

ALGERIA



ECONOMIC UPDATE

Investing in Data
for Diversified
Growth

Spring 2024



THE WORLD BANK

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Middle East & North Africa

Algeria Economic Update

Investing in Data for Diversified Growth

Spring 2024



Middle East and North Africa Region

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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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LIST OF ACRONYMS

BoA	Bank of Algeria	NEER	Nominal effective exchange rate
BTU	British thermal unit	OAIC	Algerian Interprofessional Office of Cereals
CPI	Consumer Price Index	OECD	Organization for Economic Cooperation and Development
DZD	Algerian Dinar	ONS	National Office of Statistics
EIA	Energy Information Agency	OPEC	Organization of the Petroleum Exporting Countries
EUR	Euro	GDP	Gross Domestic Product
EPT	Algeria's administrative regions	Pp	Percentage points
FAO	Food and Agriculture Organization	PSR	Special refinancing program
IMF	International Monetary Fund	REER	Real effective exchange rate
FRR	Revenue Regulation Fund	SMMEEI	Steel, metal, mechanical, electrical, and electronic industries
LNG	Liquefied natural gas	SOE	State-owned enterprises
LPG	Liquefied petroleum gas	TTF	Securities Transfer Facility
FDI	Foreign direct investment	US\$	United States Dollar
JODI	Joint Organizations Data Initiative	WB	World Bank
Kb/d	Thousands of barrels per day		
MARS	Monitoring Agricultural Resources		
Mb/d	Millions of barrels per day		
MENA	Middle East and North Africa		

ACKNOWLEDGMENTS

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 and policy changes for Algeria's economic prospects. The report is intended for a broad audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals working in/on Algeria. The report is divided into two chapters. Chapter 1 presents macroeconomic developments in Algeria over the year 2023 and the first quarter of 2024, while Chapter 2 describes the short- and medium-term outlook for the Algerian economy. **The deadline for data entry and forecast preparation was May 10, 2024.**

The Algeria Economic Update is the work of the Middle East and North Africa (MENA) section of the World Bank Group's Macroeconomics, Trade, and Investment (MTI) practice area. It was prepared by Cyril

Desponte, Amel Henider, and Daniel Prinz under the supervision of Eric Le Borgne and Abdoulaye Sy. The authors would like to thank Jesko Hentschel (Country Director for the Maghreb and Malta) and Kamel Braham (Resident Representative for Algeria) for their valuable comments during the review of this report. The World Bank team is particularly grateful to Algeria's Ministry of Finance and Ministry of Energy for their comments on the report prior to publication.

The findings, interpretations, and conclusions expressed in this report are those of the World Bank staff and do not necessarily reflect the views of the World Bank Board of Executive Directors or the countries it represents. For information about the World Bank and its activities in Algeria, including electronic copies of this publication, please visit <https://www.banquemondiale.org/fr/country/algeria>. For questions or comments on the content of this publication, please contact Cyril Desponte (cdesponte@worldbank.org) and Eric Le Borgne (eleborgne@worldbank.org).

EXECUTIVE SUMMARY

Algeria's growth was robust in 2023, and inflation started to decelerate. GDP growth accelerated to 4.1 percent, supported by hydrocarbon sector growth, as natural gas production compensated for successive crude oil production quota cuts. Non-extractive GDP growth reached 3.7 percent as investment growth accelerated, supported by a marked recovery in public investment, and leading to a surge in imports. Private consumption remained dynamic, stimulated by growing public sector wages, and pulling sectors serving households. Inflation remained at 9.3 percent over 2023 but moderated to 5.0 percent year-on-year in the first quarter of 2024, amidst a sustained decline in fresh food prices, a strong dinar, and lower import prices.

Falling hydrocarbon prices narrowed the current account surplus in 2023, while increasing the fiscal deficit and the public debt-to-GDP ratio. The fall of hydrocarbon and fertilizer export prices and large increase in import volumes resulted in a rapidly narrowing current account surplus, although reserves continued to increase, to reach 16.1 months of imports at end-2023. Hydrocarbon revenues in the budget have nonetheless remained stable but given the sharp increase in the wage bill and capital expenditures, the overall budget deficit widened to 5.2% of GDP. The deficit was mainly financed outside the banking sector, with bond issuance declining, oil savings increasing to 8.2% of GDP, and public debt as a percentage of GDP increasing slightly to 49.2% of GDP.

Growth is expected to slow in 2024 amidst subdued oil and agricultural output, before recovering in 2025. In the baseline scenario, oil quota cuts would remain in place, and hydrocarbon GDP would contract slightly in 2024. Non-hydrocarbon activity would remain dynamic, driven by investment and private consumption, supported by a third consecutive annual wage increase. Based on early satellite weather and crop growth data, agricultural production is expected to remain subdued in 2024. Overall GDP growth would reach 2.9 percent in 2024 and pick up again to 3.7 percent in 2025 as oil production and agricultural output recover.

Amidst higher imports and public spending, lower hydrocarbon revenues would put renewed pressure on external and fiscal balances. In the baseline scenario, hydrocarbon exports decline and imports increase, tracking dynamic domestic demand, and causing the current account to turn slightly negative in 2024 before posting larger deficits in 2025 and 2026. In the budget, lower hydrocarbon revenues and another wave of wage and transfer increases would offset robust tax revenues and consolidation of capital expenditures. The overall budget deficit would increase in 2024 and stabilize in the next two years, resulting in growing public debt, which would pass 55 percent of GDP by 2026.

The variability of hydrocarbon prices remains the main risk to macroeconomic balances, with projected financing needs highlighting the importance of a gradual fiscal rebalancing.

Rising imports and public spending have deepened the non-hydrocarbon current account and budget deficits, leaving macroeconomic balances more exposed to global oil price dynamics, in an environment of heightened geopolitical uncertainty. While foreign exchange reserve remains adequate, projected fiscal financing needs call for prudent public spending policies and a gradual fiscal rebalancing. Meanwhile, subdued rainfall and higher temperatures in recent years, with their effect on agricultural production, inflation, and imports, underscore the vulnerability of the Algerian economy to climate change.

Efforts to foster private sector investment and diversification should be strengthened. The risks associated with global hydrocarbon prices point to the importance of supporting diversification by accelerating private sector investment in non-hydrocarbon sectors. The 2022 Investment Law, the 2023 Banking and Monetary Law, formal adhesion to the Africa Continental Free Trade Agreement, the 2023 Land Law and initiation of state-owned bank reforms are aimed at boosting private investment to foster diversification. Strengthening those efforts, in particular by ensuring that they contribute effectively to the

improvement of the business environment, is even more important now that public investment, previously the engine of Algeria's growth, is increasingly constrained by rigid and rapidly expanding current expenditures.

Continuing to strengthen data systems would support investment and public policymaking.

In 2023 and 2024, digitalization efforts accelerated, as did efforts from the Bank of Algeria and ONS to strengthen their publications, with notably the first GDP rebasing. The alternative data sources used in this report, such as satellite data on crop development or nighttime lights, represent a useful complement to conventional economic and social statistics. Yet, improving the availability, granularity, and timeliness of official economic data, most notably relating to activity, investment, and the labor market, remains of utmost importance. Enhanced data systems would support the authorities' pivot towards performance-based budgeting and support evidence-based policymaking. They would also provide accurate and exhaustive economic data to researchers and analysts, potential domestic and international investors, alleviating economic uncertainty and fostering investment.



RÉSUMÉ ANALYTIQUE

La croissance de l'Algérie a été robuste en 2023, et l'inflation a commencé à décélérer. La croissance du PIB s'est accélérée pour atteindre 4,1%, soutenue par celle du secteur des hydrocarbures, la production de gaz naturel ayant compensé les réductions successives des quotas de production de pétrole brut. La croissance du PIB hors industries extractives a atteint 3,7%, la croissance de l'investissement s'étant accélérée, soutenue par une reprise marquée de l'investissement public, et entraînant une hausse des importations. La consommation privée est restée dynamique, stimulée par la hausse des salaires dans le secteur public et stimulant les secteurs fournissant les ménages. L'inflation s'est maintenue à 9,3% en 2023 et a ralenti à 5,0% en glissement annuel au premier trimestre 2024, dans un contexte de baisse soutenue des prix des produits alimentaires frais, de dinar fort et de baisse des prix à l'importation.

La chute des prix des hydrocarbures à la fin 2022 a réduit l'excédent du compte courant en 2023, creusé le déficit budgétaire, et le ratio dette publique/PIB a augmenté. La chute des prix à l'exportation des hydrocarbures et des engrais et la forte augmentation des volumes d'importation ont entraîné une contraction rapide de l'excédent de la balance courante, mais les réserves ont continué d'augmenter, pour atteindre 16,1 mois d'importations à fin 2023. Les recettes des hydrocarbures dans le budget se sont néanmoins maintenues mais, compte tenu de la forte augmentation de la masse salariale

et des dépenses d'investissement, le déficit budgétaire global s'est creusé, pour atteindre 5,2% du PIB. Le déficit a été principalement financé hors du secteur bancaire, les émissions souveraines diminuant, l'épargne pétrolière augmentant à 8,2% du PIB et la dette publique augmentant légèrement, à 49,2% du PIB.

La croissance devrait ralentir en 2024 dans un contexte de production pétrolière et agricole limitée, avant de se redresser en 2025. Dans le scénario de référence, les réductions des quotas pétroliers resteraient en place et le PIB des hydrocarbures se contracterait légèrement en 2024. L'activité hors hydrocarbures resterait dynamique, tirée par l'investissement et la consommation privée, soutenue par une troisième hausse annuelle consécutive des salaires dans l'administration publique. D'après les premières données satellitaires sur la météo et le développement des cultures, la production agricole devrait rester modérée en 2024. La croissance globale du PIB atteindrait 2,9% en 2024 et repartirait à 3,7% en 2025 à mesure que la production pétrolière et la production agricole se redresseraient.

Dans un contexte d'augmentation des importations et des dépenses publiques, la baisse des recettes d'hydrocarbures exercerait une pression accrue sur les équilibres extérieurs et budgétaires. Dans le scénario de référence, les exportations d'hydrocarbures diminueraient et les importations augmenteraient, suivant le dynamisme de la demande intérieure, et ramenant la balance

du compte courant sous l'équilibre en 2024 avant de générer des déficits plus importants en 2025 et 2026. Dans le budget, la baisse des recettes d'hydrocarbures et une nouvelle vague d'augmentations des salaires et des transferts surcompenseraient le dynamisme des recettes fiscales et la modération des dépenses d'investissement. Le déficit budgétaire global augmenterait en 2024 avant de se stabiliser les deux années suivantes, résultant en une augmentation de la dette publique, qui dépasserait 55% du PIB d'ici 2026.

