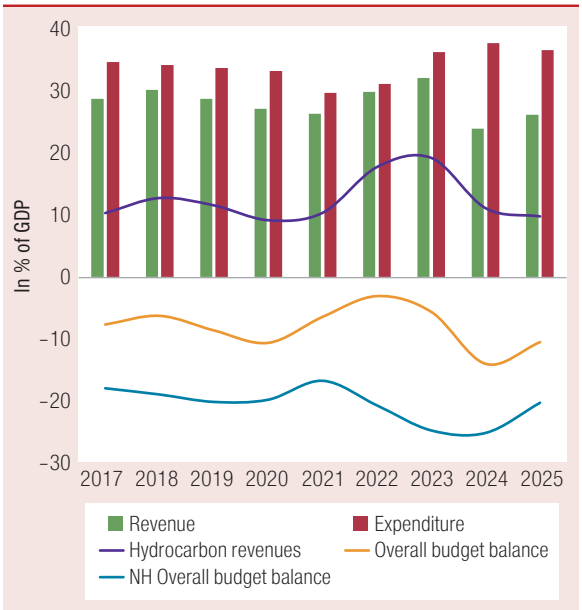
a rise in imports of goods and services (+7.2%) and a decline in exports of goods and services (–2%). Lower hydrocarbon prices and export volumes weighed on external receipts, while strong domestic demand and investment activity boosted imports. With foreign direct investment inflows at approximately US$ 1.5 billion (0.5 percent of GDP), foreign exchange reserves, which provide an external buffer, stood at US$ 68.4 billion in 2024, US$ 52.5 billion in 2025, and $42.2 billion in July 2026.[3]

After Widening in 2024 due to Lower Hydrocarbon Revenues, the Fiscal Deficit Narrowed Slightly in 2025, Supported by Higher Non-Hydrocarbon Revenues and Broadly Stable Spending

The fiscal deficit improved modestly in 2025, supported by stronger non-hydrocarbon tax collection and higher non-tax revenues, notably dividends from SOEs , and broadly stable expenditures, but it remained large. Total revenue is estimated at 26 percent of GDP, with hydrocarbon revenue remaining close to 10 percent of GDP despite lower energy prices. Revenue received by the government from SOEs accounted for one-quarter of non-hydrocarbon revenue in 2025, compared with only 12 percent in 2024. At the same time, expenditure is estimated at 36.4 percent of GDP, resulting in an overall fiscal deficit of 10.4 percent of GDP. The improvement was driven primarily by stronger non-hydrocarbon tax mobilization, while the non-hydrocarbon fiscal deficit remained elevated at over 20 percent of GDP, underscoring the continued dependence of public finances on hydrocarbon revenues. Meanwhile, public financial management reforms advanced through the rollout of program budgeting, the digitalization of tax administration and public services, and increased transparency in public procurement, supporting efforts to strengthen governance and foster private-sector-led growth.

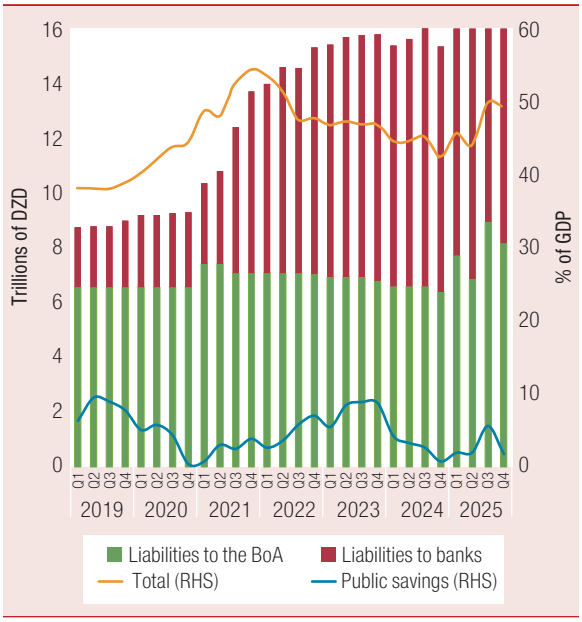
[3] In 2025, several Algerian public enterprises contributed to government revenues through dividend distributions, notably the CPA, which distributed DZD 25 billion in respect of its 2024 financial year, and the BDL, whose dividends amounted to approximately DZD 11.46 billion. Other key contributors included SONATRACH, BNA, BEA, BADR, and SAIDAL.

FIGURE 11 • The fiscal deficit narrowed slightly in 2025, supported by higher non-hydrocarbon tax revenues and broadly stable spending



Source: Ministry of Finance, ONS and WB estimates.
Note: In the absence of available data, the 2025 GDP figure uses the estimated GDP based on the World Bank's annual forecast.

FIGURE 12 • Public debt fell slightly in 2025 amid a modest decline in the budget deficit



Source: IMF and WB estimates.
Note: Debt to financial corporations for the third and fourth quarters of 2025 is assumed to remain at its April 2025 level. In the absence of available data, GDP for these two quarters is likewise estimated based on the World Bank's annual forecast.

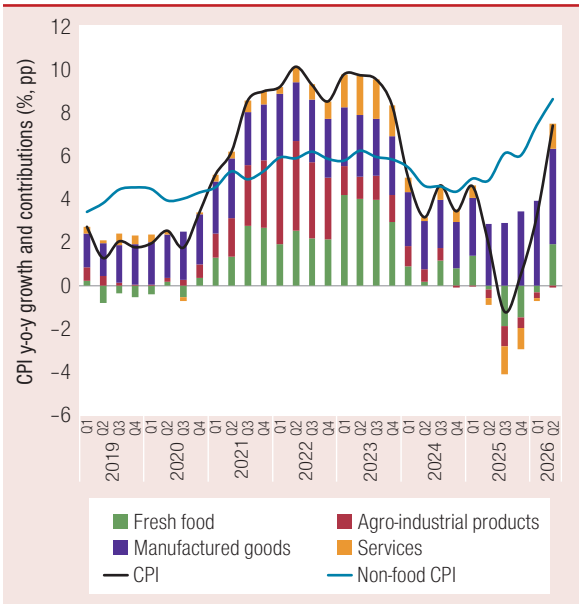
Public debt fell slightly in 2025 amid a modest decline in the budget deficit and thanks to the use of reserves from oil revenues, which limited the need for borrowing. This development is explained by a moderate reduction in the budget deficit, as well as the use of resources accumulated in the Revenue Regulation Fund (FRR), which partially covered financing needs, amounting to DZD 96 billion (US$ 711 million).[4] Public debt is held almost exclusively in the domestic market and is characterized by low effective interest rates and long maturities; a significant portion was financed by the Bank of Algeria under the 2017–2019 monetary financing program and the 2021–2022 special refinancing program. The effective interest rate on public debt stood at 2.5 percent, which corresponds to a negative real effective interest rate. However, the financing of the debt mainly by the domestic banking system risks crowding out the credit to the rest of the economy. Over time, a broader mix of financing instruments could support the development of private-sector lending and strengthen the financial system's capacity to finance productive investment.

