

Recent macroeconomic and financial developments

After the adverse shock of the pandemic and the fall in oil prices in 2020, the Algerian economy started to recover in 2021 with growth of 4.0%, from contraction of 4.9% in 2020. Growth was bolstered by renewed external demand, mainly for oil, and its increased production and rising prices. The pickup in oil revenues partly compensated for the increase in capital expenditure. These developments, combined with the consolidation measures in 2021, led to a budget deficit reduction of 4.8 percentage points. Inflation increased in 2021 to 7.0%, due to lower availability of food. The central bank eased monetary policy by reducing the reserve requirement ratio from 10% to 2% and its policy rate from 3.5% to 3% and loosened the banking sector's prudential regulations. Much attention is paid to financial stability given banks' liquidity risks and refinancing needs. Public debt, which is essentially domestic, has increased sharply in the past few years, to the equivalent of 59.2% of GDP in 2021.

The current account deficit improved by 5.1 percentage points of GDP in 2021, reflecting the increase in volume and price of oil exports, good results for other exports (iron and steel), and import-compression measures. The increase in exports and the IMF's payment of \$2.67 billion in 2021, as part of the SDR allocation, slowed the decline in reserves (11.1 months of imports in late 2021 against 12.5 months in late 2020). Unemployment was estimated at 11% in 2021, with higher rates among the young (26.4%) and women (19.5%).

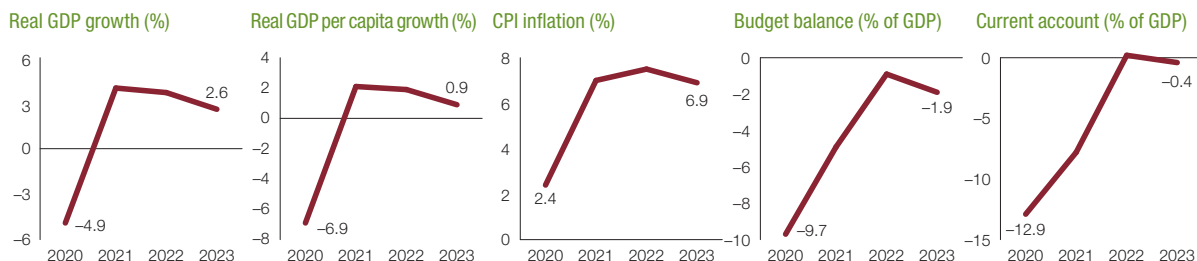
Outlook and risks

Growth is expected to slow in 2022 to 3.7% and in 2023 to 2.6%, due to limited oil output. However, the budget and current account balances show an upward trend in the short term (-0.9% and 0.2% of GDP in 2022). The clear improvements in both public finance and the

current account balance are due to the short-term positive impact of the Russia–Ukraine conflict on Algerian exports of hydrocarbons. Nevertheless, this strong dependence on oil prices underlines the need for economic diversification, especially toward petrochemicals, gas and agricultural products that have high export potential. Inflation is expected to increase in 2022, given the upward trend in global prices and a monetary policy that is likely to remain expansionary. The main risks are a worsening health crisis and deteriorating terms of trade.

Climate change issues and policy options

Algeria is 125 on the 2021 GCRI. It faces soil erosion, desertification, water shortages, and drought cycles, exacerbated by climate change. The country has integrated environmental viability into the 2020–24 Economic Recovery Plan and aims to reduce its GHGs by 7% by 2030. It is looking to stem desertification by extending a forest belt of more than 1.7 million ha and to preserve water resources by introducing prospective measures. Algeria ranks 10th among global natural gas producers, with 2.2% of global output. Its export potential is tremendous, with new gas projects in the southwest added to those in the gas-producing region of Illizi in the southeast, but has been hampered by increased domestic demand and insufficient investment. After hitting a peak of 65 billion cubic meters (m³) in 2005, export volumes were 40 billion m³ in 2020. To reduce the country's dependence on natural gas, which accounts for more than 93% of total electricity output, the RE and energy efficiency program was revised in 2020. The Ministry of Energy Transition and Renewable Energy has been entrusted with establishing a capacity of 15,000 MW from renewable sources by 2035. Urgent measures will have to be taken if SDG 13 on climate action is to be reached.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.