

# ALGERIA

## POSITIVE SIGNS BUT MAJOR CHALLENGES

Buoyed by relatively high global energy prices and sustained demand for its gas, the Algerian economy continues to perform strongly. In 2023, economic growth was one of the strongest among the region’s hydrocarbon-producing countries, and the outlook for 2024 remains favourable. However, the expansionary stance of economic policy is beginning to show some limitations, not least because of rising fiscal imbalances. While the risks of macroeconomic instability are largely contained in the short term, rebalancing the engines of growth remains a major challenge in the medium term. A number of recent decisions by the authorities are moving in the right direction, but efforts to diversify the economy will need to be continued. This will become all the more necessary in the global context of a low-carbon transition.

## GROWTH: GOOD MOMENTUM CONTINUES

Thanks to strong growth, Algeria is on the verge of joining the three largest African economies. Since 2022 and the energy shock that hit Europe, economic activity has grown by an average of 3.8% a year, three times faster than before the pandemic. The economic growth rate even exceeded 4% in 2023 for the first time since 2014, a performance to be compared with that of the other hydrocarbon-producing countries in the region (Chart 1). For the latter, growth averaged only 1.7% in 2023 as a result of the cuts in oil production quotas agreed under OPEC+. Algeria has done its bit. Crude oil production fell to 973 mb/d in 2023 from 1,020 mb/d in 2022. But this has been more than offset by a rise of almost 6% in natural gas production, which continues to play a major role in the extractive sector: natural gas accounts for 60% of Algeria’s total hydrocarbon production and export volumes. Unlike most of its regional peers, Algeria’s real hydrocarbon GDP grew by 4.5% last year. Excluding hydrocarbons, the dynamic has also been robust with GDP growth of more than 4% in 2022-2023 thanks to an expansionary economic policy. Despite the sharp rise in inflation (9.2% in 2022, 9.3% in 2023), the central bank has maintained its key rate at 3%. Above all, fiscal support has been massive, boosting household consumption (+3.5% in 2022, +3.8% in 2023) and investment (+8.4% in 2023).

Economic growth is expected to remain close to 4% in 2024. Despite the extension of OPEC+’s restrictive policy until the end of the year, the development of the gas sector and the significant increases in public spending planned in the budget law should enable Algeria to record one of the highest performances in the region. Moreover, the risks to growth appear to be contained. In particular, the easing in food prices has reduced inflationary pressures. In April, the Consumer Price Index (CPI) rose by just 2.4%. Excluding food, the decrease in inflation is less pronounced (5.1% in April compared with 5.9% at the end of 2023). But as money supply growth has also slowed, reaching less than 6% at the start of the year after peaking at 16.7% in March 2023, fears of a surge in prices linked to too strong a stimulus to demand have partly subsided. In an unstable geopolitical environment, Algeria’s low exposure to disturbances in the Red Sea is also reassuring. Finally, Algeria’s external accounts and public finances remain sufficiently strong to protect the country from any downturn in global energy prices, at least in the short term.

## MACROECONOMIC STABILITY: RISKS CONTAINED IN 2024

Thanks to the marked improvement in its external accounts since 2022, Algeria has been able to rebuild its foreign exchange reserves.

### FORECASTS

	2021	2022	2023e	2024e	2025e
Real GDP growth (%)	3.8	3.6	4.1	3.8	3.1
Inflation (CPI, year average, %)	7.2	9.2	9.3	5.7	5.0
Gen. Gov. balance / GDP (%)	-6.1	-2.5	-3.0	-6.9	-7.2
Central. Gov. debt / GDP (%)	54.6	47.8	48.5	47.5	47.9
Current account balance / GDP (%)	-2.5	8.4	2.3	1.4	-1.2
External debt / GDP (%)	1.8	1.3	1.3	1.2	1.2
Forex reserves (USD bn)	47	62	70	75	74
Forex reserves, in months of imports	12.8	15.8	15.9	15.4	14.0

e: ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

### ALGERIA: REAL GDP GROWTH

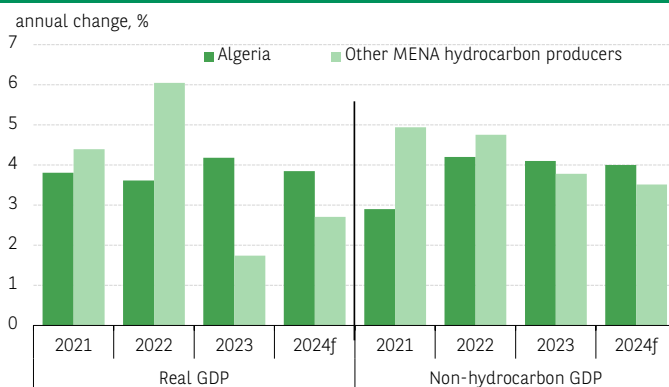


CHART 1

SOURCE: IMF, ONS, BNP PARIBAS

From USD 47 billion in 2021, they rose to USD 62 billion the following year, then to USD 70 billion in 2023, before remaining relatively stable over the first few months of 2024. After reaching 8.4% of GDP in 2022, the current account surplus fell to 2.3% of GDP in 2023, mainly as a result of the 16% fall in hydrocarbon exports. The marked increase in imports of goods has also weighed on external accounts. Up by almost 10% in 2023, imports have been driven by a sharp rise (+49.3%) in purchases of machinery and transport equipment, following renewed investment and the relaxation of import controls on passenger and commercial vehicles.