Inflation slowed in 2025 as food prices fell, before picking up during the first half of 2026

Underlying inflationary pressures persisted despite low headline inflation in 2025. With non-food inflation rising from Q2-2025 and surpassing levels observed during the Ukraine war. In 2025, food prices decreased (–3.0 percent), offsetting increasing manufactured goods prices (+7.4 percent). Service prices remained broadly stable (–0.7 percent). In the first half of 2026, inflation accelerated to 5.3 percent year-on-year, driven by a 10.4 percent year-on-year increase in the prices of manufactured goods, which account for nearly 40 percent of the consumption basket. At the same time, food prices

[4] Although the Revenue Regulation Fund (FRR) had been depleted in 2024, it received approximately DZD 96 billion in additional hydrocarbon revenues during 2025. These resources were entirely used to finance the budget deficit, leading to the effective depletion of the Fund once again by the end of 2025.

FIGURE 13 • Inflation eased in 2025, supported by decreasing food prices but accelerated in H1-2026



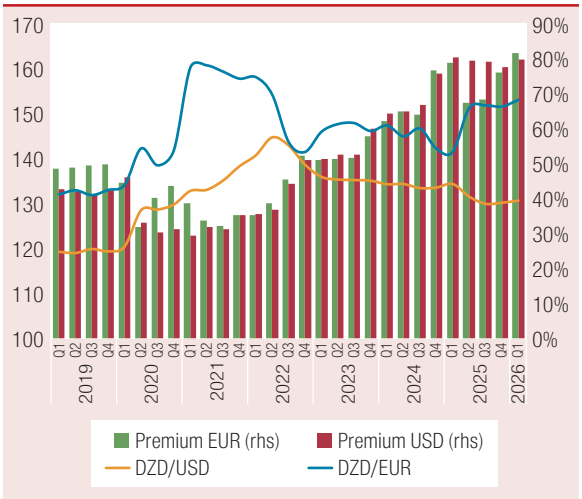
Source: ONS and WB estimates.

increased by 2.2 percent year-on-year, driven by higher fresh food prices (+4.6 percent), which more than offset the slight decline in processed food prices (–0.7 percent).

The real effective exchange rate depreciated slightly in 2025, with official rates broadly stable. The dinar appreciated against the U.S. dollar from DZD 135.6 per US$ at end-2024 to DZD 130.3 at end-2025, while it depreciated against the euro, from 140.1 to 151.3 over the same period. The exchange rate against the Chinese yuan remained stable. These contrasting bilateral developments resulted in a moderate decline in the nominal effective exchange rate (NEER) from 83.9 to 82.2. The real effective exchange rate (REER) declined from 108.8 to 104.0, reflecting both the nominal depreciation against the euro and low inflation. At the same time the parallel market premium widened significantly compared to the official rate in 2025, reaching an average of 72 percent against the euro (from 71 percent in 2024) and 79 percent against the U.S. dollar (from 70 percent in 2024) . This widening gap points to continued excess demand for foreign currency in the money market.

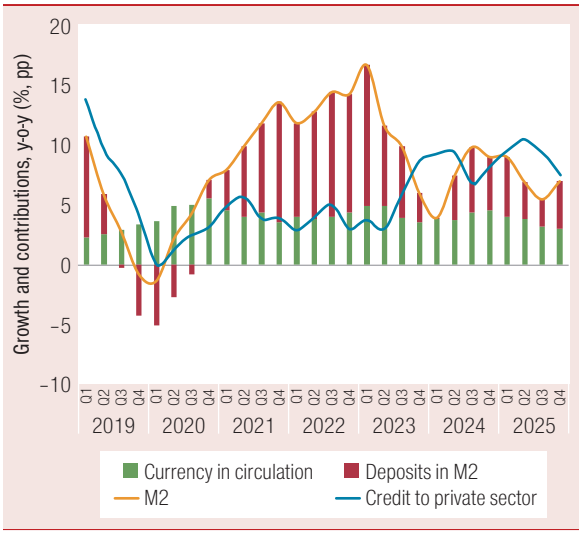
Monetary policy was eased further as money and credit growth decelerated in 2025. The policy interest rate was reduced from 3 to 2.75 percent and the reserve requirement rate from 3 to 2 percent in August 2025, followed by another easing in monetary conditions in January 2026, when the policy interest rate was reduced to 2.5 percent and the reserve requirement rate to 1 percent. Broad money (M2) growth slowed to 7 percent year-on-year in 2025, down from around 9 percent at end-2024, reflecting weaker growth in currency in circulation,

FIGURE 14 • Official exchange rates remained broadly stable in 2025…



Source: ONS, IMF and WB estimates.

FIGURE 15 • …while credit growth to the private sector decelerated



Source: IMF and WB estimates.

which decelerated from 11.4 percent in 2024 to 7.4 percent in 2025. Growth in M2 deposits also moderated, easing to 6.7 percent in 2025 from 7.5 percent in 2024. Over the same period, credit to the private sector slowed, with its growth rate declining from approximately 8.2 percent in 2024 to 7.6 percent in 2025, while the outstanding stock of credit reached DZD 7,395 billion in 2025.

2

OUTLOOK AND RISKS

Growth Would Remain Resilient in 2026, Driven by a Slight Pickup in Hydrocarbon Activity

Economic growth is projected to remain stable in 2026 as a modest expansion in the oil and gas sector offsets a slight slowdown in non-hydrocarbon sectors. In the baseline scenario, GDP growth is expected to ease slightly to 3.7 percent in 2026, driven by softer expansion in the non-hydrocarbon sector (3.7 percent, down from an estimated 4.2 percent in 2025) alongside an acceleration in the hydrocarbon sector (3.8 percent, up from an estimated 1.5 percent in 2025), supported by OPEC quota increases. Investment growth is expected to slow down compared to the previous two years, as robust private investment would not be sufficient to offset the slowdown of public capital expenditure. Private consumption growth would slow amid more moderate increases in the wage bill and transfers implied by the government's medium-term budget framework. As part of a broader goal of economic diversification and private sector development, the authorities are advancing initiatives to foster entrepreneurship and innovation (Box 1).

