

Algeria



Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecast	
								2021	2022
GDP growth (%)	3.3	3.7	3.2	1.3	1.2	0.8	-6.0	2.7	2.5
CPI Inflation (%)*	4.7	4.8	6.4	5.6	4.3	2.0	2.4	4.9	6.0
Fiscal balance (% of GDP)	-2.5	-15.3	-13.1	-6.5	-4.4	-5.6	-7.7	-9.3	-7.9
Public debt (% of GDP)	8.9	8.7	20.5	26.8	37.8	45.8	53.1	63.3	73.9
Reference rate (%)*	4.0	4.0	3.8	3.7	3.8	3.8	3.2	3.0	3.8
Exchange range (DZD/USD)*	76.9	100.4	109.4	110.9	116.6	119.4	126.8	135.4	134.8
Current balance (% of GDP)	3.9	-16.4	-16.5	-13.0	-9.5	-10.0	-10.5	-3.2	-3.9
External debt (% of GDP)	3.0	2.8	3.4	3.4	3.3	3.2	3.8	3.7	4.9

Note: * Annual average.

Source: CaixaBank Research, based on data from national statistical agencies and the IMF.

- In 2020, the fragility of the Algerian economy was compounded by the effects of the pandemic on the global and domestic economies and by the sharp drop in hydrocarbon prices, which led to a 6.0% fall in GDP. The growth prospects are relatively weak** and closely linked to a recovery of the global business cycle, a rise in energy prices and the progress of vaccinations, a process which is expected to reach its conclusion at the end of 2022. In the short-term, fiscal and current account deficits will hinder public investment and the development of alternative economic growth paths to the hydrocarbon sector. Additionally, during the health crisis, division has grown between large sections of the population and the government, whose term is currently going through a period of protests.
- Real shock of COVID-19.** The correction of petrol and gas prices in 2020 (representing 95% of its exports and 40% of public finance revenue), combined with the weakening demand of its main trading partners (mainly the EU) led to a sharp fall in GDP and an increase in current account and fiscal deficits. For the next two years, we anticipate a moderate growth scenario that will be closely linked to global trends in demand and hydrocarbon prices. This will play a key role in improving the current account imbalances which, nevertheless, will continue due to the limits on production agreed by OPEC and its partners and the scant development of non-energy exports. Additionally, by controlling imports, the authorities are seeking to stabilise the decline in foreign exchange reserves. In the medium-term, the relatively modest outlook for domestic consumption, hit by the fall in citizens' purchasing power (in turn, caused by the rise in unemployment and inflation), will be partly responsible for sluggish growth in imports.
- Economic policy response**
 - Fiscal policy.** Within the context of the pandemic, the authorities suspended the 2019 fiscal consolidation plan and prioritised healthcare and social spending. This factor, combined with the fall in revenues from hydrocarbon exports, contributed to the rise in the fiscal deficit in 2020 and exposed the government's limited room for manoeuvre in this regard. Following the notable fiscal deficit of 2020, the authorities expect it to grow further in 2021 and they will continue to rely on domestic borrowing to finance this (through the purchase of sovereign debt with central bank reserves).

Outlook *(continued)*

- › **Monetary policy.** We expect that the Bank of Algeria (BA) will continue with the accommodative monetary measures that it adopted during the pandemic and the easing of banking requirements. Within the context of the pandemic, Algerian banks struggled to attract high volumes of cash through deposits and, in some cases, the NPL ratio increased to above-average levels in recent years (12%). However, we believe that the level of capitalisation of Algerian banks remains at acceptable levels.
- › **Evolution of the exchange rate.** We believe that Algeria's financial strains will add further downward pressure on the dinar's exchange rate. The BA will face the difficult task of curbing the depreciation of the currency, to prevent an increase in inflationary pressures caused by import prices, with a declining stock of foreign reserves, which in itself is a source of financial stability risks.

