

ECONOMIC ENVIRONMENT

Algeria's economy ranks third in the Middle East and North Africa. It is considered the driving force of the Maghreb. Algeria is one of the few countries that have managed to reduce poverty by 20% in 20 years. The Algerian authorities had taken significant steps to improve the citizen's well-being.

Algeria has launched important economic projects to build a strong industry, since its independence in 1962.

However, despite important achievements, such as construction of roads, metro, highways, universities, factories, the Algerian economy has experienced disruption and significant difficulties in the 1980's.

Indeed, the oil shock of 1986 was a crippling blow to the Algerian economy, a period marked by anti-shortage and stabilization plans.

At the beginning of the 1990s, Algeria had initiated structural reforms, making the transition to a market economy a reality.

Since then, Algeria has continuously improved its economy environment to develop an industrial fabric and an economy likely to create wealth and added value for the country.

The Algerian economy depends heavily on hydrocarbons and world oil and natural gas prices. Oil revenues are the country's main source of foreign exchange income.

The business environment is continuously improving in Algeria. Many companies are experiencing strong growth, attracting foreign investment for the country.

Nowadays, it is becoming increasingly difficult to attribute nationality to companies, as many of them operate around the world and their capital is held by foreign investors.

However, national firms are still thriving, notwithstanding the difficulties and constraints encountered by some of them.

HISTORY:

(1962-1978)	A planned economy: This period is characterized mainly by the nationalization of strategic sectors of the Algerian economy (mines and hydrocarbons) and by the creation of public companies and putting in place public institutions.
(1979-1987)	Restructuring: The restructuring of Algerian economy began in the 1980s following the oil shock of 1986 (fall in oil price) which led to an economic crisis, bringing out the structural dysfunctions of the Algerian economy.
(1988-1993)	Privatization: The drop in the oil price which began in mid-1985 caused negative social and economic aftermaths for the country, that led the authorities to seek financial assistance from IMF (rescheduling of external debt), which was conditioned by the economic reforms to be carried out by Algeria. During this period, debt service absorbed 80% of Algeria's foreign currency resources. The financial situation of public companies has worsened considerably. In 1993, the government began a privatization process and economic reforms to liberalize the country's economy.
(1994-2015)	Transition to market economy: Since 1994, the transition from a planned economy to a market economy was launched by privatizing state-owned companies, devaluating the Algerian dinar, liberalizing foreign trade and prices, and rescheduling external debt. During this period of integrating the market economy, Algeria's economy remains not industrial, since the industrial sector represents only 5% of GDP while services and trade sector represents 83% of GDP. The export of hydrocarbons represents about 95% of external revenues and about 60% of Algeria's budget.
(2015-2019)	Since the summer of 2014, the fall in the oil price has led to a significant drop in the tax on oil, leading to budget deficits. The trade balance deficit combined with the impossibility of reducing imports have caused a decrease in foreign reserves from USD 114 billion since 2014 to around USD 62 billion by the end of 2019. In its economic policy, Algeria is doing its best to strengthen its industry and diversify its economy by taking incentives for SMEs and those operating in the domestic and foreign private sector. The consulting firm Oxford Business Group (OGB) noticed these impressive efforts in its report on Algeria for 2017. Algeria is therefore pursuing the economic reforms necessary to create a business climate characterized by transparency and competition rules.

INVESTMENT:

Revenues collected from oil and gas hydrocarbon exports have always backed up the public investment.

The Government, by strengthening the democratization process and improving the living conditions of citizens, intended to intensify economic and social reforms.

In the five-year investment plan for the period 2010-2014, 40% of the total amount (US\$ 286 billion) was reserved for the citizen's social development.

The five-year plan for 2015-2020 (US\$ 262 billion), aims to continue the completion of all socio-economic infrastructure development programs under way.

However, the drop in oil prices significantly affected Algeria's investment performance, and accordingly several projects have been postponed.

Since 2016, the Government has adopted an economic growth plan for the period 2016-2030, based mainly on the active participation of the domestic and foreign private sectors.

UNEMPLOYMENT:

According to ONS statistics, the unemployment rate in Algeria reached 11.4% in May 2019, compared to 11.7% in September 2018, namely a decrease of 0.3 points.

In the aftermath of the COVID 19 pandemic, there was a strong impact on job cut. In 2020, the unemployment rate in Algeria reached 14%; it has fallen relatively sharply concerning men, from 9.9% in September 2018 to 9.1% in May 2019.