Global energy market developments represent both an upside and a downside risk to the outlook. Higher hydrocarbon prices associated with geopolitical tensions in the Middle East could strengthen fiscal and external balances and support export revenues. However, sustained disruptions to global trade and energy markets could dampen global economic activity and limit demand from Algeria's trading partners. Recent increases in hydrocarbon prices are supporting the near-term outlook. Continued efforts to strengthen fiscal resilience and diversify the economy away from the hydrocarbon sector are important to help manage fluctuations in energy markets.

Growth would slow somewhat in 2027 and 2028 in the baseline scenario, as public expenditures and hydrocarbon output stabilize. As hydrocarbon output stabilizes in 2027 and 2028 in line with OPEC quotas and fiscal consolidation continues under the government's medium-term framework, growth would slightly decelerate in 2027–28 in the baseline scenario.

BOX 1 : STRENGTHENING ALGERIA'S ENTREPRENEURSHIP ECOSYSTEM

The Algerian government has made entrepreneurship a central lever for economic diversification and job creation, particularly among youth. By fostering a vibrant startup culture, the government aims to unlock new sources of growth, stimulate innovation and competitiveness, and create sustainable employment opportunities. To translate this ambition into action, it established a dedicated institutional and regulatory framework, beginning with the creation of the Ministry of Knowledge Economy and Startups in January 2020, which was expanded in September 2022 to include micro-enterprises. Since its creation, the Ministry has led a broad set of reforms in close consultation with multidisciplinary ecosystem actors, including a dedicated legal status and label for startups, innovative projects, and incubators, accompanied by tax incentives. The self-entrepreneur statute, the Algerian Startup Fund (ASF), and the creation of Algeria Venture (A-Venture) further reflect the government's ambition to position Algeria as a leading innovation hub in Africa.

A series of flagship programs has been launched to foster an innovation culture and accelerate entrepreneurship development. Algeria Disrupt, launched in 2020, offers young entrepreneurs a regional platform to present ideas, connect with investors, and access mentoring, financing, and networking opportunities. At the same time, the government has established A-Venture, a state-owned accelerator which provides startups with essential resources, mentorship and funding opportunities, in line with the national strategy to foster a conducive environment for innovation. To strengthen continental cooperation in the field of innovation and boost Africa's potential in this area, Algeria launched the Startup Conference in 2022, which brings together a Ministerial Summit, thematic side events, and dedicated investor–startup matchmaking sessions. These platforms advance pan-African dialogue on the institutional instruments necessary for startup development across Africa, with the fourth edition held in December 2025.

The ecosystem has reached significant milestones in labeling. Since 2021, it has counted more than 15,000 startups in the ecosystem, with 4,000 officially labeled startups and innovative projects alongside more than 200 labeled incubators, most of them embedded within universities, with approximately half located in the north of Algeria. Drawing on five years of experience, the Ministry recently introduced a scale-up label to better support startups at an advanced stage of growth and encourage the emergence of national innovation champions capable of competing in regional and international markets. Current priorities include label renewal, which carries a five-year validity period, and greater sectoral specialization for incubators, to better align the support infrastructure provided to startups with rapidly evolving technological trends and market dynamics.

Government financing mechanisms have been reinforced, but several gaps remain, particularly for growth-stage startups. The ASF, launched in 2020, has received more than 900 applications and funded more than 100 startups across 24 sectors. Public support mechanisms have also been strengthened upstream of ASF's intervention. Launched in 2024, the "Kick-Start" incubation program supports innovative project holders in developing their products and transitioning to startup status. Other initiatives, such as the "ProtoMarket" challenge, aim to support the prototyping and commercialization of innovations, particularly those emerging from university incubators. Moreover, the emergence of new innovation financing actors, including within academia, could gradually help expand the range of financing options available to innovative enterprises. Its financing is largely focused on the pre-seed and seed stages, leaving a critical funding gap as startups mature. Business angels have become more active since 2020 but remain mostly unorganized individual actors — fewer than ten are currently active in the market — while local banks continue to perceive startups as high-risk. With few private venture capital funds established so far, broadening and diversifying the investor base is essential to sustain ecosystem growth and enable Algerian startups to scale competitively. The adoption of the regulatory framework governing venture capital funds in 2025 is expected to play a key role in structuring the venture capital ecosystem and supporting the emergence of private funds.

To support the ecosystem in reaching a higher level of maturity, IFC launched an advisory engagement with the Ministry aimed at strengthening the growth trajectory and investment-readiness of Algerian startups. This engagement is informed by an ecosystem assessment and series of consultations in collaboration with the Ministry, targeting over 100 startups, approximately 50 entrepreneurship support organizations, and members of the labelling committee. The findings, which were structured around five dimensions — regulatory environment, access to finance, access to markets, support services, culture and talent — point to both significant opportunities and structural constraints. The ecosystem remains at an early stage of development, with most participants yet to complete a full business cycle. However, Algeria's large domestic market and nascent private sector offer startups a genuine opportunity to capture sizeable market share. Brain drain continues to weigh on entrepreneurs' ability to hire and retain skilled talent, yet the extensive Algerian diaspora represents an underutilized reservoir of potential investors, mentors, founders, and high-caliber talent. Improving the support infrastructure in terms of service quality as well as reviewing existing policy incentives to enhance the availability and quality of support services is another opportunity for accelerating the advancement of the ecosystem in Algeria. IFC's engagement therefore focuses on bringing in international private sector expertise to build the capacity of the broader support infrastructure while contributing to a more effective and selective labelling framework as the ecosystem enters the critical phase of label renewal.

The External Deficit is Expected to Narrow in 2026 on the Back of Higher Hydrocarbon Prices

The current account deficit would narrow in 2026, supported by higher hydrocarbon prices and an increase in production quotas. In the baseline scenario, hydrocarbon prices are expected to rise in 2026, following the decline observed in 2025. Higher hydrocarbon prices and OPEC quotas, as well as an expected increase in demand for natural gas exports from Europe in the context of the conflict in the Middle East, would contribute to higher export revenues. Import growth would moderate compared to 2025 amid slower investment growth. Going forward, stronger exports and capital inflows, including foreign direct investment, are needed to achieve a more balanced external account.

The fiscal deficit is projected to widen slightly in 2026, reflecting higher public spending and a modest decline in revenue. While hydrocarbon revenues are expected to benefit from higher oil prices, non-hydrocarbon revenues are projected to return to their pre-2025[5] levels after the exceptional performance recorded in 2025. In line with the fiscal framework, hydrocarbon revenues generated from oil prices above the budget reference price of US$60 per barrel would be transferred to the Revenue Regulation Fund (FRR) and could be used to help finance the fiscal deficit. The authorities have also taken steps to diversify financing sources, including securing financing from the African Development Bank and developing Islamic finance instruments, such as sukuk, to fund selected investment projects. These measures broaden the financing mix of the budget and reduce reliance on monetary financing. If hydrocarbon prices decline, fiscal and external balances could come under pressure in 2027-28. Under the baseline scenario, public debt is projected to increase gradually, reaching 68 percent of GDP by 2028.

