

Prepared by the New Zealand Embassy in Cairo.

Summary

- Algeria is enjoying an economic recovery as a result of increasing oil prices and high international demand for hydrocarbons, especially from China. This follows a challenging recession across 2020. Algeria's GDP growth for FY 21/22 is projected between 2.9 to 4.2% although remains highly dependent on global oil prices.
- The underlying fiscal and economic challenges facing Algeria, including the need for economic reform such as reduction of subsidies and diversification of exports are unlikely to progress in the short to medium term.
- The global pandemic has added to Algeria's economic challenges, with vaccination rollout also impacting on plans to diversify and to attract foreign investment.

Report

Algeria's economy emerges from recession although remains reliant on hydrocarbons

- Algeria's economy, like many in the region, struggled during 2020, witnessing a fall in GDP of between 4.7 to 5.5%. Low global demand for hydrocarbons contributed to this fall as Algeria remains heavily reliant on its oil and gas sectors for revenue. Hydrocarbon exports, largely generated by state-owned company Sonatrach, account for 94% of Algeria's export revenues, making the country highly dependent on global consumption and fluctuations in hydrocarbon prices.
- The sustained dip in global oil prices due to the COVID-19 pandemic has exacerbated Algeria's challenges. Despite OPEC countries' agreement to reduce production due to the pandemic's impact on oil consumption, Algeria did not reach its production cap.
- Oil and gas exports account for 60% of the state budget; unsurprisingly the 2020 fall in oil prices negatively impacted the Algerian Government's fiscal position. Coupled with increased public spending to respond to COVID-19, Algeria's national budget deficit more than doubled in 2020 from 5.6% to 13.6% of GDP. As a result Algeria has needed to dip into its foreign exchange reserves to pay for its goods and services imports. Algeria's foreign-exchange reserves dropped from US\$ 97.3bn in late 2017 to US\$ 42bn in March 2021.
- However, recent economic indicators suggest that since the beginning of 2021, Algeria has started to move into a better economic space. This has been largely attributed to global oil prices recovering due to rising demand of hydrocarbons in China. An increase of gas output has been possible due to the completion of key projects. The Minister of Finance noted last month that from January-May 2021, Algeria's trade balance deficit fell by 68% (US\$ 1.3bn dollars), while oil and gas export revenues rose 32.7% over the same period.

The pandemic has also impacted heavily on the non-hydrocarbon economy

- Algeria's small non-hydrocarbon export sectors experienced challenges in 2020. The World Bank estimates that Algeria's GDP (excluding the hydrocarbons sector) fell by 4.4% across 2020. This impact was felt particularly hard in the services and construction sectors. According to the Algerian Ministry of the Interior, 500,000 jobs have been lost since the beginning of the pandemic. Meanwhile 25,000 construction

companies have closed, leaving 200,000 workers unemployed.

- The high rate of unemployment in Algeria (currently estimated at 14%), business closures and inflation (2.4% in 2020) have led to increased adversity. Consumer goods and basic staples for low to middle-income households including cooking oil, pasta, dried vegetables and chicken, have all seen sharp increases in price.

The removal of COVID-19 restrictions has caused some economic revival

- Despite Algeria's daily reported COVID-19 cases starting to increase again from May, the Government has continued with plans to slowly start the gradual lifting of pandemic restrictions. In June, Algeria allowed international flights to Algiers from several destinations. This was coupled with a report by the Ministry of Finance that the worst of Algeria's pandemic woes could be behind it. General economic growth was assessed at 4.2% driven by hydrocarbon demand of 10.1% and non-hydrocarbon growth of 3.2%. The Economist Intelligence Unit has predicted an economic growth rate of 4%.
- However, despite the easing of restrictions and increased economic growth, Algeria's continued recovery is highly predicated on hydrocarbon prices. According to the IMF, Algeria needs a global oil price of US\$169.6/barrel in order to balance its national budget, while the current price is US\$74/barrel.

Algeria has continued to work towards the diversification of its economy and to attract investment

- Algeria has continued to seek to diversify its economy away from hydrocarbons and to produce more of its food needs domestically in order to reduce reliance on foreign imports, including through policy levers such as import bans.
- There has been some improvement to investment law. Changes to investment laws since 2020 have aimed to make foreign investment in non-strategic sectors easier. This includes the 2020 amendment loosening the 49/51 rule which required foreign investors to have a local partner. The most recent change is the 2021 Finance Law which, in December 2020, introduced a further series of measures aimed at broadening the tax scheme, diversifying the economy, and improving the investment climate. Under the new law foreign currency-generating exports are exempt from value added tax.
- Nationally strategic sectors which remain more tightly controlled include oil and gas, mining, transportation infrastructure (railways, ports and airports) and the pharmaceutical industry. Notably the renewable energy sector is not included. The sector is key to Algeria's national green energy project which envisages 22,000 MW of renewable energy in the national market by 2030.

Algeria has continued to work towards broader fiscal reform

- State funded subsidies cover a broad range of products. These include bread, milk, water and energy. However, reductions in state subsidies remains unlikely due to their popular appeal, particularly in the midst of the pandemic.
- Given Algeria's unusually low levels of foreign debt the Government has the option of pursuing multilateral finance should foreign reserves be depleted, although the Government has publically rejected this course of action

Conclusion

- The improvement of Algeria's economic indicators across the first five months of 2021 is promising for New Zealand exporters considering Algeria as a possible market. Already New Zealand's largest export market in Africa, there is potential for greater engagement and diversification of our traditional dairy export profile.
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