



Algeria

Algeria: Current Path

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Chart 2: Population structure in Current Path, 1990-2043

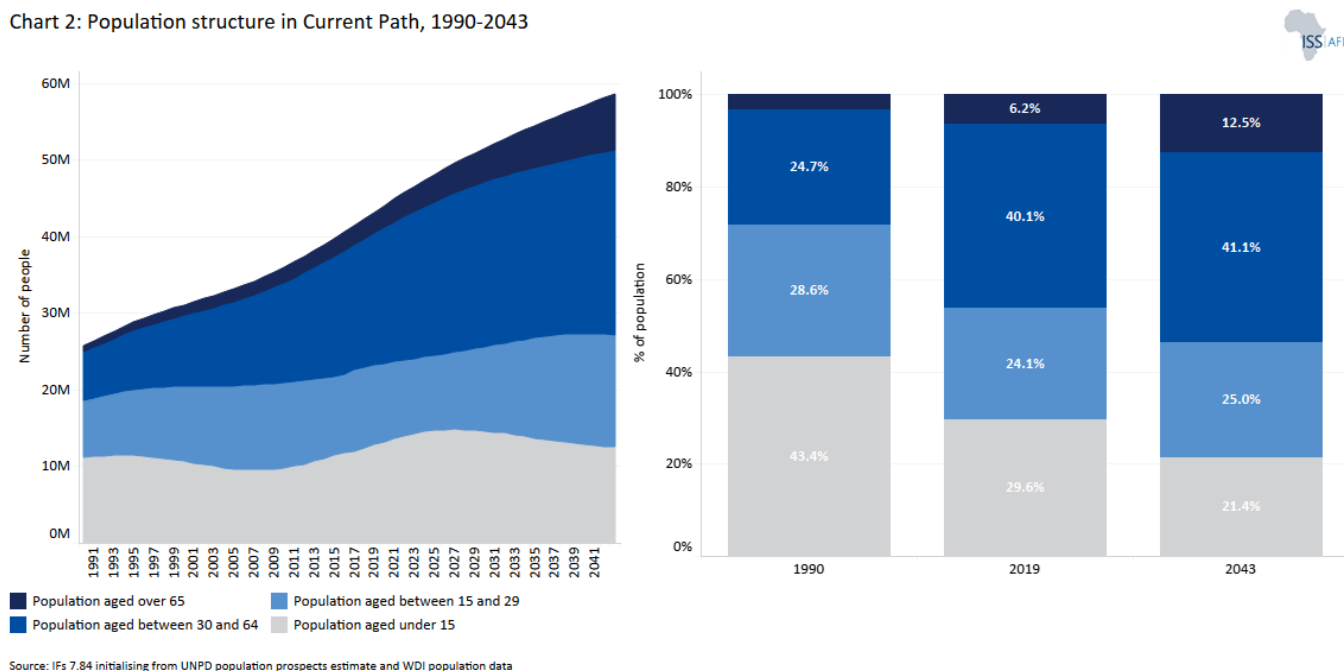


Chart 2 presents the population structure to 2043 in the Current Path forecast.

Algeria is the most populous country in the Maghreb and the 10th most populated economy in Africa. The country's population more than doubled between 1980 and 2021, increasing from 19.2 million people to 44.2 million, with an average population growth rate of 2.3% over the period.

In the Current Path forecast, the population of Algeria is projected to continue to grow steadily, increasing to about 58.6 million people by 2043—an increase of 32.7% compared to 2021. The country's working-age population (15–64 years of age) will account for 66.1% of its total population by 2043 meaning that Algeria finds itself in a favourable window of demographic opportunity. The lowest proportion of the population will comprise adults aged 65 years and older.

The median age population will increase from 28.4 to 32.4 years by 2043 on the Current Path. Unemployment is high among the youth and women, and it is therefore critical that the government focuses on providing economic opportunities for this large working-age population group.