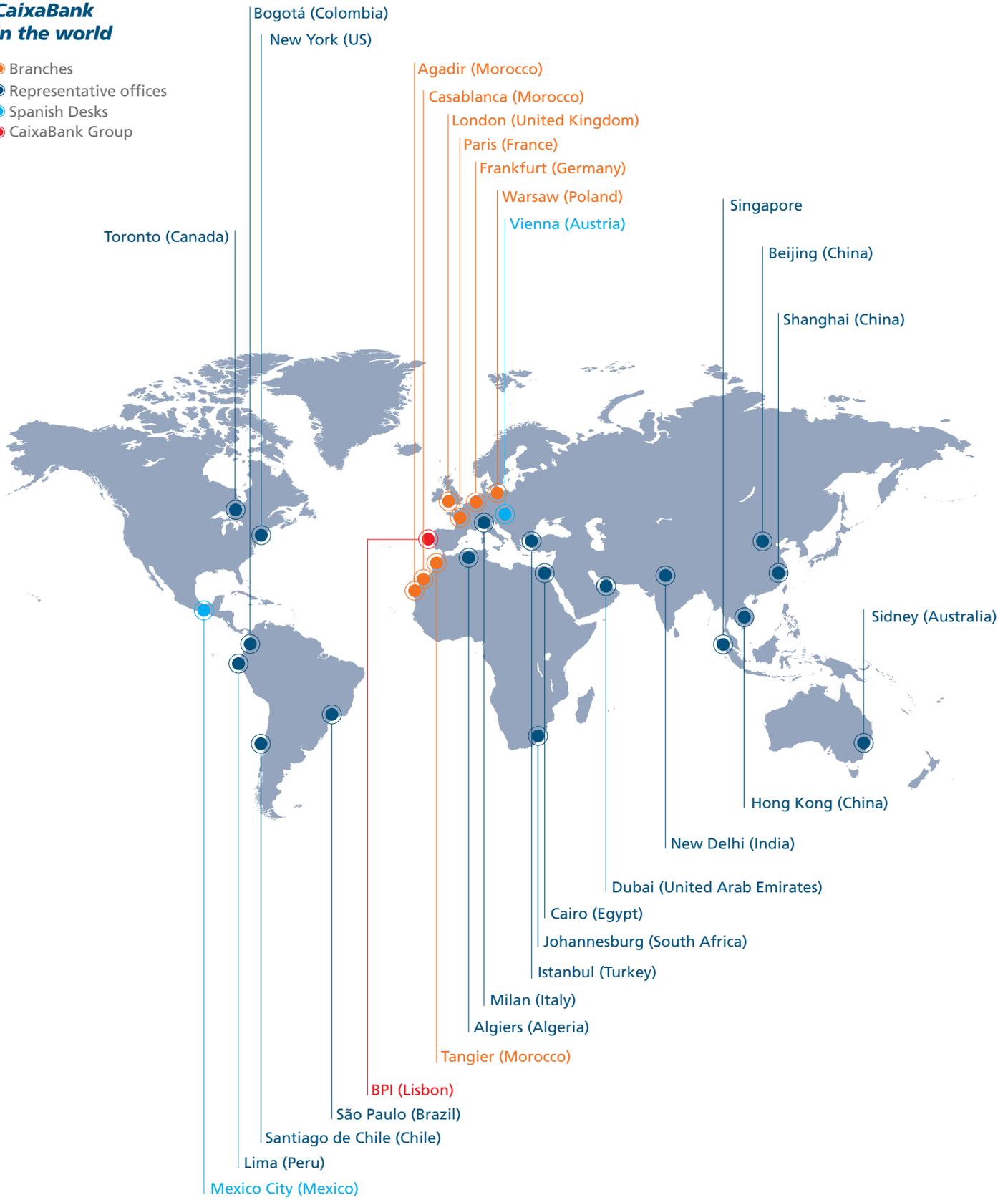
Main risks

Downside risks prevail. Specifically, the risks come in several forms:

- **Macroeconomic risk.** The Algerian economy's dependence on the energy sector poses a significant risk in the event of a further slump in international oil markets, highlighting the need to develop an alternative production sector to hydrocarbons. However, the continued macroeconomic imbalances and problems with red tape represent an obstacle to any influx of capital from foreign investment and any improvement in business confidence.
- **Financial risk due to low level of foreign exchange reserves.** Since 2014, the authorities have relied on using the BA's foreign currency reserves to tackle macroeconomic imbalances and try to prevent any further decline in the dinar's exchange rate. This process was accelerated during the crisis. Although the government has started taking measures to prevent the level of reserves from falling below the IMF's adequacy metric, another slump in crude oil prices could accelerate a fall in the level of reserves and force the government to request financing from other countries, such as China.
- **Political and social risk.** During the health crisis, the government's problems with handling the economic recession and controlling the social groups that are demanding changes to the political regime (ultimately, partly due to the increase in unemployment and poverty) have worsened. Additionally, the fragile state of health of President Abdelmadjid Tebboune and the lack of transparency about his future have aroused further concern about the succession to power. In terms of healthcare, despite the arrival of the vaccines that are part of the COVAX mechanism, we believe that the vaccination process in this country will be slower than originally anticipated and will be drawn out to the second half of 2022.

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