La variabilité des prix des hydrocarbures reste le principal risque pour les équilibres macroéconomiques, les besoins de financement prévisionnels soulignant l'importance d'un rééquilibrage budgétaire progressif. L'augmentation des importations et des dépenses publiques a creusé les déficits courants et budgétaires hors hydrocarbures, laissant les équilibres macroéconomiques plus exposés à la dynamique des prix mondiaux du pétrole, dans un environnement d'incertitude géopolitique accrue. Si les réserves de change restent confortables, les besoins attendus de financement budgétaire appellent des politiques de dépenses publiques prudentes et un rééquilibrage budgétaire progressif. Dans le même temps, la faiblesse des précipitations et la hausse des températures de ces dernières années, avec leurs effets sur la production agricole, l'inflation et les importations, soulignent la sensibilité de l'économie algérienne au changement climatique.

Les efforts visant à encourager l'investissement du secteur privé et la diversification de l'économie devront être renforcés. Les risques associés aux prix mondiaux des hydrocarbures soulignent l'importance de soutenir la diversification en accélérant les investissements du secteur privé et dans les secteurs hors-hydrocarbures. La loi rela-

tive à l'investissement de 2022, la loi monétaire et bancaire de 2023, l'adhésion formelle à l'Accord de libre-échange continental africain, la loi sur le foncier économique de 2023 et le lancement de réformes des banques publiques visent à stimuler l'investissement privé pour favoriser la diversification. Le renforcement de ces efforts, notamment en s'assurant que ces mesures contribuent effectivement à stimuler l'environnement des affaires, est d'autant plus important que l'investissement public, auparavant moteur de la croissance de l'Algérie, est de plus en plus limité par des dépenses courantes rigides et en expansion rapide.

La poursuite de l'amélioration des systèmes de données soutiendrait l'investissement et l'élaboration des politiques publiques. En 2023 et 2024, les efforts de numérisation dans l'administration algérienne ont été renforcés, tout comme certaines publications de la Banque d'Algérie et de l'ONS, avec notamment le premier rebasage du PIB. Les sources alternatives de données utilisées dans le présent rapport, telles les données satellites sur le développement des cultures ou l'éclairage nocturne, représentent un complément utile aux statistiques économiques et sociales usuelles. Néanmoins, l'amélioration de la disponibilité, de la granularité et de l'actualité des données économiques officielles, notamment en ce qui concerne l'activité, l'investissement et le marché du travail, reste de la plus haute importance. Des systèmes de données améliorés soutiendraient le passage vers une budgétisation axée sur les résultats et l'élaboration de politiques fondées sur des données probantes. Ils fourniraient également des données économiques précises et exhaustives aux chercheurs et analystes, aux investisseurs nationaux et internationaux potentiels, ce qui atténuerait l'incertitude économique et favoriserait l'investissement.

ملخص تنفيذي

الصناعية عن حالة الطقس و تطور المحاصيل الزراعية، من المتوقع أن يكون نمو الإنتاج الزراعي محدوداً في عام 2024. ومن المتوقع أن يبلغ النمو الإجمالي للناتج المحلي الإجمالي 2.9% في عام 2024، و يرتفع إلى 3.7% في عام 2025 مع تعافي إنتاج النفط و الإنتاج الزراعي.

في ظل زيادة الواردات و النفقات العمومية، سيؤدي انخفاض عائدات المحروقات إلى زيادة الضغط على التوازنات الخارجية و توازنات الميزانية العمومية. في السيناريو المرجعي، من المتوقع أن تنخفض صادرات المحروقات و ترتفع الواردات، مما يتماشى مع ديناميكية الطلب المحلي، ما يعيد الميزان التجاري إلى التوازن في عام 2024 قبل أن يولد عجزاً في الميزانية العمومية في عامي 2025 و 2026. انخفاض إيرادات المحروقات و موجة جديدة من زيادات في الأجور و التحويلات قد يعوضا بشكل كبير ديناميكية الإيرادات الجبائية و تباطؤ النفقات الاستثمارية، و من المتوقع أن يزداد عجز الميزانية في عام 2024 قبل أن يستقر خلال السنتين التاليتين، الأمر الذي سيؤدي إلى زيادة الدين العمومي بحيث يتوقع أن يتجاوز 55% من الناتج المحلي الإجمالي بحلول عام 2026.

و لا يزال تقلب أسعار المحروقات يمثل الخطر الرئيسي على توازنات الاقتصاد الكلي، حيث تشير متطلبات التمويل المتوقعة إلى أهمية إعادة التوازن التدريجي للميزانية. أدت الزيادة في الواردات و الإنفاق العمومي إلى اتساع عجز الحساب الجاري و عجز الميزانية العمومية خارج قطاع المحروقات، مما جعل أرصدة الاقتصاد الكلي أكثر عرضة لديناميكيات أسعار النفط العالمية، في بيئة تتسم بقلبة الرؤية الجيوسياسية. و في حين أن احتياطات الصرف لا تزال مريحة، فإن احتياجات تمويل الميزانية تتطلب سياسات إنفاق عمومي حكيمة و إعادة التوازن التدريجي للميزانية. و في الوقت نفسه، تؤكد شح الأمطار و ارتفاع درجات الحرارة في السنوات الأخيرة، مع ما لهما من آثار على الإنتاج الزراعي و التضخم و الواردات، على حساسية الاقتصاد الجزائري لتغير المناخ.

ينبغي تكييف الجهود الرامية إلى تشجيع استثمارات القطاع الخاص و التنويع الاقتصادي. تؤكد المخاطر المرتبطة بتقلب

ح ققت الجزائر نمواً قوياً في عام 2023، و بدأ التضخم في التباطؤ. ارتفع نمو الناتج المحلي الإجمالي بنسبة 4.1%، مدعوماً بنمو قطاع المحروقات، حيث عوض إنتاج الغاز الطبيعي التخفيضات المتكررة في حصة إنتاج النفط الخام. كما بلغ نمو الناتج المحلي الإجمالي خارج قطاع الصناعات الاستخراجية 3.7%، بسبب تسارع نمو الاستثمار و الانتعاش الملحوظ في الاستثمار العمومي، مما أدى إلى زيادة في الواردات. و ظل الاستهلاك الخاص ديناميكياً، مدفوعاً بزيادة الأجور في القطاع العمومي، الأمر الذي أدى إلى تحفيز القطاعات التي تزود الأسر بالسلع و الخدمات. من ناحية أخرى، ظل التضخم عند 9.3% في عام 2023 و تباطأ إلى 5.0% سنوياً في الربع الأول من عام 2024 بسبب تراجع أسعار المنتجات الزراعية الطازجة و قوة الدينار و انخفاض أسعار الواردات.

أدى انخفاض سعر المحروقات في عام 2023 إلى تقليص فائض الحساب الجاري و زيادة عجز الميزانية العمومية و نسبة الدين العمومي إلى الناتج المحلي. أدى انخفاض أسعار تصدير المحروقات و الأسمدة و الزيادة الحادة في حجم الواردات إلى انكماش سريع لفائض الميزان التجاري، و لكن استمرت احتياطات الصرف في الارتفاع، لتصل إلى 16.1 شهراً من الواردات في نهاية عام 2023. ومع ذلك، ظلت إيرادات المحروقات في الميزانية العمومية ثابتة، لكن مع الزيادة الكبيرة في كتلة الأجور والاستثمار العمومي، اتسع عجز الميزانية العمومية ليصل إلى 5.2% من الناتج المحلي الإجمالي. تم تمويل العجز بشكل أساسي من خارج القطاع البنكي، حيث انخفضت الإصدارات السيادية، مع زيادة الادخار النفطي إلى 8.2% من الناتج المحلي الإجمالي و ارتفاع طفيف في الدين العمومي إلى 49.2% من الناتج المحلي الإجمالي.

من المتوقع أن يتباطأ النمو في عام 2024 في ظل انخفاض الإنتاج النفطي و الزراعي، قبل أن يتحسن في عام 2025. في السيناريو المرجعي، من المتوقع أن تظل تقليصات حصة النفط سارية المفعول، و من المتوقع تراجع طفيف للناتج المحلي الإجمالي للمحروقات في عام 2024، في حين يتوقع أن يظل النشاط خارج قطاع المحروقات ديناميكياً، مدعوماً بالاستثمار و الاستهلاك الخاصي بسبب زيادات أجور الموظّفين للسنة الثالثة على التوالي. و وفقاً للبيانات الأولية الصادرة عن الأرقام

تكثيف الجهود المبذولة لرقمنة الإدارة الجزائرية، و كذلك بعض المنشورات الصادرة عن بنك الجزائر و الديوان الوطني للإحصاءات، بما في ذلك إعادة تحديد أساس الناتج المحلي الإجمالي لأول مرة. تمثل مصادر البيانات البديلة المستخدمة في هذا التقرير، مثل بيانات الأقمار الصناعية، عن تطور الزراعات أو الإضاءة الليلية، أداة مكتملة و مفيدة للإحصاءات الاقتصادية و الاجتماعية المعتادة و التقليدية. مع ذلك، فإن تحسين توفر البيانات الاقتصادية الرسمية و دقة تفاصيلها و مدى توقيتها، لا سيما فيما يتعلق بنشاط الاقتصادي و الاستثمار و سوق العمل، يظل أمراً في غاية الأهمية. ستدعم أنظمة البيانات المحسنة التوجه نحو الميزانية القائمة على النتائج و صنع سياسات القائمة على البيانات. كما أنها ستوفر بيانات اقتصادية دقيقة و شاملة للباحثين و المحللين و المستثمرين المحليين و الدوليين، مما يحد من قلة الرؤية الاقتصادية و يشجع الاستثمار.