Overall, Algeria's population growth is significantly below the average of the Middle East, North Africa and sub-Saharan Africa as the country's population growth rate has been falling since the 1960s. This is due to the declining fertility rates and the impact of government investments in healthcare and education, particularly for women, which have led to improved maternal and child health and increased female literacy. Combined with urbanisation, access to modern contraceptives and changing societal norms, Algeria's total fertility rate declined to approximately 4.5 children per woman by the end of the 20th century.

In 2019, Algeria's total fertility rate ranked 44th in Africa at 2.99 births per fertile woman. The country's total fertility rate is projected to reach the replacement level of 2.1 births per fertile woman by 2045 and then drop below two children per woman after 2048. This will significantly affect Algeria's demographic profile. Its population will age and likely present the country with several challenges, including increased health spending on non-communicable diseases, which are inherently

more expensive to diagnose and treat. Additionally, there's a risk of a shrinking economy and declining per capita incomes unless the country improves its economic productivity through better use of technology and more investment.

One contributing factor to Algeria's modest improvements in income per capita is its larger pool of labour (15–64 years of age) relative to dependants (less than 15 years old and 65+ years old). This ratio peaked in 2002, reaching a ratio of 1.7 working-age persons for every one dependant, which means that on average, for every dependant in Algeria, there were only 1.7 persons of working age.

Generally, countries experience more rapid economic growth if the ratio of working-age persons to dependants is greater than or equal to 1.7.[1] Most European and North American countries have not experienced the high ratios of China and the Asian Tigers (peaking at 2.8). However, they have kept the ratio of working-age people to dependants above 1.7 over an extended period—a ratio that Algeria has achieved over the period 2002 to 2019.

Nevertheless, on IFs Current Path forecast, Algeria will lose its minimum ratio of 1.7-to-1 for a potential demographic dividend from 2022 up to 2029. It will peak again to 1.7 working-age persons for every dependant in 2030, in line with the shifts in fertility rates discussed previously.

Although Algeria has a favourable ratio of working-age population to dependants, unemployment remains high. In 2019, female labour participation in the country was estimated at 19.7%, which is 19.4 percentage points lower than the average for low-middle-income African countries. This gap is currently projected to persist well beyond 2043; therefore, the government must find a mechanism to include this large and relatively youthful working-age proportion of the population in the economy.

In the second half of the century, the country will face a declining working-age population. Algeria will need to invest in technologies that allow for improvements in productivity as its labour force, as a proportion of the total population, shrinks. It will also need to attract significantly higher levels of investment to offset the decline in the contribution that labour makes to growth.

Chart 3: Population distribution map, 2022

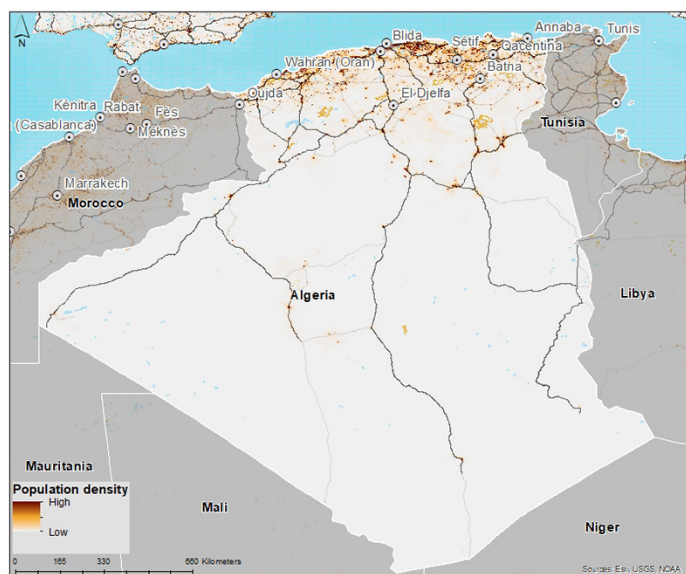


Chart 3 presents a population density map.