[5] The state is not significantly reducing its support in 2026; rather, it is reallocating part of its resources from transfers toward investment, while maintaining the main mechanisms supporting purchasing power and public institutions.

Volatile Hydrocarbon Prices and Rising Geopolitical Tensions Represent Important Risks for the Outlook

The favorable economic impacts of higher hydrocarbon revenues do not fundamentally change Algeria's exposure to global price volatility. Recent increases in hydrocarbon prices, partly driven by heightened tensions linked to the war in the Middle East, have temporarily eased some of the immediate pressures on Algeria's fiscal and external balances Higher oil and gas revenues are helping reduce pressures on fiscal and external balances, slowing the accumulation of public debt and helping to stabilize. However, this more favorable short-term outlook does not fundamentally alter the economy's underlying exposure to global energy market volatility. The re-emergence of twin deficits[6] in recent years is a reminder of how quickly conditions can reverse when prices decline. Moreover, elevated geopolitical tensions and trade uncertainty continue to amplify downside risks, particularly given the inherently unpredictable nature of hydrocarbon markets.

Reducing this structural vulnerability will require using the current windfall strategically to strengthen the macroeconomic framework. Enhancing domestic revenue mobilization through tax policy reforms and more efficient, increasingly digitalized tax administration, alongside efforts to contain current spending pressures, improve the targeting of energy subsidies, strengthen the sustainability of the pension system, and enhance the efficiency of public investment, would help reduce dependence on hydrocarbon receipts and strengthen fiscal resilience. At the same time, improving medium-term fiscal planning, strengthening mechanisms to manage resource revenue volatility, and introducing credible fiscal rules could allow fiscal policy to better smooth economic cycles and build buffers during periods of high prices.

Over the longer term, Algeria's economic transformation will still depend on its ability to

[6] Twin deficits refer to the simultaneous occurrence of a fiscal deficit and a current account deficit in an economy.

BOX 2 : SENSITIVITY OF THE OUTLOOK TO OIL PRICE UNCERTAINTY

Algeria's macroeconomic outlook remains highly sensitive to developments in global oil markets despite ongoing efforts to diversify the economy. To illustrate this sensitivity, a stochastic simulation was conducted using alternative oil price paths around the baseline projection. The results highlight that fluctuations in hydrocarbon prices continue to be a major source of uncertainty for growth, fiscal outcomes, external balances, and public debt.

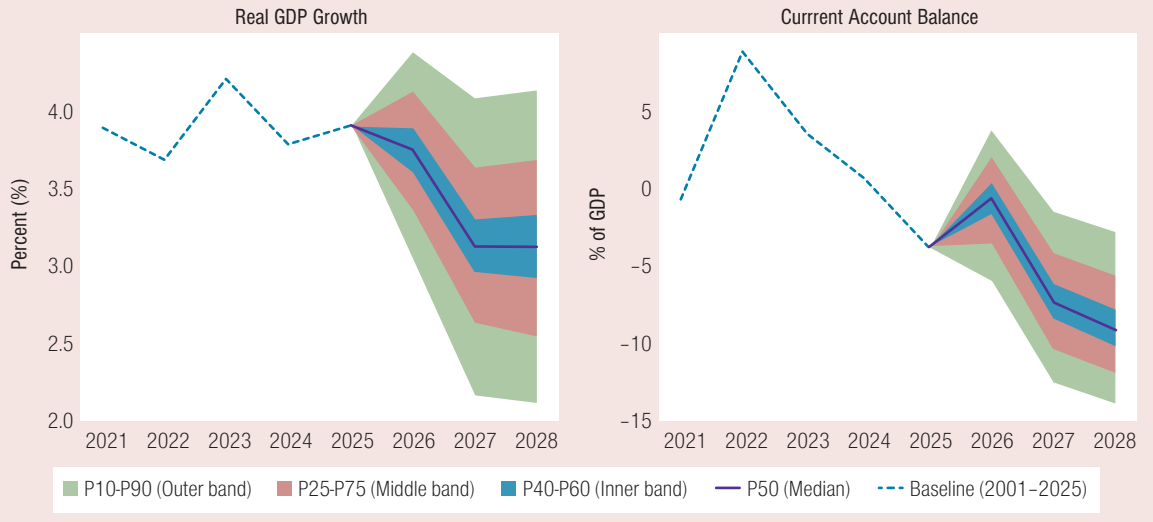
The simulations suggest that economic growth would remain relatively resilient to oil price shocks in the short term. While real GDP growth in the baseline scenario gradually moderates after 2026, the distribution of outcomes remains relatively narrow, reflecting the growing contribution of non-hydrocarbon sectors to economic activity. Nevertheless, persistent declines in hydrocarbon prices would weigh on investment, public spending, and domestic demand, resulting in lower growth over the medium term.

In contrast, fiscal and external balances remain highly exposed to oil price volatility. Under lower oil price scenarios, hydrocarbon exports and fiscal revenues would decline significantly, leading to larger current account deficits and wider fiscal imbalances. The simulations indicate that uncertainty surrounding the current account balance widens after 2026, reflecting the key role of hydrocarbon exports in Algeria's external outlook. Similarly, the fiscal deficit remains larger under adverse price scenarios, as lower hydrocarbon revenues affect the resources available to finance public spending.

Oil price shocks also have important implications for public debt dynamics. While debt remains broadly stable in the baseline scenario through 2026, sustained lower hydrocarbon prices would require higher fiscal financing, leading to a rapid increase in public debt over the projection horizon. Conversely, higher oil prices would improve fiscal and external balances, reduce borrowing needs and slowing debt accumulation. The wide dispersion of debt outcomes underscores the importance of strengthening fiscal buffers during periods of favorable hydrocarbon prices.

These results highlight the importance of reducing Algeria's exposure to hydrocarbon price cycles. Strengthening domestic revenue mobilization, improving the efficiency of public spending, and advancing economic diversification would help increase the resilience of the economy to external commodity price shocks. Over time, deeper structural reforms that expand non-hydrocarbon exports and private-sector activity would reduce the sensitivity of growth and macroeconomic balances to fluctuations in oil markets.