أسعار النفط و الغاز العالمية على أهمية دعم التنويع الاقتصادي من خلال تسريع استثمارات القطاع الخاص و الاستثمار في القطاعات خارج قطاع المحروقات و يهدف كل من قانوني الاستثمار لعام 2022، و البنوك و النقود لعام 2023، و الانضمام الرسمي إلى اتفاقية التجارة الحرة في القارة الأفريقية، و قانون الأراضي الاقتصادية لعام 2023، و إطلاق إصلاحات البنوك العمومية، إلى تحفيز الاستثمار الخاص لتعزيز التنويع الاقتصادي. و ينبغي تعزيز هذه الجهود، لا سيما من خلال ضمان مساهمة هذه التدابير بشكل فعال في تحفيز بيئة الأعمال، نظراً لأن الاستثمار العام، الذي كان في السابق محرك النمو في الجزائر، أصبح مقيداً بشكل أكبر بالنفقات الجارية الغير مرنة و المتزايدة بسرعة.

مواصلة تحسين أنظمة البيانات من شأنها أن تدعم الاستثمار و رسم السياسات العمومية. في عامي 2023 و 2024، تم



RECENT ECONOMIC DEVELOPMENTS

Growth Outside Extractive Sectors Remained Robust in 2023

Non-extractive GDP growth was robust in 2023, supported by a strong acceleration in investment.

Non-extractive GDP¹ growth reached 3.7 percent in 2023, with a moderate acceleration during the year. The latter was driven by strong investment growth, up from 5.3 percent y-o-y in Q1 to 12.3 percent y-o-y in Q4, reaching 8.4 percent in 2023, supported by a marked recovery in public investment, including in several large industrial projects. Rapid investment growth stimulated imports, which grew by 19.4 percent in 2023, led by equipment and vehicle imports. Private consumption remained dynamic (+3.8 percent), stimulated by sizeable growth in public wage spending. Satellite nighttime lights data suggest that dynamic activity growth was cross-regional, but that it slowed down in Q1-2024. In 2023, the government adopted several measures to foster diversification and non-hydrocarbon growth, such as making public land available for private investment projects through the

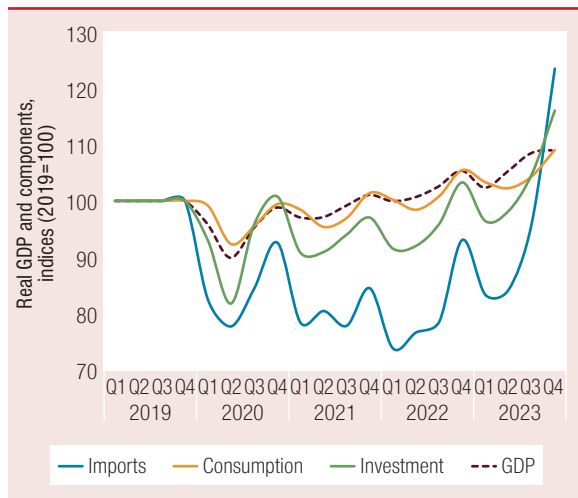
Land Law and introducing a “one-stop shop” portal at the Algerian Investment Promotion Agency (AAPI).²

Industrial and services growth remained dynamic, while agricultural output decelerated.

¹ The rebased national accounts now present “extractive industries” but do not present the former “hydrocarbon” sector. Extractive industries now mirror the international standard industry classification (ISIC) and do not only account for crude oil and natural gas extraction activities, but also include mining activities. Hydrocarbon processing (oil refining, gas liquefaction) is now classified under the “manufacturing sector”, while some hydrocarbon-related activities have been reclassified from the hydrocarbon sector to the dedicated ISIC sections (e.g., construction, transport).

² The new land law, which establishes guidelines for allocating state-owned land for investment projects with the objective of promoting private investment and creating jobs, was adopted in November 2023. The implementation of the land grant program started in Q1-2024. 97 of 1,500 applicants were awarded plots by the Algerian Investment Promotion Agency through the new digital platform. State-owned land is awarded for 33 years with the possibility of renewal.

FIGURE 1 • Dynamic growth was supported by an acceleration in investment, accompanied by a surge in imports



Source: Office National des Statistiques (ONS). As the indices are in base 100 in 2019, these data compare the current level of the components of real GDP with their level in the same quarter in 2019.

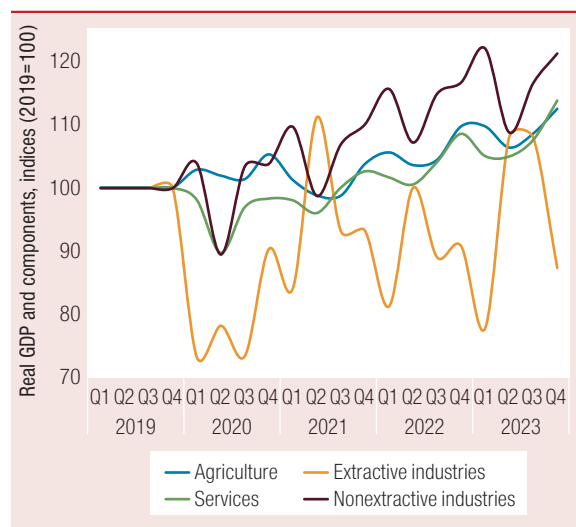
Increasing investment mainly led to higher imports and indicators of public sector industrial activity also suggest strong growth in steel, metal mechanical, electrical, and electronic industries (SMMEEI), particularly mechanical intermediate metal, mechanic, and electrical goods, although public manufacturing production remains below pre-pandemic levels. Dynamic consumption also stimulated sectors serving households, including trade and hospitality. Agricultural output growth decelerated, amid droughts, with vegetation index measures below normal in some of the main crop producing regions of Western Algeria (see Box 3). Standard labor market indicators have not been published since 2019, but international estimates suggest that unemployment rates decreased to their pre-pandemic levels.³

Extractive Industries Production Increased in 2023, Despite Lower Oil Production

Amid successive OPEC quota cuts, oil production declined throughout 2023, reducing exports.

Algeria implemented a voluntary reduction of its crude oil production quota from 1055 kb/d in October 2022 to 1007 kb/d in November 2022 and to 959 kb/d in May 2023. As a result, in 2023 crude oil production

FIGURE 2 • ...and stimulated non-extractive industries and services



Source: Office National des Statistiques (ONS). As the indices are in base 100 in 2019, these data compare the current level of the components of real GDP with their level in the same quarter in 2019.

was 3.8 percent lower than in 2022 and 7.4 percent year-on-year in H2-2023. With a further cut to 908 kb/d implemented in January 2024 (-4.9 percent), production became 13.2 percent lower than the October 2022 peak. Declining production amidst increasing domestic consumption translated into a notable reduction in oil exports, driven by crude oil, refined products,⁴ and only partially offset by a significant increase in condensate and Liquefied Petroleum Gas (LPG) exports.⁵ Despite crude and refined oil production having declined since their 2008 peak, it still represents close to half of Algeria's hydrocarbon production.⁶

³ Modeled estimates from the International Labor Organization (ILO) suggest that the overall unemployment rate declined to 12.3 percent in 2023 (-0.2 pp), that the female unemployment rate declined to 21.5 percent (-0.3pp) and that the youth unemployment rate declined to 31.3 percent (-0.7 pp).

⁴ Crude oil export volumes during the first nine months of 2023 were 2.0 percent higher year-on-year, however Q4-2023 exports are estimated to have been well below their Q4-2022 peak value, suggesting a decrease for the year. Meanwhile, refined petroleum products export declined by 7.4 percent.

⁵ Condensate exports increased by 34.6 percent year-on-year, and LPG exports increased by 6.0 percent.

⁶ In million tons of oil equivalent (MTOE).

BOX 1: TIMELY TRACKING OF ECONOMIC DEVELOPMENTS IN ALGERIA WITH ALTERNATIVE DATA SOURCES

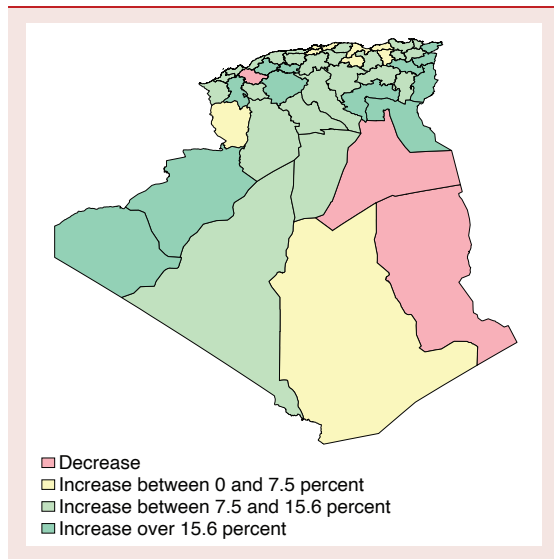
New developments in big data research enable immediate monitoring of economic trends at disaggregated geographical levels. Satellite data are available with a short lag (less than a month) and are highly disaggregated across time and space. By estimating the relationship between these alternative data and national accounts over the past years, they can help produce geographically disaggregated output estimates until Q1-2024.

Nightlights data reliably estimate Algeria's hydrocarbon and nonhydrocarbon GDP. Nightlights observed via satellites for oil and gas extraction and processing areas are a good proxy for hydrocarbon output.^a Monthly “flaring lights” explain 94 percent of monthly crude oil production levels and “non-flaring lights” in gas-producing wilayas explain 69 percent of monthly natural gas production levels. The relationship between nightlights in other areas and non-hydrocarbon GDP is even stronger, with 93 percent of the variation in real non-hydrocarbon GDP explained. For instance, Desponts and Le Borgne (2023) estimated GDP growth of 3.6 percent y-o-y over the first nine months of 2023; ONS data, just published, put it at 4.2 percent. Nightlights suggest robust cross-regional nonhydrocarbon growth in 2023, but lower growth in hydrocarbon-producing regions.

Satellite-based weather and vegetation data can be used to estimate Algerian agricultural production. Satellite-observed normalized difference vegetation indices (NDVI) for the largest crop producing regions can, by themselves, capture 51 percent of the historical variation in agricultural GDP, with robust correlations for the NDVIs of Algeria's largest cereal-producing regions. In 2023, measures of rainfall and crop growth were below average in the largest crop producing regions, the Western and Eastern Highlands in particular, tracking the deceleration of agricultural output growth suggested by national accounts (see Box 3).