With a total land area of over 2 million km², Algeria is one of the least densely populated countries in Africa, ranking 44th in 2020. The vast majority of Algerians live along the Mediterranean coast, particularly in the Algiers metropolis. The capital, Algiers is the largest city in the country with an estimated population of nearly two million people.

Chart 4: GDP in MER and growth in the Current Path forecast, 1990-2043

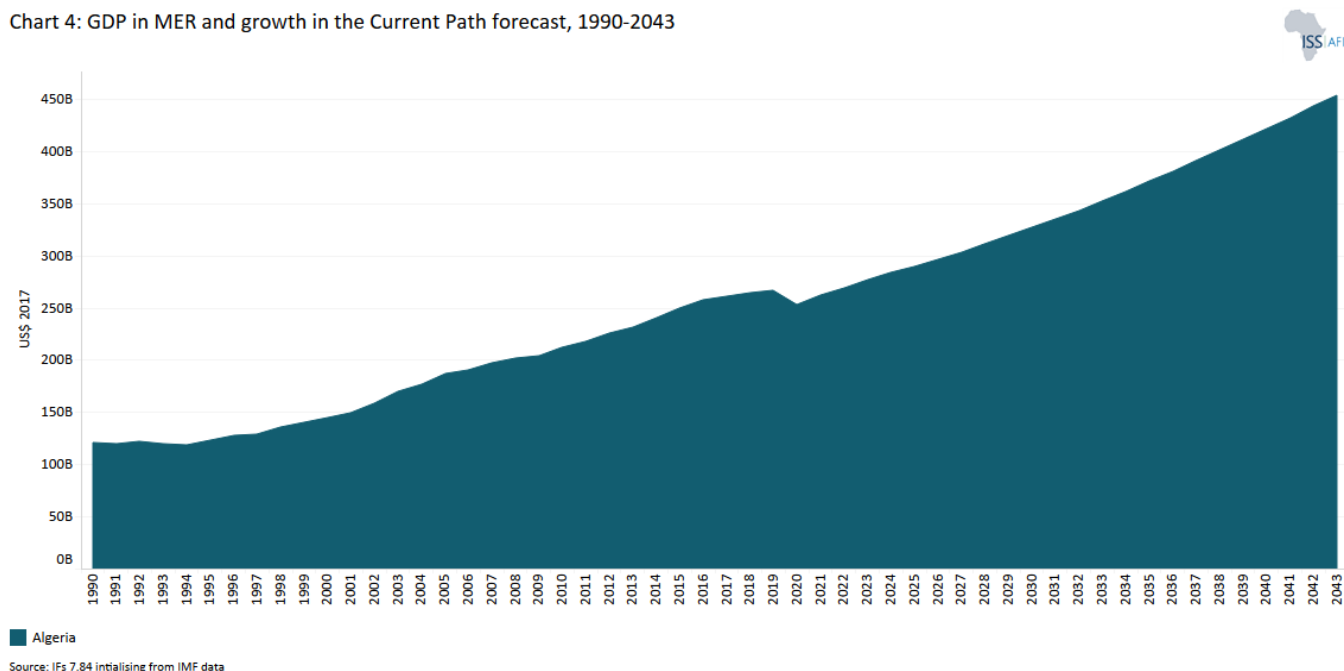


Chart 4 presents the size of Algeria’s economy from 1990 and includes a forecast to 2043 including the associated growth rate.

Algeria is a big player on the African continent, not only because of its substantial land area but also because of its sizable GDP and activism regarding developing countries. In 2019, Algeria’s GDP was the fourth largest in Africa (after South Africa, Nigeria and Egypt), at US\$266.5 billion.

Algeria is heavily reliant on hydrocarbons revenues to fuel its economy. The country has experienced a persistent decline of its manufacturing sector following the 1986 oil counter-shock. The service sector dominates in its contribution to GDP.