FIGURE 16 • Impact of oil price uncertainty on key macroeconomic indicators

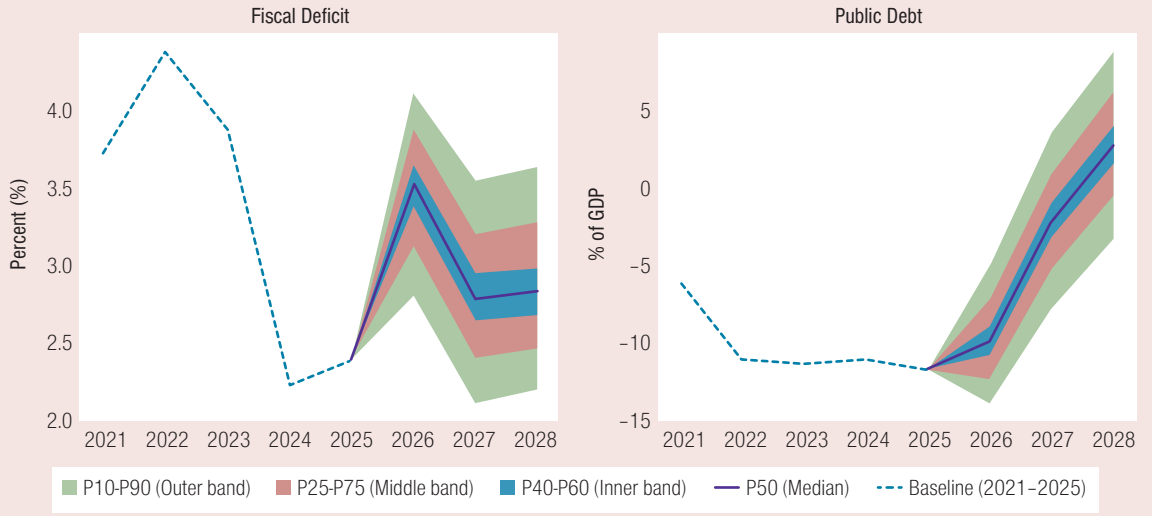


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diversify and foster private sector–led growth. Sustaining momentum in job creation, while ensuring inclusiveness and environmental sustainability, will be critical. Advancing diversification will require maintaining fiscal discipline, strengthening the governance and performance of state-owned enterprises and state-owned banks, improving the investment climate and strengthening the integration with global markets. If effectively implemented, these reforms could leverage the current favorable price environment to unlock new growth drivers, support the expansion of domestic firms, and boost non-hydrocarbon exports.

BOX 2 : SENSITIVITY OF THE OUTLOOK TO OIL PRICE UNCERTAINTY *(continued)*

FIGURE 16 • Impact of oil price uncertainty on key macroeconomic indicators *(continued)*



Note: Historical values show MPO baseline (2021–2025). Projection bands show 999 Monte Carlo draws from a truncated log-normal oil price distribution (σ = 0.45, cap = $120/bbl), expressed as baseline + deviation.

3

THE REVENUE STABILIZATION FUND: IMPACT AND LESSONS FROM THE INTERNATIONAL EXPERIENCE

Hydrocarbons play a central role in the Algerian economy and for the State Budget. Algeria is a mid-sized global producer, with oil output averaging about 1.3 million barrels per day, while proven oil reserves are estimated at 12.2 billion barrels, placing Algeria in 16th place globally for both production and reserves. In addition, Algeria has the 10th largest gas reserves globally.[7] Hydrocarbon revenues accounted for 93 percent of exports and 47 percent of public revenues between 2014 and 2024 and

Algeria established a Revenue Stabilization Fund in the turn of the century to insulate the State Budget revenues from volatile global energy prices. This dependence on hydrocarbon also exposes the economy to significant volatility, as fluctuations in international oil and gas prices directly affect the State Budget. The revenues from oil exports amounted to 20 percent of GDP on average in 2021–2024 while taxes and royalties from the hydrocarbon sector (Box 3) amounted to 11 percent of GDP. During this period SONATRACH dividends to the Budget reached on average 1 percent of GDP The Revenue Stabilization Fund was established to accumulate savings from hydrocarbon exports during periods of high global energy prices and disburse resources to the State Budget during periods of low prices to smoothen revenues.

The chapter reviews the role and evolution of the Revenue Regulation Fund (FRR) as a fiscal stabilization instrument, highlighting its strengths and potential areas for improvements in light of international good practices. The chapter documents how the FRR has been used over time, the key regulatory changes it has experienced over the past years and its performance against the stated policy objectives. The chapter benchmarks the FRR against good international practices to help highlight important areas of reforms.

The Revenue Regulation Fund Has Been an Important Source of Budget Financing During Periods of Lower Hydrocarbon Revenues

The Revenue Regulation Fund was established in 2000 to manage the impact of hydrocarbon price volatility on public finances. Created as a special earmarked account, the Revenue Regulation Fund (*Fonds*

[7] Worldometer. 2026. *Algeria Oil*. Worldometer.

BOX 3 : HYDROCARBON SECTOR REVENUES: TAXES, ROYALTIES, AND OTHER LEVIES

Hydrocarbon sector revenues are generated from a range of royalties, taxes, duties, and other specific levies applied to exploration and production activities. The sector's fiscal regime reflects the coexistence of several legal frameworks corresponding to different generations of contracts that remain in force. These levies include, among others, production royalties, taxes based on the revenues or profits of petroleum activities, as well as various sector-specific duties and taxes. Downstream petroleum activities, such as refining, storage, transportation, and marketing, are generally subject to the ordinary tax regime.[a]

TABLE 1 • The System of Hydrocarbon Revenues[a]

Taxes, Duties and Royalties	Tax Base	Applicable Rate / Tariff
Surface Tax	Area of the contractual perimeter	Indexed unit tariff varying according to the size of the area and the phase of activity (exploration or production)
Hydrocarbon Royalty[b]	Value of production	Standard rate of 10%; reduced rate ranging from 5% to 10% depending on the conditions set out in legislation
Royalty[c]	Value of production	Variable rate depending on the zone and production level
Hydrocarbon Income Tax[b]	Hydrocarbon income	Variable rate based
Petroleum Revenue Tax[c]	Petroleum revenue	Variable rate based
Profit Tax[b]	Taxable petroleum profit	30%
Additional Profit Tax[c]	Taxable petroleum profit	Variable rate (15%, 19%, 30%, or 80%) depending on the applicable regime
Tax on the Remuneration of the Foreign Contractor	Gross remuneration of the foreign partner	30%
Remuneration Tax[c]	Gross remuneration of the foreign partner	38%
Lump-Sum Royalty	Estimated production value	50%
Specific Gas Flaring Tax	Quantities of gas flared	DZD 12,000/Nm; tariff indexed annually by ALNAFT
Windfall Profit Tax	Share of production accruing to foreign partners when the average Brent price exceeds USD 30 per barrel	Variable rate according to the conditions prescribed by regulations
Transfer Duty	Transaction value	1%