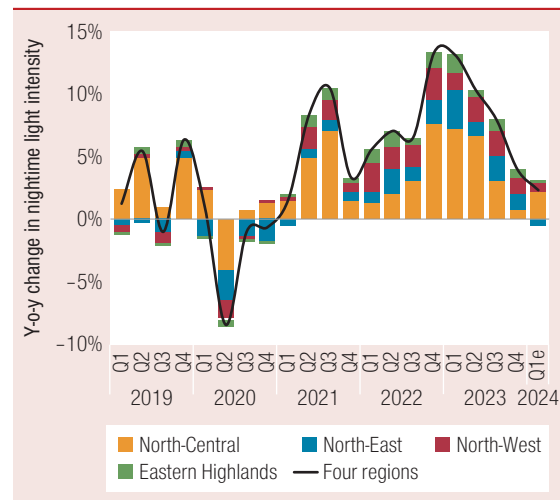
Data on vessels and their cargo arriving and departing from Algerian ports capture imports and exports in a timely manner. Shipping data include vessel size, weight, and broad product content, in addition to the port of arrival or departure. Measures of the weight of arriving ships can be used to estimate the volume of imports and exports. (See Box 2).

FIGURE 3 • Growth in nighttime lights in 2023



Source: World Bank staff estimates based on NASA data.
Note: The map uses the old administrative division into 48 wilayas.

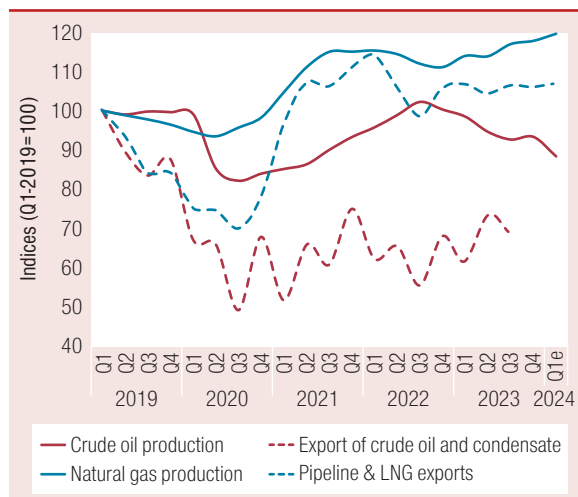
FIGURE 4 • Satellite nighttime lights suggest a slowdown in nonhydrocarbon activity in Q1-2024



Source: World Bank staff estimates based on NASA data.
Note: The regions correspond to the Espaces de Programmation Territoriale (EPT).

^a Cyril Desponts and Eric Le Borgne, “What does satellite imagery tell us about Algeria's economy?” World Bank Arab Voices Blog, <https://blogs.worldbank.org/arabvoices/what-does-satellite-imagery-tell-us-about-algerias-economy>.

FIGURE 5 • Increasing natural gas production and exports offset lower oil production...

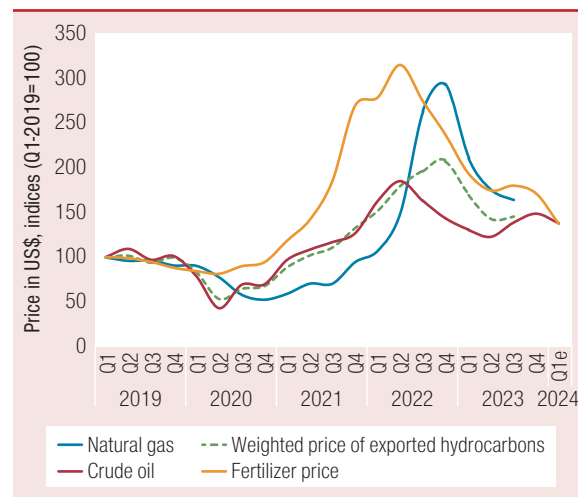


Source: JODI, BoA, for exports to Q3-2023, OPEC for crude oil production.
Note: Data are presented as a rolling four-quarter average.

Natural gas production reached a historical high and the increase in liquefied natural gas (LNG) exports offset the decrease in pipeline exports. Following a surge in production in 2021 and a slight decrease in 2022 amid the second mildest winter in Europe on record, natural gas production increased by 6.1 percent year-on-year in 2023, supported by fast output growth from new fields during the second half of the year.⁷ Despite higher domestic consumption amidst industrial dynamism, natural gas exports remained stable, and a larger share was exported as LNG, offsetting decreasing pipeline exports. Italy, Spain, and France remained the largest buyers of Algerian gas as European countries continued to replace Russian gas in their energy mix. As a result, extractive sector production rebounded after a slight contraction in 2022 as the increase in natural gas production is estimated to have more than offset lower oil production.

While natural gas prices have come down relative to their 2022 peak, they remain well above their historical levels, supporting hydrocarbon export revenues even amid lower oil prices. Oil prices peaked in Q2-2022, and the reference price for Algerian oil decreased from US\$ 103.8 in 2022 to US\$ 83.6 in 2023, despite higher prices in H2-2023, motivating successive quota cuts to support prices. Natural gas

FIGURE 6 • ...but hydrocarbon export prices remained elevated, despite natural gas prices coming down



Source: BoA, oilprice.com & WB Commodity Price Data for fertilizer price.
Note: The weighted hydrocarbon price index uses dollar export values to weight each hydrocarbon type.

prices decoupled from oil prices in mid-2022 amid a surge in European demand as Russia invaded Ukraine, the renegotiation of long-term contracts and additional sales on spot markets. They peaked in Q4-2022 and have decreased in 2023 but remain well above their 2021 levels, while the ratio of gas export prices to lagged oil exports prices is now higher than in 2019, suggesting that gas supply contracts with Europe now generate higher export prices. The prices of fertilizers, Algeria's main non-hydrocarbon export also tracked hydrocarbon prices.⁸ The value of hydrocarbon exports decreased by 16.2 percent as the large price decrease more than offset a 4 percent increase in volumes.⁹

The Current Account Surplus Shrunk but Reserve Accumulation Continued

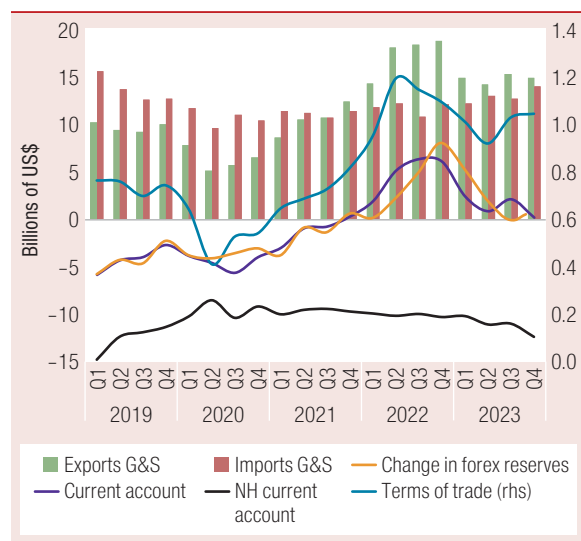
The current account surplus narrowed significantly from its 2022 peak, as export prices

⁷ APS, 2023.

⁸ World Bank (Spring 2022), showed that gas prices were partly linked to oil prices, with a time lag of around 4 months.

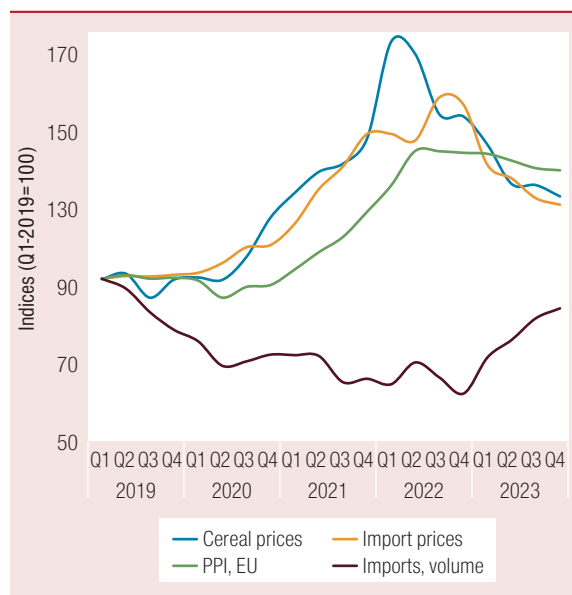
⁹ Balance of payments data show that hydrocarbon exports fell from \$59.6 billion to \$49.9 billion.

FIGURE 7 • The current account narrowed as export prices decreased and imports expanded...



Source: BoA, International Monetary Fund (IMF), ONS and World Bank estimates. NH = non-hydrocarbon.

FIGURE 8 • ...even as imports prices eased for most product categories



Source: IMF, and World Bank estimates for Q1-2023. PPI = Producer Price Index.

fell. After the current account deficit peaked in 2020 driven by a fall in oil prices amid the pandemic-induced global recession, surging oil prices in 2021 led to a narrowing deficit and the current account registered a surplus of US\$19.5 billion or 8.6 percent of GDP in 2022, the first in a decade. In 2023, lower hydrocarbon export prices contributed

to a 14.9 percent decrease in goods and services exports. Combined with surging import volumes, this resulted in a rapidly narrowing current account surplus, down to US\$ 5.4 billion or 2.3 percent of GDP. Also contributing to the narrowing current account, non-hydrocarbon exports decreased significantly as a small increase in volumes was offset

BOX 2: EXPORT AND IMPORT TRENDS IN Q1-2024

Data on vessels and their cargo arriving to and departing from Algerian ports is available through the UN Comtrade Automatic Identification System (AIS) database. The data contain the arrival and departure dates of vessels, information on their cargo in broad categories (food, vehicles, oil, gas, etc.) and the size of their cargo and deadweight tonnage. While the value of imports and exports cannot be determined from this data, their volume can be approximated and used for generating estimates of real imports in national accounts.

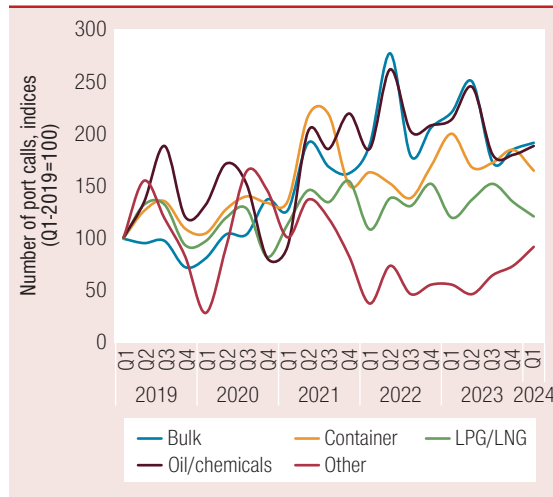
Variables capturing the deadweight tonnage of a few categories of vessels entering and leaving Algerian ports can explain most of the variation in trade flows. Data on gas exports through pipelines and the tonnage of vessels leaving Algerian ports in the bulk, container, liquefied gas, and foodstuff categories explain 74 percent of export volumes. On the other hand, the tonnage of vessels arriving into Algerian ports in the bulk, container, vehicle, and foodstuff categories explain 82 percent of import volumes.