The country is also characterised by low competitiveness and productivity. In an effort to regain control over its natural resources and economy, the Algerian government has halted the privatisation of state-owned industries and imposed restrictions on imports and foreign involvement in its economy.[2]

Oil and gas account for nearly 30% of GDP, 65% of budget revenues, more than 85% of exports and an estimated 95% of Algeria’s foreign currency receipts.[3] The state-owned company Sonatrach owns almost 80% of the country’s total fossil fuel production, making it the largest oil and gas company in Africa.[4]

Because of this hydrocarbon dependence, Algeria recorded multiple bouts of negative growth rates from 1986 to 1994 linked to fluctuating oil prices and periods of domestic instability. Since 2014, low oil prices, political instability, unemployment and widening fiscal and external deficits have undermined the economy.

In 2017, the government designed a fiscal consolidation policy to reduce public spending in light of its budget deficit. Its reversal in the second half of the year has since led to an even higher-than-expected current account deficit of 8.2% of GDP, particularly because of subsidies and transfers, wages[5] and depletion of foreign exchange and savings. Continued

spending at the current level, along with low oil prices, is expected to deplete official foreign exchange reserves by 2024 and lead to rapidly increasing public debt.[6]

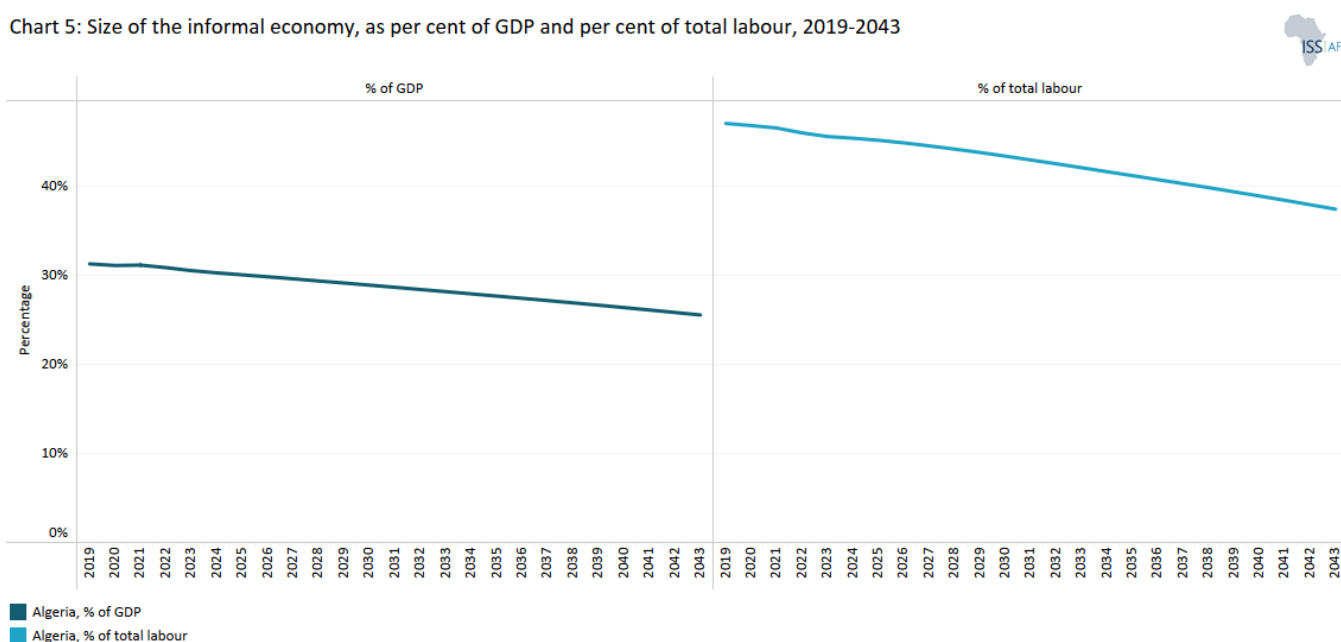
The country's economic challenges are worsened by its closed and state-controlled economy, in spite of efforts to grow the private sector and economic liberalisation in the early 1990s. It is characterised by a lack of competition, high barriers to entry in the most productive and labour-intensive sectors, a weak legal and judicial system and cronyism. Other issues are social exclusion, high public employment and universal[7] consumer subsidies that draw resources away from effective and diversified sustained growth.[8]