The strategy adopted by the authorities in recent years to limit imports and encourage local production therefore seems to have reached its limits. The rapid rise in imports will continue in 2024, but Algeria should still be able to run a new current account surplus thanks to a Brent crude oil price above USD 80. In addition, foreign exchange reserves now cover 16 months of imports of goods and services, and the country has no external debt.

Public finances are not a major concern for 2024 either, although they are under greater pressure. According to the IMF, oil prices would have to reach USD 126 a barrel for Algeria to balance its budget, the highest level among the region’s hydrocarbon producers, along with Bahrain (Chart 2). Since the authorities adopted an expansionary policy stance in 2022, public spending has increased by more than 20% on average each year, and a similar increase is expected for 2024. After returning to a moderate level of 2.5-3% of GDP in 2022-2023, the budget deficit is expected to widen to 7% of GDP this year. At such a level, the question of how to cover financing needs could arise, as was the case between 2017 and 2019, when the central bank had to make massive purchases of government debt. But the current context is different as the Treasury will be able to draw on the Revenue Regulation Fund (RRF). These oil savings, which were still completely depleted in 2020, now exceed 8% of GDP. As a result, public debt will remain below 50% of GDP in 2024.

## DIVERSIFICATION AND DECARBONISATION: TWO MAJOR MEDIUM-TERM CHALLENGES

The lights are green, but for how long? While the stability of external accounts does not appear to be under threat, Algeria’s economic development could once again come up against a financing constraint linked to budgetary imbalances. At current deficit levels, the government could exhaust its financial savings as early as 2025. This would require a rationalisation of spending and therefore less support for activity from public investment. Current spending, which is more difficult to reduce, now accounts for 80% of the budget, compared with 63% in 2019, due to the increase of social measures in recent years. Consequently, without the support of private investment, economic growth could gradually slow down to stabilise at around 2% from 2027 (IMF). Another option would be to allow budget deficits to slide, with the risk of returning to unconventional financing strategies. Furthermore, with an increasingly rigid spending structure, public finances have become increasingly vulnerable to fluctuations in hydrocarbon revenues.

Diversifying the economy therefore remains a priority. Several measures testify to the authorities’ determination to act in this direction, starting with the introduction of a new investment code in 2022 and the opening of the capital of a public bank (CPA) on the Algiers stock exchange. The decision to set up banking subsidiaries in several African countries also reflects the desire to support exporters in new markets. Against this backdrop, the acceleration in growth of bank credit to the private sector is encouraging. After several years of sluggishness, it reached 9.5% in April, outpacing inflation. However, the low level of bank penetration (total outstanding loans to the private sector represent less than 20% of GDP) still limits the scope of this dynamic.

ALGERIA: FISCAL BREAKEVEN OIL PRICE, IN 2024

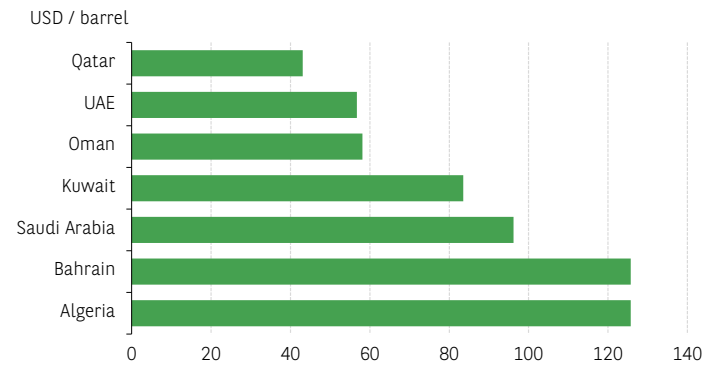


CHART 2

SOURCE: IMF, BNP PARIBAS

The same applies to foreign direct investment, which rose from USD 254 million in 2022 to USD 1.2 billion in 2023. Despite this strong growth, it represents only 0.5% of GDP, making Algeria the least attractive economy in the region.

The need to develop the private sector is reinforced by another challenge: the low-carbon transition. Algeria has two advantages in this still uncertain process. Firstly, the cost of extracting oil remains low, which would enable it to maintain its market share in an adverse transition scenario. Secondly, its subsoil is full of gas reserves, whose peak demand is in principle further away than that of oil. Nevertheless, we must also expect greater volatility in energy prices and downward pressure in the years ahead. In the short term, the introduction of the carbon tax in Europe also risks affecting non-hydrocarbon exports, which are mainly made up of energy-intensive products (cement, fertiliser, iron and steel). In addition, the authorities have pledged to reduce the country’s greenhouse gas emissions by 7% to 22% by 2030, in particular through the development of renewable energies. There are many challenges. Firstly, the challenge is huge, as 95% of electricity production is currently gas-fired. Secondly, Algeria needs to maintain its export capacity. Local consumption currently absorbs 45% of gas production, compared with one-third in 2010. It will be difficult to reverse this trend without diversifying electricity production. This will also undoubtedly require an overhaul of the subsidy system, which inflates energy consumption while ensuring that Algerians enjoy some of the lowest oil and gas prices in the world.

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