Data on the numbers of vessels suggests that exports remained subdued in Q1-2024, while imports remained high. The overall number of outgoing vessels declined in 2023, with port calls for the bulk and oil/chemicals category decreasing (-2.7 percent and -4.7 percent year-on-year, respectively), though container and LPG/LNG shipments accelerated (+16.3 and +2.6 percent), consistent with official data. In Q1-2024, bulk, container, and oil/chemical shipments remained lower than a year earlier (-13.2 percent, -17.7 percent, and -12.0 percent y-o-y, respectively), while LPG/LNG exports were 1.0 percent above their Q1-2023 level. On the import side, the number of port calls increased through 2023 for the largest cargo types (+3.1 percent for bulk, +0.3 percent for containers), and the number of vessels carrying vehicles doubled amid a targeted relaxation of import controls. In Q1-2024, imports remained elevated for the bulk (+17.5 percent y-o-y) and vehicles (+14.0 percent) categories, though there was a decrease in container arrivals (-0.8 percent).

(continued on next page)

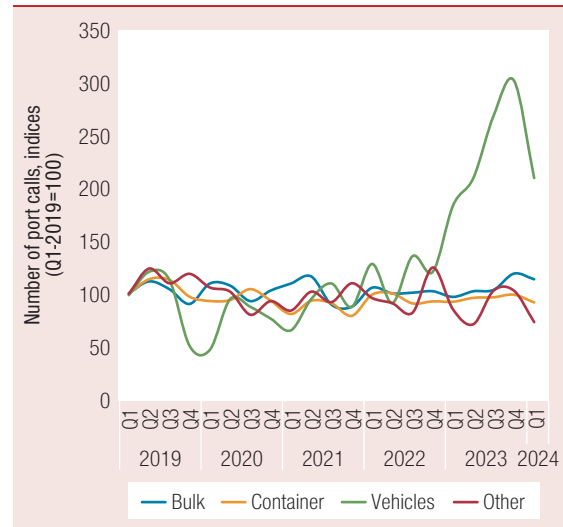
BOX 2: EXPORT AND IMPORT TRENDS IN Q1-2024 *(continued)*

FIGURE 9 • Exports volume decreased in H2-2023, but remained above pre-pandemic levels...



Source: UN Comtrade AIS.

FIGURE 10 • ...while imports expanded, notably those of vehicles



Source: UN Comtrade AIS.

by a drop in prices, particularly for fertilizers. Official reserves increased by US\$ 7.9 billion during 2023 and reached US\$ 68.9 billion, or an estimated 16.1 months of imports.

Imports of goods and services increased by 10.3 percent as surging volumes, driven by machinery and transport equipment, offset moderating prices. The increase in machinery import volumes was driven by expanding investment, while increasing car and manufactured article import volumes suggest dynamic consumption amid a relaxation of import controls for passenger and commercial vehicles.¹⁰ Food imports also expanded in a context of low rainfall and subdued agricultural production, with Russia becoming Algeria's largest wheat supplier, supplanting the European Union.¹¹ Import prices eased across categories, including for food, which in turn contributed to an offsetting strong expansion of import volumes.¹² Shipping data suggest that import growth continued during Q1-2024 (Box 2). Meanwhile, a High Council for Import Regulation was created to regulate imports, protect national production, improve information systems, and fight illegal trade practices.

The Fiscal Deficit Has Expanded and Public Debt Increased

The budget deficit widened, driven by sharply increasing wage and investment expenditures.

In 2022, hydrocarbon revenues surged, and the budget deficit shrank to 3.0 percent of GDP, down from 6.3 percent in 2021, its lowest level since 2013. In 2023, despite hydrocarbon prices moderating markedly and the appreciation of the dinar, hydrocarbon receipts remained stable,¹³ but expenditures grew significantly (+18.4 percent). The government implemented the second tranche of a three-year wage increase program, which would increase wages and compensation spending by nearly 50 percent,

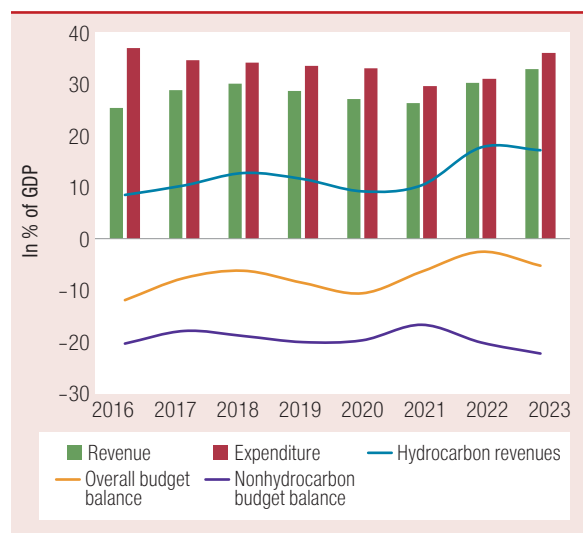
¹⁰ New vehicle dealerships, restricted to selling partially locally manufactured cars since 2016, may now apply to import completely built units.

¹¹ Algérie Eco (February 2024).

¹² The overall volume of imports increased by 16.1 percent year-on-year during the first nine months of 2023, while the price index for imports decreased by 12.1 percent.

¹³ Notably, 78% of hydrocarbon export revenues were used to finance the budget, compared with 65% in 2022.

FIGURE 11 • Increasing expenditures outpaced revenues, widening the fiscal deficit...

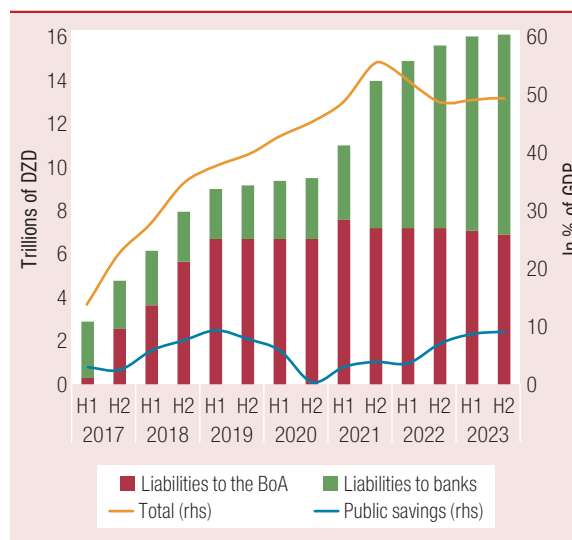


Source: Ministry of Finance, ONS and World Bank estimates.

expanded public employment, and increased capital expenditures significantly (+39.1 percent), although it remains lower than before the pandemic. Partially offsetting these effects, tax revenues increased markedly (+17.0 percent) from the growing public wage bill and the effect of non-hydrocarbon economic dynamism on corporate income, consumption, and imports.¹⁴ The increase in expenditures was also compensated by that of dividends from state-owned enterprises, notably from Sonatrach which surged to reach 2.6 percent of GDP. The overall budget deficit increased by 2.2 percentage points to 5.2 percent of GDP, and the non-hydrocarbon deficit, by 4.3 percentage points to 24.9 percent of GDP, as non-hydrocarbon revenues did not keep up with the increase in expenditures.

The public debt/GDP ratio increased, as did oil savings as the government resorted to non-bank financing to fund the deficit. Public debt peaked at 55.1 percent of GDP in 2021 as the government implemented the SOE debt buyback program but decreased to 48.1 percent in 2022 as the deficit shrank and nominal GDP expanded rapidly, while significant savings were accumulated in the oil savings fund (Fonds de Régulation des Recettes, or FRR), which reached 6.1 percent of GDP

FIGURE 12 • ...and the public debt ratio increased as did oil savings.



Source: IMF and World Bank estimates.

Note: On the right-hand axis, public debt is related to GDP over four rolling quarters.

at end-2022. In 2023, the government slowed regular Treasury issuances which decreased from 5.0 percent of GDP to 2.3 percent, and the deficit was in large part financed by non-bank financing.¹⁵ As a result, oil savings in the FRR continued to increase, rising to 8.2 percent of GDP. Consequently, public debt, which only increased by 3.9 percent in nominal terms, increased from 48.1 percent to an estimated 49.2 percent as share of GDP in 2023 and remains nearly all domestically held at long-term maturities and low interest rates.¹⁶

With Fresh Food Prices Decreasing, Inflation Started to Moderate in Late 2023

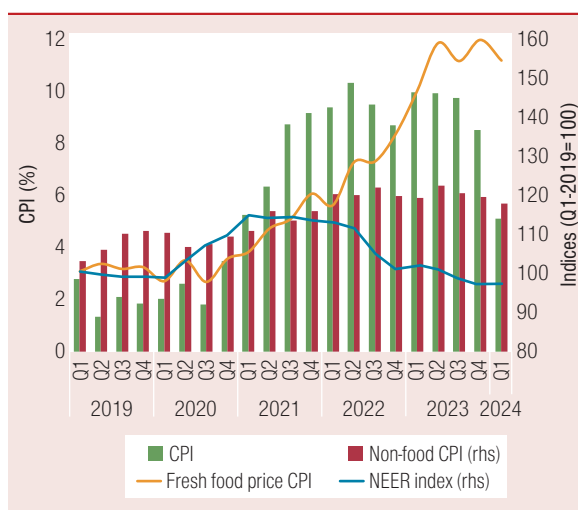
Inflation remained high at 9.3% in 2023, but prices started to fall driven by fruit and vegetable prices. Consumer prices started to rise rapidly in 2021 (+7.2%),

¹⁴ Direct taxes rose by 25.0%, driven by PIT and CIT receipts, while indirect taxes were boosted by VAT receipts.

¹⁵ This financing is classified as 'miscellaneous'.

¹⁶ In addition, a new fiscal rule in the Budget Law of 2024 stipulates that withdrawals from the Revenue Regulation Fund (FRR) must not exceed 11 percent of GDP per year.