However, during the same period, women unemployment rate rose from 19.4% to 20.4%. Unemployment rates differ significantly as per age group, including education. 26.9% of young people whose age ranges from 16- to 24-year-old were unemployed in May 2019 compared to 29.1% in September 2018, a fall of 2.2 points. Government measures to promote youth employment are helping to alleviate the problem, but more measures are needed to restore job opportunities for this category.

Democratizing education and expanding the scope of vocational training and higher education remain national priorities.

FINANCE AND CURRENCY

Since the oil shock in 1986, the government began to liberalize the banking sector, creating accordingly several private banks. Monetary and banking activities of the public authorities are centralized by Banque d'Algérie. With the help and support of the IMF and the World Bank,

Algeria **INVEST** est un produit 

the authorities undertook major efforts to improve the country's finances, resulting in reducing its external debt towards the end of the 1990s. Following the increase in the oil price, Algeria's foreign reserves grew significantly, from \$5 billion in 1999 to over \$110 billion in 2007 and over \$200 billion in 2012.

However, foreign exchange reserves declined following the fall in oil price to 105 billion in July 2017, 72 billion in April 2019 and 62 billion at the end of 2019.

The Algerian Dinar has been the country's currency since 1 April 1964, when it replaced the new Algerian franc. Since 1994, the Algerian Dinar has started to experience successive devaluations. Indeed, it was devalued by more than 40% in 1994 and is continuing so up to now.

EXTERNAL DEBT

The public authorities decided to make early repayment of the staggered external debt, as part of the stabilisation process of Algeria's finances. Hence, a negotiation process has been launched which has led to the signature of agreements with several countries including Saudi Arabia, India, Poland, Portugal, Turkey, and Slovenia. Agreements have also been concluded with other public creditors such as Club de Paris and London Club.

External debt service, which was over \$33 billion in 1996, rose to about \$4.4 billion in 2007.

In a special report on the economic prospects of the Middle East and North Africa region for 2012, IMF and World Bank ranked Algeria as the least 20 MENA countries in debt.

In the report, IMF states that Algeria's external debt represents only 2.4% of the gross domestic product (GDP) for 2012, compared to 2.8% in 2011.

Currently, Algeria's external debt represents only \$1.79 billion, being 1.06% of its gross domestic product (GDP).

FOREIGN TRADE

Algeria by choosing to open its foreign trade to integrate the world economy, had committed itself to economic reforms under international trade agreements. The liberalization of foreign trade has been achieved since 1994 by abolishing the State monopoly on foreign trade, removing all non-tariff barriers, making customs tariff easier etc...

Oil exports represent the bulk of Algerian exports, non- oil exports reached about 2.6 billion dollars in 2019, including:

- 1.95 billion US dollars for semi-finished products.
- USD 408 million for foodstuff.
- US\$ 83 million for industrial capital goods.
- US\$ 96 million for gross products.

- US\$ 36.5 million for non-food products.
- US\$ 250,000 for agricultural products.

Non-oil exports remain marginal comparing to total exports. Otherwise, structurally, Algeria's trade balance remains strongly linked to the revenues rate of oil export.

In 2019, Algeria's main trading partner was Europe, with which it carried out more than half of its foreign trade. European countries total 63.69% of Algerian exports and 53.40% of its imports. France maintained its position as Algeria's first customer in 2019 (\$5.05 billion), ahead of Italy (\$4.62 billion), Spain (\$3.99 billion), Great Britain (\$2.29) and Turkey with 2.24 billion. China remained its top supplier (\$7.65 billion), ahead of France (\$4.27 billion), Italy (\$3.41 billion), Spain (\$2.93 billion) and Germany (\$2.83 billion). In 2019, the country's top five customers accounted for 50.85% of Algerian exports.

INTERNAL MARKET

The underground economy or the informal market remains a phenomenon that jeopardise the stability of the Algerian economy. According to experts, the informal sector share was estimated at 600 billion Dinars at the beginning of 2010, being 17% of all primary net income of Algerian households.

However, at the end of 2019, about 5,000 billion Dinars are circulating in informal channels, representing 30% of Algeria's total money supply despite the measures taken to restrain this phenomenon.

While struggling to cope with the global financial crisis, Algeria's domestic consumption increases in 2012, according to the Oxford Business Group. This has aroused a growing interest in trade development in the country through the construction of various shopping centers and hypermarkets.

E-COMMERCE

According to experts, the electronic commerce market in Algeria represents 5 billion dollars. An e-commerce law bearing number 18-05 entered into force on 7 June 2018, which set general rules for e-commerce of goods and services on the Internet.

Source:

National Statistics Office (ONS)
Ministry of Industry