[a] The hydrocarbon fiscal regime is based on several legislative frameworks reflecting different generations of contracts. The table presents only the principal taxes, duties, and royalties whose proceeds are entirely allocated to the state budget.
[b] (Law No. 19-13)
[c] (Law No. 05-07)

A 2019 amendment to the Hydrocarbons Law reduced the sector's tax burden while clarifying governance roles and contractual arrangements. The 2019 amendment of the Hydrocarbons Law reduced the tax burden for the state-owned oil and natural gas company Sonatrach and its partners by more than 20 percent from 85 percent to between 60 and 65[b] percent by decreasing the main hydrocarbon-related taxes. It also clarified the institutional roles of the former Ministry of Energy (currently the Ministry of Hydrocarbons), Sonatrach, the National Agency for the Valorization of Hydrocarbon Resources (*Agence nationale pour la valorisation des ressources en hydrocarbures*, ALNAFT) and the Hydrocarbon Regulatory Authority (*Autorité De Régulation des Hydrocarbures*, ARH), and reintroduced the Production Sharing Contract,[c] which was first introduced by the 1986 Hydrocarbons Law. The Hydrocarbons Law defines all sectoral taxes, while the Organic Law on Finance Laws (*Loi Organique relative aux Lois de Finances*, LOLF) specifies those that flow to the state budget.

[a] Several fiscal regimes continue to apply to hydrocarbon activities depending on the date on which contracts were signed, including those established under legislation that predates Law No. 19-13 of 2019.
[b] Algiers : Radio Algérie. November 16, 2019.
[c] The Production Sharing Contracts (PSCs) is a contractual arrangement in the petroleum sector whereby the host state retains ownership of the natural resources while a company undertakes exploration and production activities at its own risk and expense. If hydrocarbons are discovered, the production is typically divided between "cost oil," used to recover the company's investment and operational costs, and "profit oil," which is shared between the state and the company according to agreed terms.

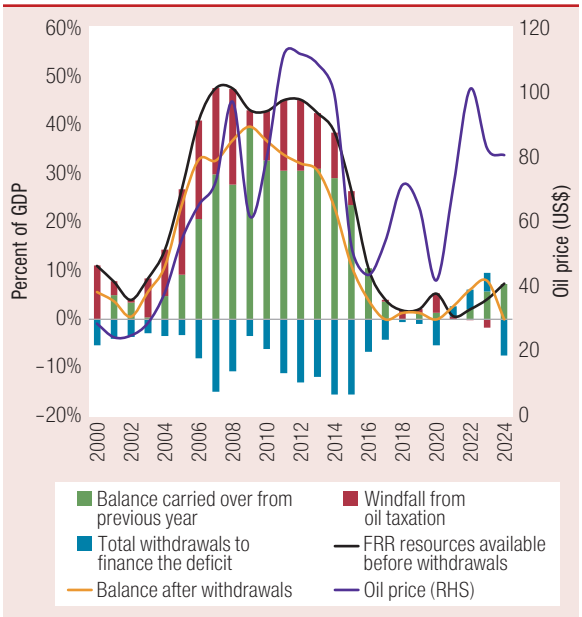
de régulation des recettes, FRR) aims to smooth the path of public spending, strengthen fiscal sustainability, and reduce exposure to external shocks linked to international energy markets. Established by Law No. 2000–02 of June 27, 2000, the fund was designed to capture windfall gains from petroleum taxation when the price of oil exceeded a threshold specified in each year's budget, supplemented by any other revenue related to its operation. This logic aimed to build precautionary savings to support fiscal stabilization.

The rules governing the FRR have evolved significantly over the last twenty-five years. Since its establishment, the FRR has undergone successive reforms to adapt its funding and usage rules to changing macroeconomic conditions. Its role has gradually expanded, evolving from a countercyclical stabilization instrument into a key source of financing for the budget deficit. In 2002, Executive Decree No. 02-67 and Ministerial Order No. 122 confirmed funding modalities and explicitly directed the FRR to be used for public debt reduction and fiscal stabilization. The 2004 Budget (Law No. 03-22) incorporated advances from the Bank of Algeria into the FRR, effectively combining cyclical revenues linked to oil windfalls with quasi-budgetary financing. In 2006, Ordinance No. 06-04 set a minimum balance threshold of DZD 740 billion, intended to preserve a minimum stabilization capacity in the face of external fluctuations. The introduction of this floor established a prudential rule aimed at limiting excessive use of the fund's resources during periods of fiscal stress.

As oil prices declined in the mid-2014s, the FRR was nearly depleted. The removal of the minimum balance threshold in 2017 through Law No. 16-14 occurred amid a prolonged decline in oil prices. By relaxing constraints on the use of the FRR, the reform allowed the Treasury to draw extensively on the FRR to finance growing deficits, and the fund's balance was substantially drawn down by the end of 2017 to support budget financing. Due to this shift, the FRR's role as shock absorber was weakened and it became an instrument for deficit financing, moving away from its original stabilization objective.

From 2022 onward, improvements in oil and gas markets enabled a rebuilding of the fund but it was again exhausted in 2024. The FRR

FIGURE 17 • Evolution of the FRR



Source: MoF, ONS and oilprice.com.

stood at DZD 682 billion at the beginning of 2022 and closed the year with a balance of DZD 1,966 billion. In 2023, the FRR recorded additional revenues of DZD 1,721 billion, on top of the initial balance. However, withdrawals of DZD 1,027 billion were made, bringing the fund's balance to approximately DZD 2,660 billion at the end of 2023. The 2024 Budget law set a withdrawal ceiling equivalent to 11 percent of GDP. During 2024, revenues totaled DZD 328 billion and withdrawals reached DZD 2,988 billion, resulting in the fund's balance being fully drawn down.