FIGURE 13 • Inflation eased, as fresh food prices started to decline in Q2-2023...



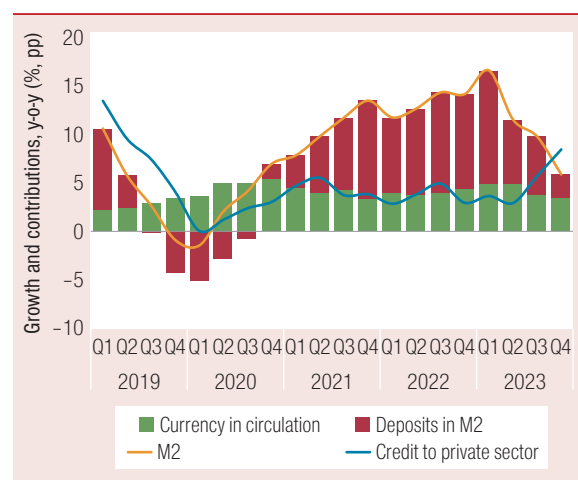
Source: ONS and World Bank estimates. NEER = Nominal Effective Exchange Rate.

with inflation accelerating in 2022 (+9.3%) and maintaining the same level in 2023 (+9.3%). The increase in the prices of food products (+13.3%) and in particular fresh food products (+22.1%) exceeded general inflation in 2023, which affected the most vulnerable the most, as food represents more than half of the expenditure of the bottom 40% of the population. Until mid-2022, food inflation was mainly driven by the “fruits and vegetables” (mostly locally produced) and “bread and cereal” categories, which were dependent on rising import prices. In 2023, and despite tighter subsidies on cereal products, the appreciation of the dinar, and lower import prices, inflation was supported by strong growth in meat prices. However, in the first quarter of 2024, it slowed to 5.0% year-on-year, the lowest level in three years, due to the sharp drop in fresh fruit and vegetable prices¹⁷ and the slowdown in meat and fish prices, especially following the authorization of meat imports at the end of 2023.

The authorities continued to support a stable exchange rate in 2023 and early 2024.

To ease imported inflation, after fourteen consecutive years of depreciation, the Bank of Algeria (BoA) supported a 6.6 percent appreciation against the U.S. dollar between July and December 2022. Since December 2022, the BoA has kept the official exchange rate approximately stable against the euro and the dollar, while the dinar appreciated by 5.2 percent against the Chinese yuan,¹⁸ causing the nominal

FIGURE 14 • ...while money supply growth moderated, and private sector credit accelerated



Source: Investing.com, ONS, and World Bank estimates.

effective exchange rate (weighted by import partners) and the real effective exchange rate (also adjusted for inflation differentials) to appreciate.

Monetary policy remains accommodative and private sector credit picked up in Q4-2023, but broad money growth continued decelerating.

Nominal interest rates remain unchanged at 3 percent since May 2020, which means that real policy rates (adjusted for inflation) are significantly negative. In April 2023, the Bank of Algeria restored the reserve requirement rate from 2 to 3 percent, returning to the end-2020 level, to reduce inflationary pressures. However, broad money growth decelerated every quarter, reaching 6.0 percent year-on-year in Q4-2023, down from 14.5 percent a year earlier. After averaging 3.6 percent in 2021 and 2022, private sector credit growth reached 7.3 percent year-on-year in H2-2023, the fastest in five years. Coupled with the simultaneous increase in equipment and vehicle imports, strong private sector credit growth suggests pent up private consumption.

¹⁷ After increasing by 61% between January 2021 and August 2023, they had fallen by 17% by March 2024.

¹⁸ In 2020–2021, the European Union (EU) accounted for 38% of Algerian imports, compared with 18% for China. The EU accounted for 59% of Algerian exports. As 90% of exports are made up of hydrocarbons, they are nevertheless denominated in dollars.



OUTLOOK AND RISKS

GDP Growth Would Remain Robust, Despite OPEC Quota Cuts and Subdued Agricultural Production

Growth is expected to remain robust in 2024, driven by continued non-hydrocarbon dynamism.

In the baseline scenario, overall growth is expected at 2.9 percent, supported by non-extractive growth, projected at 3.4 percent whereas the extractive sector is expected to contract by 0.5 percent.¹⁹ Private consumption would remain dynamic as public sector wages and transfers continue to increase, in turn stimulating services output, particularly in sectors serving households. Investment growth would slow as public capital expenditures are consolidated based on the government's medium-term budget framework, partially offset by dynamic private investment, leading to a slowdown in industrial production growth but also easing the growth of imports. The overall contribution of net exports would remain negative, with import growth slowing down, but hydrocarbon exports also contracting. Based on early weather and crop growth data, agricultural production is expected to remain weak in 2024 (Box 3).

Growth would pick up again in 2025 and 2026 as oil production quotas and agricultural output recovers.

Investment and industrial output would continue to decelerate somewhat in 2025 and 2026 as public investment consolidation continues, despite private investment remaining dynamic. The service sector would remain dynamic in 2025 and slow slightly with private consumption in 2026. Agricultural output is expected to recover from successive drought episodes, contributing to faster growth in 2025. Natural gas production would grow moderately as new field projects offset declining legacy fields, and the easing of OPEC crude oil production quota would allow for a recovery in the production of petroleum products. Sonatrach's substantial investment plans to modernize upstream oil and gas operations, adopt technological innovations, and boost petrochemical industries, including the production of plastics and fertilizers also improve medium-term growth prospects.

¹⁹ Data for Q1-2024 show a rise of almost 2% in primary hydrocarbon production, driven by natural gas and LPG.

BOX 3: EARLY SATELLITE INDICATORS OF AGRICULTURAL PRODUCTION

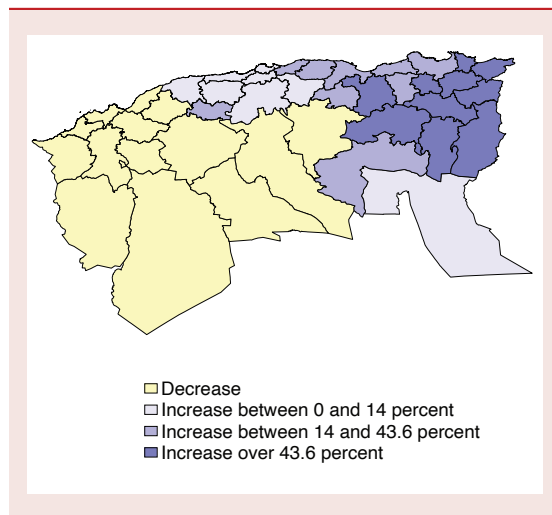
High-frequency satellite data on rainfall, temperature, and vegetation can be used to estimate agricultural production. The Anomaly Hotspots of Agricultural Production (ASAP) database contains data on rainfall, water adequacy, temperature, solar radiation, vegetation measures, and weather warnings for each 10-day period between 2000 and 2024 for each wilaya, available with a two-week delay. Official data on cereal production is available to assign production weights to wilayas.

Algeria's main crop-producing regions are in semi-arid regions in the western and eastern part of Algeria, which receive less rainfall. The semi-arid west represents 47 percent of crop production, notably the Tiaret and Sidi Bel Abbes wilayas. The semi-arid east account for 15.2 percent of national crop production, in particular the Oum El Bouaghi and Batna wilayas. Yet, these regions receive less rainfall than the humid and semi-humid coastal region from Algiers to the Tunisian border, which accounts for 34.8 percent of crop production.

Satellite-based weather and vegetation data can be used to estimate Algerian agricultural production. Satellite-observed normalized difference vegetation indices (NDVI) for the largest crop producing regions can, by itself, capture 51 percent of the historical variation in agricultural GDP, with robust correlations for the NDVIs of Algeria's largest cereal-producing wilayas.

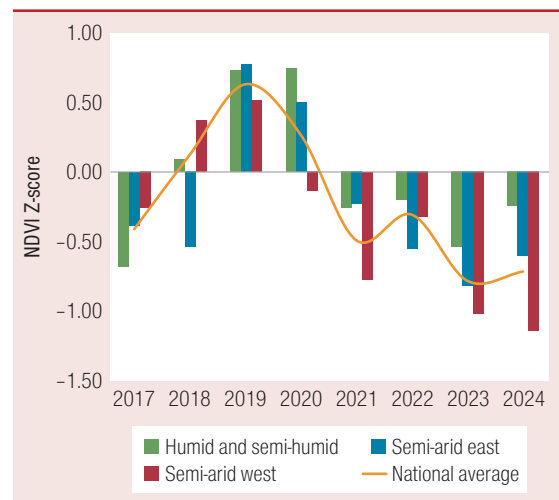
Satellite data on crop development suggest that, despite a late recovery in the Northeast, Algeria's crop development will be subdued in 2024. Rainfall in Q4-2023 and Q1-2024 was lower year-on-year in western wilayas, which was already a year characterized by lower-than-usual rainfall and crop development. In line with rainfall, measures of crop development were well below normal in 2021, 2023, and 2024, with some recovery in 2022, a year of rapid agricultural output growth. During the 2024 harvest season, crop development recovered modestly in the humid, semi-humid and semi-arid eastern regions with respect to 2023 but remain much subdued in the semi-arid eastern regions.

FIGURE 15 • During the 2023-24 crop season, rainfall improved in the East but worsened in the West...



Source: ASAP.

FIGURE 16 • ...and crop growth measures tracked changes in rainfall



Source: ASAP.

Note: Harvest season runs from Q4 to Q2 of the following year. Data for 2024 is for Q4-2023 and Q1-2024.

External and Fiscal Balances Will Again Be Under Pressure

The current account is expected to fall below balance in 2024 and reserves would stabilize. In the baseline scenario, hydrocarbon prices and export volumes decrease in 2024, while imports continue to grow at a decreasing pace as private investment and consumption remain dynamic, and subdued agricultural output keeps the demand for imported

cereals elevated. Hydrocarbon exports would recover in 2025 and level in 2026, but imports would grow faster, widening the current account deficit. Foreign exchange reserves would stabilize and remain adequate but decrease from a peak of 16.1 months of imports in 2023 to 8.4 months of imports by 2026 in the baseline.

The budget deficit would increase in 2024, before fiscal consolidation takes hold in 2025 and 2026. Hydrocarbon revenues in the budget

BOX 4: THE 2024 BUDGET LAW

The Budget Law for 2024 (BL2024)^a revises the budget deficit upwards relative to the Rectifying Budget Law for 2023 (LBR2023), primarily due to an increase in expenditures. Revenues would increase by 2 percent as higher nonhydrocarbon revenues (+10.3 percent) would be mostly offset by lower hydrocarbon receipts (-8.9 percent). Expenditures would increase by 3.9 percent as a rise in current expenditures (+12 percent) would be only partially balanced by a fall in investment (-7.5 percent).^b In 2025 and 2026, the medium-term budget framework foresees that a stabilization of expenditures and an increase in tax revenues would decrease the deficit.

The substantial increase in current expenditures is driven by the rising wage bill and provisions for in-year budget reallocations. The wage bill would be boosted by the third of three planned waves of salary increases and return of in-situ promotions. The Ministry of Public Works would receive 36 percent of the new spending, to finance infrastructure projects.^c The Ministry of the Interior^d and the Ministry of Education would receive 21 percent and 17 percent of the new spending, respectively, since they account for a large part of the wage bill, and to finance recruitment in the education sector.

The BL2024 includes several tax measures to support economic activity. It abolishes the turnover tax on firms (TAP) and introduces fiscal incentives to promote non-hydrocarbon exports. It also reduces the synthetic turnover tax (Impôt Forfaitaire Unique, IFU) for self-employed individuals, to support small businesses. Additionally, it provides tax exemptions for income derived from the sale of Treasury instruments. It also introduced a new fiscal rule stipulating that withdrawals from the Revenue Regulation Fund (FRR) must not exceed 11 percent of GDP per year.

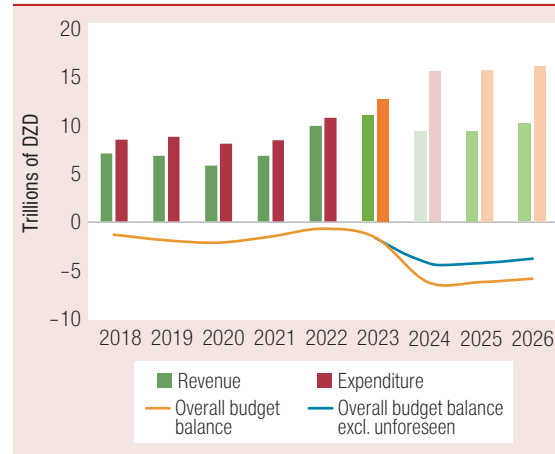
^a Published in the official gazette in December 2023.

^b Year-on-year comparisons by expenditure chapter are prevented by the new presentation of expenditure in program budgets, which combine operating and capital expenditure.

^c Development of green hydrogen production and launch of the 1,000 MW solar power project, as well as the inclusion of operations linked to the Integrated Phosphate Project and the Bechar-Tindouf (Gara Djebilet) mining line for DZD 185 billion.

^d In December 2023, over 320,000 beneficiaries of the vocational integration assistance scheme (DAIP) will have been integrated into permanent jobs. (APS, January 25, 2024).

FIGURE 17 • After a steep increase between 2021 and 2024, the 2024 Budget Law projects a stabilization in spending



Note: Data for 2023 comes from the rectifying budget law for 2023, and 2024 to 2026 projections from the 2024 Budget Law.

would be further reduced, more than offsetting the increase in tax revenues. On the expenditure side, rising current spending driven by the last wave of wage increases would contrast with a consolidation of capital expenditures, stabilizing overall spending in 2024. In 2025 and 2026, the continued consolidation of capital expenditures would slightly decrease spending. With oil savings declining, the continued increase in the deficit would increasingly translate into growing debt, which would pass 55 percent by 2026. The structure of Algeria's sovereign debt, however, remains comfortable as it is almost entirely domestically held and denominated, at long-term maturities and negative real interest rates. The latter point implies a notable transfer of resources from domestic savers to the state.

Hydrocarbon Prices Amid Geopolitical Uncertainty Pose Significant Risks

Hydrocarbon prices remain the main risk to fiscal and external balances, with projected financing needs highlighting the importance of a gradual fiscal rebalancing. Oil prices stabilized at US\$ 83.6 in 2023, and Algeria's hydrocarbon exports remained stable throughout the year. On the other hand, imports recovered, deepening the non-hydrocarbon current account deficit, and leaving external balances more vulnerable to changes in global oil prices. Similarly, the large increase in public spending in 2023 and 2024, concentrated in rigid spending such as wages, has deepened the non-hydrocarbon

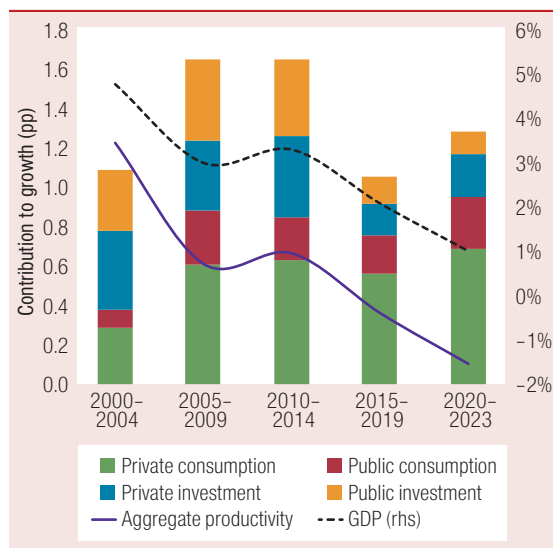
BOX 5: THE PANDEMIC ACCELERATED THE IMPORTANCE TO PIVOT TO A PRIVATE INVESTMENT-LED GROWTH MODEL

Since 2000, Algeria's growth model has relied on public investment and current spending, largely financed through hydrocarbon budget revenues. In support of the recovery from the 1990s crisis, public investment surged in the 2000s and became the engine of Algerian growth. When it stabilized, and current spending surged after 2008, the Algerian economy pivoted from being investment-driven to being private consumption driven. When the oil price shock hit in 2015, the consolidation of public spending affected consumption, investment, and caused growth to moderate across regions.

As the contribution of investment to growth declined, so did aggregate productivity. Since 2000, agricultural productivity increased as the share of workers employed in that sector halved. This first led to increased employment in the construction sector, as the state deployed massive public investments, and then to rising employment in services, once growth came to rely on private consumption. Productivity in receiving sectors was comparable or lower, while industrial sector productivity declined amidst stable employment but lower value-added, causing aggregate productivity to decline as consumption replaced investment as the driver of growth.

After the COVID-19 pandemic, Algeria's growth and productivity growth further relies on private investment, and structural reforms to accelerate it. As hydrocarbon prices fell during the COVID-19 crisis, the authorities partially froze public investment, which halved as a share of GDP between 2019 and 2022, to reach 6.5 percent. Meanwhile, current spending increased by 2.4 pp, to 23.6 percent of GDP, as wage and transfer increases. As a result, the rigidity of public spending increased markedly, shrinking the margin to increase public investment in support of the recovery.

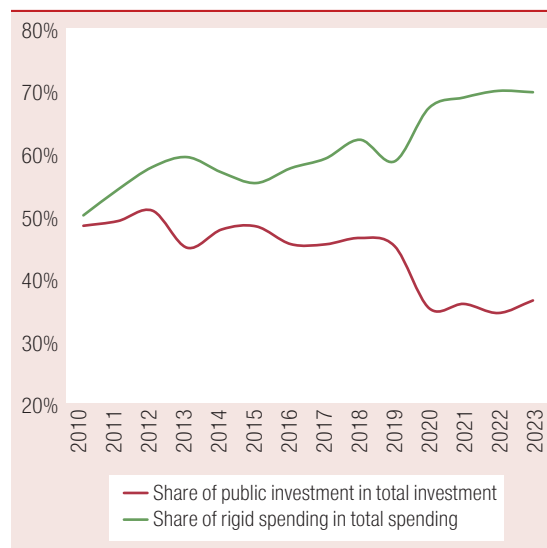
FIGURE 18 • The growth slowdown was driven by investment, notably public investment, and accompanied by declining productivity



Source: ONS, Ministry of Finance, Bank staff estimates.

Note: Public investment refers to central government capital spending. Total factor productivity is defined as the Solow residual.

FIGURE 19 • Public investment is now smaller, and the margin to raise it is limited, raising the importance of faster private investment



Source: ONS, Ministry of Finance, Bank staff estimates.

Note: Rigid spending refers to spending on wages, interest payments, pensions, and social assistance.

budget deficit, and increased the sensitivity of fiscal balances to global oil prices. Therefore, the latter represent significant risks, both upside and downside, to the outlook, particularly in an environment of heightened geopolitical uncertainty. Developments in the conflict in the Middle East, changes in OPEC quotas, and the evolution of global demand in particular

weigh on global oil prices. While foreign exchange reserve remains adequate, projected fiscal financing needs call for prudent public spending policies and a gradual fiscal rebalancing.

With public investment unlikely to drive future economic growth, accelerating non-hydrocarbon private sector investment remains a

priority. The risks associated with global hydrocarbon prices point to the importance of supporting diversification by accelerating private sector investment in non-hydrocarbon sectors, and concurrently strengthening the macroeconomic policy framework by increasing non-hydrocarbon sources of export and budget revenues. The 2019 Hydrocarbon Law, the 2022 Investment Law, the 2023 Monetary and Banking Law, formal adhesion to the African Continental Free Trade Area (ACFTA), the 2023 Land Law, and initiation of state-owned bank reforms²⁰ are all aimed at boosting investment and improving diversification. Strengthening those efforts, in particular by ensuring that they contribute effectively to the improvement of the business environment, is even more important now that public investment, previously the engine of Algeria's growth, is increasingly constrained by rigid and rapidly expanding current expenditures (Box 5).²¹

Continuing to strengthen data systems would support investment and policymaking. Alternative data sources used throughout this report, such as satellite crop development or nighttime lights, provide a useful complement to standard economic and social statistics. In 2023 and 2024, digitalization efforts accelerated, as did efforts from the Bank of Algeria and ONS to strengthen their publications, with notably the first GDP rebasing. Yet, improving the availability, granularity, and timeliness of official economic data, most notably relating to activity, investment, and the labor market, remains of utmost importance. Enhanced data systems would support the authorities' pivot towards performance-based

budgeting and support evidence-based policymaking. It would also provide accurate and exhaustive economic data to researchers and analysts, potential domestic and international investors, alleviating economic uncertainty and fostering investment.