Binding Fiscal Rules Could Help Better Manage Hydrocarbon Volatility

The FRR remains an important source of financing for fiscal deficits, but its role in macroeconomic stabilization has been limited. Large fluctuations in the fund's balance, the repeated use of its resources without price-linked levy rules, to cover immediate budgetary financing needs, and the continued dependence of the budget on hydrocarbon taxation have constrained the FRR's capacity to operate as a countercyclical buffer. The FRR's contribution to fiscal stabilization has varied over time. A medium-term framework with binding

TABLE 2 • Selected Fiscal Rules and Resource Revenue Management Frameworks in Commodity-Exporting Countries

Country	Main commodity exposure	Fiscal rule / anchor	Resource fund / stabilization mechanism	Institutional features / lessons for Algeria
Norway	Oil and gas	The fiscal framework guides transfers from the Government Pension Fund Global to the budget in line, over time, with the expected real return on the Fund; the expected real return was reduced from 4 percent to 3 percent in 2017.	The Government Pension Fund Global receives the State's net cash flow from petroleum activities, and transfers to the budget are decided through the fiscal rule.	The framework aims to preserve the real value of the fund for future generations while insulating the budget from short-term petroleum revenue fluctuations and leaving space for countercyclical fiscal policy.[a]
Chile	Copper	Chile adopted a cyclically adjusted balance rule in 2001, using estimates of trend GDP and long-term copper prices to determine structural revenues and guide expenditure.	Chile has sovereign wealth funds under its fiscal responsibility framework, including the Economic and Social Stabilization Fund.	Independent expert committees estimate trend GDP and long-term copper prices, and the Autonomous Fiscal Council has played a role in strengthening oversight of the fiscal framework.[b]
Kazakhstan	Oil	The fiscal rule caps the guaranteed transfer from the National Fund based on a reference/cut-off oil price.	The National Fund of the Republic of Kazakhstan provides budget transfers, including guaranteed and targeted transfers.	Kazakhstan illustrates the importance of limiting discretionary transfers: continued use of targeted transfers can dilute the effectiveness of the fiscal rule and weaken budget planning.[c]

[a] Norwegian Ministry of Finance. 2022. The Norwegian Fiscal Policy Framework. Oslo: Government of Norway. October 7, 2022.
[b] González, H. (2024), Fiscal Councils: The Chilean Experience, World Bank presentation, June 2024.
[c] Fitch Ratings. 2024. Kazakhstan National Fund Transfers Highlight Current Fiscal Rule Limitations. Fitch Ratings, October 23, 2024

parameters and operating arrangements could help strengthen its role in managing commodity price fluctuations and aligning spending with revenue developments. Although the fund has provided temporary buffers during periods of elevated hydrocarbon revenues, its discretionary use to cover budget imbalances has limited its ability to support intertemporal smoothing and fiscal discipline. Strengthening fiscal resilience will therefore require not only improved stabilization mechanisms but also continued efforts to enhance the efficiency of public spending and broaden non-hydrocarbon revenue mobilization. Previous editions of the Algeria Economic Update[8] have highlighted the importance of containing rigid expenditure growth, improving subsidy targeting and public investment efficiency, and strengthening domestic tax collection to reduce the budget's dependence on hydrocarbon revenues and improve its capacity to withstand commodity price shocks.

Formalized and enforceable fiscal rules could strengthen the sustainability and credibility of public finances. Experience from hydrocarbon-producing countries such as Chile, Norway, and Kazakhstan shows that clear fiscal anchors can limit discretionary policy, enhance medium-term budget credibility, and reduce exposure to commodity price cycles. A rules-based framework anchored in a conservative reference price for hydrocarbons, combined with a structural fiscal balance target and an automatic savings mechanism for windfall revenues, would help delink public spending from short-term price fluctuations, reduce expenditure procyclicality, and rebuild fiscal buffers. For commodity exporters such as Algeria, expenditure rules can help contain spending pressures during booms while preserving

[8] See, for example, the Algeria Economic Update (Fall 2025), which emphasizes the importance of strengthening domestic revenue mobilization, improving the management of hydrocarbon revenues, and introducing fiscal rules to reduce exposure to hydrocarbon price volatility. Similarly, the Algeria Economic Update (Fall 2023) highlights the need to strengthen macroeconomic balances, reduce dependence on hydrocarbon revenues, and enhance fiscal resilience to oil price shocks.

space for countercyclical fiscal policy during downturns. In alternative, non-resource balance rules, such as a target for the non-resource primary balance that stabilizes public net wealth (financial assets plus the discounted value of resource wealth) or ensure that public debt is stabilized to a sufficient low level, can provide a credible medium-term anchor for fiscal policy while allowing countries to smooth the use of exhaustible resource revenues over time.

Within such a framework, the FRR could be repositioned to fulfill its original role as a macroeconomic stabilization instrument. While the fund shares certain features with sovereign wealth funds, its current short-term orientation, focused on deficit financing and debt reduction, differs from the longer-term objectives of building savings, diversifying income sources, and preserving wealth for future generations. While the FRR can play a supportive role, over-reliance on it should be avoided. Over time, priority could be given to developing more market-oriented budget financing and deepening the financial sector. Strengthening FRR governance would require clearly defining its countercyclical mandate, introducing rules-based funding and withdrawal mechanisms, enhancing transparency through the regular publication of audited financial statements, and integrating the fund into a comprehensive fiscal risk-management strategy. Such reforms would allow the FRR to contribute more effectively to fiscal resilience, predictability, and macroeconomic stability over the medium to long term.