Recent droughts and forest fires underscore the vulnerability of Algeria and the region to climate change. Over the last decade, historically high temperatures and low rainfall slowed agricultural output growth and, especially in recent years, led to a contracting production. Beyond these immediate impacts, temperature, and rainfall projections of the impacts of climate change also suggest that production levels could permanently decrease and variability increase, as yields and cultivable areas are reduced. The risks of climate change go beyond agriculture, as demonstrated by recent forest fires. They also encompass water access amid lower and more variable rainfall and potential health impacts, underlining the importance of efforts to increase supply—including ongoing large investments in desalination—and strengthen demand management. Climate change and natural disaster risks can be mitigated via adaptation, and financing for disaster risk management to increase human and economic resilience and protect recent development gains.

²⁰ Crédit Populaire d'Algérie (CPA), a large state-owned bank, has opened 30 percent of its capital on the Algiers stock exchange. CPA is the fifth company, and first bank, on the Algiers stock exchange.

²¹ See Algeria Economic Update Fall 2023, Annex 1.3.

TABLE OF INDICATORS

	2020	2021	2022	2023e	2024f	2025f	2026f
Output and prices	(In percent, unless otherwise indicated)						
Real GDP	-5.0	3.8	3.6	4.1	2.9	3.7	3.2
Non-extractive	-1.9	2.5	5.0	3.7	3.4	3.8	3.3
Extractive	-20.9	19.8	-5.1	4.8	-0.5	3.3	2.4
Real GDP per capita	-6.6	2.1	1.9	2.5	1.4	2.3	1.9
Consumer price index (period average)	2.4	7.2	9.3	9.3	7.5	6.4	6.1
GDP (in billions of USD)	164.9	186.3	225.6	239.9	256.7	265.8	275.4
GDP per capita (USD)	3794.4	4216.3	5023.3	5260.2	5547.0	5665.0	5793.9
Crude oil production (thousand barrels per day)	899.2	910.7	1020.0	973.1	920.0	994.0	1039.0
Natural gas production (billions of m ³)	87.7	102.8	99.2	105.2	111.6	118.4	125.5
External sector							
Current account	-11.3	-2.4	8.6	2.3	-1.5	-3.8	-5.3
Trade balance	-10.9	-1.3	9.9	3.0	-0.7	-3.0	-4.5
Exports of goods and services	15.1	22.5	30.6	24.5	21.9	21.0	20.3
Hydrocarbon exports	12.1	18.3	26.4	20.8	18.5	17.7	17.1
Nonhydrocarbon exports	3.0	4.2	4.2	3.7	3.4	3.3	3.2
Imports of goods and services	26.0	23.8	20.7	21.5	22.6	24.0	24.9
Gross official reserves (months of imports)	13.5	12.3	15.7	16.1	14.0	11.3	8.4
Exchange rate (Algerian dinar per USD; period average)	126.8	135.1	142.0	135.8			
Sahara Blend export price (USD/barrel)	42.1	72.7	103.8	83.6			
Central Government Finance							
Government revenue	27.0	26.2	29.7	32.9	29.8	28.8	27.7
Hydrocarbon revenue ^a	9.2	10.4	17.7	19.7	15.2	14.6	13.9
Non-hydrocarbon revenue	17.8	15.9	12.1	13.2	14.6	14.2	13.8
Expenditures	37.5	32.5	32.7	38.1	38.8	37.4	35.3
Current expenditures	24.0	21.8	24.9	27.7	28.3	27.3	25.6
Capital expenditures	9.1	7.7	6.1	8.3	7.2	7.1	6.9
Special Account Balance and Treasury Interventions	4.5	3.0	1.7	2.1	1.5	1.6	1.6
Overall budget balance ^b	-10.5	-6.3	-3.0	-5.2	-9.0	-8.6	-7.6
Primary overall budget balance	-9.7	-5.7	-1.8	-3.9	-7.7	-7.3	-6.2
Non-hydrocarbon overall budget balance	-19.7	-16.7	-20.6	-24.9	-23.7	-22.8	-21.1
Total central government debt	45.8	55.2	48.1	49.2	51.2	53.9	55.5
Domestic debt	45.1	54.5	47.6	48.9	50.9	53.7	55.4
External debt	0.7	0.6	0.4	0.4	0.3	0.2	0.1

^a Includes dividends from Sonatrach and hydrocarbon revenues transferred to the oil savings fund.

^b Includes special account balance and Treasury interventions

ANNEX 1: RECENT SPECIAL SECTIONS OF THE ALGERIA ECONOMIC UPDATE

Fall 2023: “Analyses in Algeria’s Public Finances.”

Algeria’s public finances have tracked oil and natural gas prices over the last two decades: when hydrocarbon prices fell, budget revenues followed, and the fiscal deficit expanded. At the same time, overall government expenditures in Algeria have been cyclically neutral, on average not tracking swings in output, which compares favorably with peer countries. Patterns differ for current and capital expenditures. Current expenditures are countercyclical: wages and transfers are typically expanded during downturns. Capital expenditures are strongly procyclical: they have been increased when hydrocarbon output expanded. The rigidity of public expenditures has increased in recent years but remains below the average of peer countries.

Fall 2022: “Estimating Economic Activity from Nightlights Data.”

Nightlights data is a tool now commonly used to assess economic activity. Since 2012, satellite data have been available daily and are publicly available on the Group on Earth Observations website. For

Algeria, the empirical link between nightlights data and economic activity is strong, both for oil production (geolocated by gas flaring sites), gas production, and non-hydrocarbon activity. The strong correlation between nightlights and non-hydrocarbon activity allows us to mobilize these data to estimate the recent level of economic activity, and to produce spatialized estimates of the level and dynamics of activity, useful for sectoral or local development analyses.

Fall 2022: “Estimation of the Fiscal Multipliers in Algeria.”

The sharp increase in government spending in 2022 raises the question of its effects on economic activity. The propensity of public spending to support economic activity and generate additional economic activity is captured by the fiscal multiplier. An analysis conducted on quarterly Algerian data since 2000 finds a weak multiplier effect of Algerian public spending on GDP, notably caused by the effect of an increase on the deterioration of the trade balance, resulting from its impact on imports. The spillover effect of spending on private consumption is observed but is limited, while the analysis finds a more marked effect of public spending on the construction sector.

Spring 2022: “Does Algeria Benefit from Rising Gas Prices?”

The export price of Algerian natural gas follows a distinct dynamic from the reference price of gas on international markets. Thus, while the Henry Hub gas reference price has gained nearly 50% between Q2 and Q3-2021, the export price of Algerian natural gas has increased by only 0.5% over the same period. Indeed, these prices are established contractually, sometimes on a long-term basis, and based on bilateral negotiations with buyers. An econometric modeling exercise allows us to establish that the export price of Algerian natural gas is characterized by a strong inertia, as well as a delayed linkage to the oil price. The model presented allows to explain 88% of the variation of the exported natural gas prices.

Spring 2022: “The Impact of Macroeconomic Factors on Inflation in Algeria.”

Inflation is on the rise in 2021 and 2022, both globally and in Algeria, but the underlying causes vary from country to country. In Algeria, the price increase that began in 2021 was driven by food prices. A model of the consumer price index since 2009 shows that it is characterized by strong short-term inertia, but that the depreciation of the dinar, the increase in the price of imported goods, the rise in public spending and the increase in currency in circulation explain more than 40% of the variation in the CPI after two years. In addition, the importance of these factors varies according to the categories of goods and services, reflecting the intensity of imports of these products and the characteristics of the Algerian market both in terms of production and distribution.

Fall 2021: “Evolution of Non-Monetary Poverty and Inequality in Algeria.”

The multidimensional poverty indicator improved in Algeria between 2013 and 2019, reflecting progress in all its dimensions: education, health, and living

conditions. Although Algeria performs well in the MENA region, and despite notable improvements, multidimensional poverty varies considerably across regions and between rural and urban areas. The North-Central and North-Eastern regions face lower levels of deprivation than the rest of the country, while the Central Highlands region faces a higher level of deprivation. The most vulnerable regions improved more rapidly between 2013 and 2019, showing convergence with the richer regions. Health and education have become more important dimensions of deprivation, underscoring the policy priorities for Algeria’s human development.

Fall 2021: “Resilience of Algeria to Climate and Natural Disaster Risks.”

The Algerian territory is exposed to a range of climatic and geological hazards, particularly in urban areas, which are experiencing rapid population growth and concentrate a significant share of economic activity. Floods are the most frequent disasters in Algeria, but the greatest economic losses have been caused by earthquakes. Algeria has a modern legal framework for disaster risk management (DRM), a clear decision-making framework for emergency response, and recognizes the importance of protecting strategic infrastructure and critical sectors. Serious efforts have been made to reduce risk, especially in emergency response management and reconstruction, at the expense of prevention. Moreover, information sharing is not systematic, leading to inconsistencies, especially in disaster prevention, and enforcement of GRC legislation can be improved. Significant efforts should still be made for comprehensive and cross-sectoral climate and disaster risk reduction and management.

Spring 2021: “Effects of COVID-19 on Inequality in the MENA Region and Algeria.”

Survey results from the Middle East and North Africa (MENA) region confirm that the poorest individuals are more likely to report a deterioration in their living conditions since the beginning of the COVID-19 crisis. Despite the lack of recent data on household welfare

in Algeria, the characteristics of vulnerable individuals suggest that inequality has also increased. They are more likely to contract COVID-19 or lose their jobs during the pandemic, have less adequate social protection, and are likely to be disproportionately affected by ongoing macroeconomic and fiscal adjustments. A sustainable and inclusive recovery will therefore require offering the most vulnerable the opportunity to recover what they have lost.

Spring 2021: “Towards an Equitable Reform of the Algerian Health System.”

The consequences of the COVID-19 pandemic have shown the need for a fair reform of the Algerian health

system. Although officially the number of cases and deaths remains low, the pandemic has highlighted the limitations of the health system. A double burden of communicable and non-communicable diseases, as well as limited resources, suggest a need to strengthen it. Although the health system receives substantial public financial support and requires relatively little individual expenditure, and although life expectancy and control of noncommunicable diseases are comparable to peer countries, health outcomes remain below those of middle- and high-income countries, particularly in terms of equity in maternal and child health conditions. The need for physical and human resources and for a better distribution of health coverage are major challenges. Finally, declining public financing and health system capacity pose risks to health system resilience.

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