TABLE OF INDICATORS

	2021	2022	2023	2024	2025e	2026p	2027p	2028p
Output and prices				(In percent, unless otherwise indicated)				
Real GDP	3.8	3.6	4.1	3.7	3.8	3.7	3.4	3.3
Non-hydrocarbon	2.5	4.4	4.3	4.8	4.2	3.7	3.6	3.4
Hydrocarbon	17.1	-0.2	3.6	-1.3	1.5	3.8	2.3	2.3
Real GDP per capita	2.1	2.0	2.6	2.3	2.5	2.4	2.2	2.1
Consumer price index (period average)	7.2	9.3	9.3	4.0	1.4	7.1	4.4	3.5
GDP (in billions of USD)	186.2	225.6	247.9	269.3	287.0	323.8	317.9	310.0
GDP per capita (Real 2015 USD)	4456.7	4544.5	4660.4	4765.7	4882.8	4999.9	5110.0	5218.3
Crude oil production (thousand barrels per day)	908.4	1016.2	977.1	909.8	933.5	969.0	991.3	1014.1
Natural gas production (billions of m^3)	102.8	99.2	104.9	98.4	101.8	105.7	108.1	110.6
External sector				(In percent of GDP, unless otherwise indicated)				
Current account	-2.4	8.6	2.6	-1.1	-8.8	-2.9	-6.2	-4.8
Trade balance	-1.3	10.0	3.4	-0.5	-8.8	-4.1	-9.5	-8.6
Exports of goods and services[a]	22.5	30.7	24.0	19.8	17.0	20.5	15.7	15.8
Hydrocarbon exports	18.5	26.2	19.8	17.0	13.8	17.6	14.9	13.3
Nonhydrocarbon exports	4.0	4.5	4.2	2.8	3.2	2.9	0.8	2.5
Imports of goods and services[a]	23.8	20.7	20.6	20.2	25.8	24.7	25.2	24.4
Gross official reserves (months of imports)	12.3	15.7	16.4	15.1	8.5			
Exchange rate (Algerian dinar per USD; period average)	135.1	142.0	135.8	134.1	131.6			
Crude oil, average (USD/barrel)	69.1	97.1	80.8	78.7	67.4			
Sahara Blend export price (USD/barrel)	72.3	103.8	83.5	81.7	68.6			
Natural gas, Europe($/mmbtu)	16.1	40.3	13.1	11.0	12.0			
Central Government Finance				(In percent of GDP, unless otherwise indicated)				
Government revenue and grants	26.2	29.7	31.9	23.8	26.0	25.4	23.4	21.8
Hydrocarbon revenue[b]	10.4	17.7	19.1	11.1	9.8	12.1	9.8	8.3
Non-hydrocarbon revenue	15.9	12.1	12.8	12.7	16.3	13.4	13.6	13.5
Expenditures	32.5	32.7	37.4	37.8	36.4	36.6	35.9	35.7
Current expenditures	21.9	24.9	27.5	28.2	25.9	25.9	25.4	25.4
Capital expenditures	7.7	6.1	8.6	9.3	10.5	10.7	10.4	10.3
Special Account Balance and Treasury Interventions	3.0	1.7	1.3	0.3	0.0	0.0	0.0	0.0
Overall budget balance[c]	-6.3	-3.0	-5.5	-14.0	-10.4	-11.1	-12.5	-13.9
Primary overall budget balance	-9.3	-3.4	-5.7	-13.5	-9.2	-10.6	-11.8	-13.0
Non-hydrocarbon overall budget balance	-16.7	-20.6	-24.6	-25.1	-20.2	-23.2	-22.3	-22.2
Total central Government debt	55.2	48.1	47.6	48.1	47.2	51.9	61.5	68.0
Domestic debt	54.6	47.6	47.3	47.8	46.9	50.8	60.0	65.5
External debt	0.6	0.4	0.4	0.3	0.3	1.1	1.6	2.5

[a] Exports are valued on a CFR basis and imports on an FOB basis.
[b] Includes dividends from Sonatrach and hydrocarbon revenues transferred to the oil savings fund.
[c] Includes special account balance and Treasury interventions.

ANNEX 1: RECENT SPECIAL SECTIONS OF THE ALGERIA ECONOMIC UPDATE

Fall 2025: "Responding to Climate Challenges and Supporting Sustainable Development"

Climate change and the energy transition pose growing challenges to Algeria's hydrocarbon-dependent economy. Increasing water scarcity and more frequent droughts could affect agricultural production and food prices, while global decarbonization, declining hydrocarbon reserves, and rising domestic energy demand could weigh on exports and fiscal and external balances. These trends underscore the importance of adaptation and economic diversification.

Spring 2025: "Accelerating Productivity Gains for Diversified and Resilient Growth"

Productivity trends point to the need for a gradual structural transformation of Algeria's economy. Raising productivity in manufacturing and services, while shifting employment toward higher-value-added activities, could support stronger private sector-led growth and job creation.

Fall 2024: "Towards a Holistic Framework to Support Exports"

Algeria's non-hydrocarbon exports have grown but remain relatively modest and concentrated in a few products and markets. Further diversification will depend on improving firm productivity and competitiveness, while adapting to evolving international trade and environmental standards.

Spring 2024: "Tracking Economic Developments with Alternative Data Sources"

Alternative data can complement traditional statistics by providing more timely and geographically granular information on economic activity. Satellite and other big data sources can support the monitoring of output, agriculture, and trade, helping improve the timeliness of economic assessments.

Fall 2023: "Analysis of Algeria's Public Finances"

Algeria's public finances remain highly sensitive to hydrocarbon prices. Following large budget surpluses

in 2000–08, lower oil prices contributed to renewed deficits after 2009 and a further deterioration after 2014–15. The Revenue Regulation Fund was almost depleted by 2017, while monetary financing during 2017–19 amounted to 32 percent of 2019 GDP. In 2022, higher hydrocarbon prices contributed to a narrowing of the budget deficit and the first decline in public debt in a decade.

Fall 2022: "Estimating Economic Activity from Nightlights Data"

Night-time lights provide a timely and geographically detailed proxy for economic activity in Algeria. Available daily since 2012, these data can help track hydrocarbon and non-hydrocarbon activity and generate spatial estimates useful for sectoral and local economic analysis. The strong correlation between night-time lighting and non-hydrocarbon activity makes it possible to use these data to estimate the recent level of economic activity, and to produce spatialized estimates, in terms of the level and dynamics of activity, useful in the context of sectoral or local development analyses.

Fall 2022: "Estimation of the Fiscal Multipliers in Algeria"

The marked increase in public spending in 2022 raises questions about its effects on economic activity. An analysis of Algerian quarterly data since 2000 finds a relatively modest public spending multiplier on GDP, partly because higher spending increases imports and deteriorates the trade balance. While the effect on private consumption is limited, public spending has a more marked impact on construction and non-market services.

Spring 2022: "Does Algeria Benefit from Rising Gas Prices?"

Algerian natural gas export prices follow a distinct dynamic from international benchmark prices, reflecting contractual arrangements and bilateral negotiations. Between Q2 and Q3 2021, for example, Henry Hub prices rose by nearly 50 percent, while Algerian export prices increased by only 0.5 percent. Econometric analysis suggests that Algerian gas export prices adjust with a lag to oil prices, with the model explaining 88 percent of their variation.

Spring 2022: "The Impact of Macroeconomic Factors on Inflation in Algeria"

Inflation increased in Algeria in 2021 and 2022, initially driven by higher food prices. An analysis of consumer prices since 2009 suggests that, beyond short-term inertia, exchange rate depreciation, higher import prices, public spending, and currency in circulation are important drivers of inflation, explaining more than 40 percent of CPI variations after two years.

Fall 2021: "Evolution of Non-Monetary Poverty and Inequality in Algeria"

Multidimensional poverty improved in Algeria between 2013 and 2019 across education, health, and living conditions. Despite this progress, significant regional and rural-urban disparities remain, although more vulnerable regions improved faster over the period. Health and education remain important dimensions of deprivation.

Fall 2021: "Resilience of Algeria to Climate and Natural Disaster Risks"

Algeria is exposed to significant climate and disaster risks, with floods being the most frequent disasters and earthquakes causing the largest economic losses. While the country has strengthened its disaster risk management framework, further efforts could focus on prevention, information sharing, and cross-sectoral risk management.

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