In 2022, Algeria recorded an annual GDP growth of 2.9%, supported by the acceleration of non-hydrocarbon GDP. In addition, night-light data suggest continued, cross-regional growth in non-hydrocarbon activity in the first quarter of 2023.[9] IFs forecast that Algeria will achieve an average growth of about 2.5% between 2024 and 2043, about 2.1 percentage points below the average for low-middle-income African countries. The size of the economy was estimated at US\$269.2 billion in 2022,[10] and is projected to grow to US\$453.5 billion in 2043. This is a nearly 68.5% improvement from 2022.

The high dependence on hydrocarbons, stifling bureaucracy and the closed nature of the country's economy reflect the lack of economic diversification. However, there have been recent improvements. The economic and social development indicators show that Algeria has so far achieved notable economic growth. Nevertheless, it requires a sustainable growth-driver through industrial diversification and reform in the areas of government responsibility and equal opportunity.

Prerequisites for Algeria's industrial diversification include the emergence of a sizable number of private enterprises and reform of small and medium enterprises. The dominance of small and medium enterprises in Algeria is a crucial obstacle to private sector development for industrial diversification. To promote private sector growth, the government should enact policies that provide clear guidance to private investors and build trust in these policies by creating a fair environment for all investors. This means removing obstacles, both formal and informal, that limit competition and improving access to credit.[11] For example, the Atlas of Economic Complexity Index indicates that the country has the potential for diversification in industrial machinery and plastics.[12]

Chart 5: Size of the informal economy, as per cent of GDP and per cent of total labour, 2019-2043



Source: IFs 7.84 initialising from Elgin and Oztunali (2008), and Schneider and Enste (2012) data

Chart 5 presents the size of the informal economy as a per cent of GDP and in absolute terms, as well as the per cent of total non-agriculture labour involved in the informal economy. Also see Chart 33 that presents the impact of the combined scenario on the informal sector.

Estimations and data on the informal sector are often unreliable and must be treated carefully. Researchers generally distinguish between the shadow and informal economy. According to the ILO: ‘The informal economy refers to all economic activities by workers and economic units that are—in law or in practice—not covered or insufficiently covered by formal arrangements. Where data is not available, IFs estimate the size. Note that the ILO definition of employment in the informal economy excludes the agricultural sector.

The informal economy acts as a safety valve to reduce unemployment and to provide basic livelihood for many Algerians. Between 2000 and 2017, it was estimated that the informal economy reduced unemployment from 30% to 12%.^[13] In 2018, the informal economy constituted about 31.4% of Algeria’s economy (US\$82.5 billion). Within IFs, by 2043, the country’s share of informal economy contribution to GDP is projected to modestly decline to 25.6%.

In addition to ongoing efforts to grow its manufacturing base and to expand the role of the private sector, it is important for Algeria to find ways to gradually integrate the informal economy into the formal sector with the least friction possible. This can be done through policies and legislation that reduce barriers to entry and embrace localised and flexible procedures. Critical to this integration is the decriminalisation of parts of the informal economy by distinguishing between illicit and informal activities.^[14]

In the long term, a large informal sector is, however, detrimental to the overall functioning of the economy, given its limited contribution to taxes and low levels of productivity compared to the formal sector.

Chart 6: GDP per capita in Current Path forecast, 1990-2043

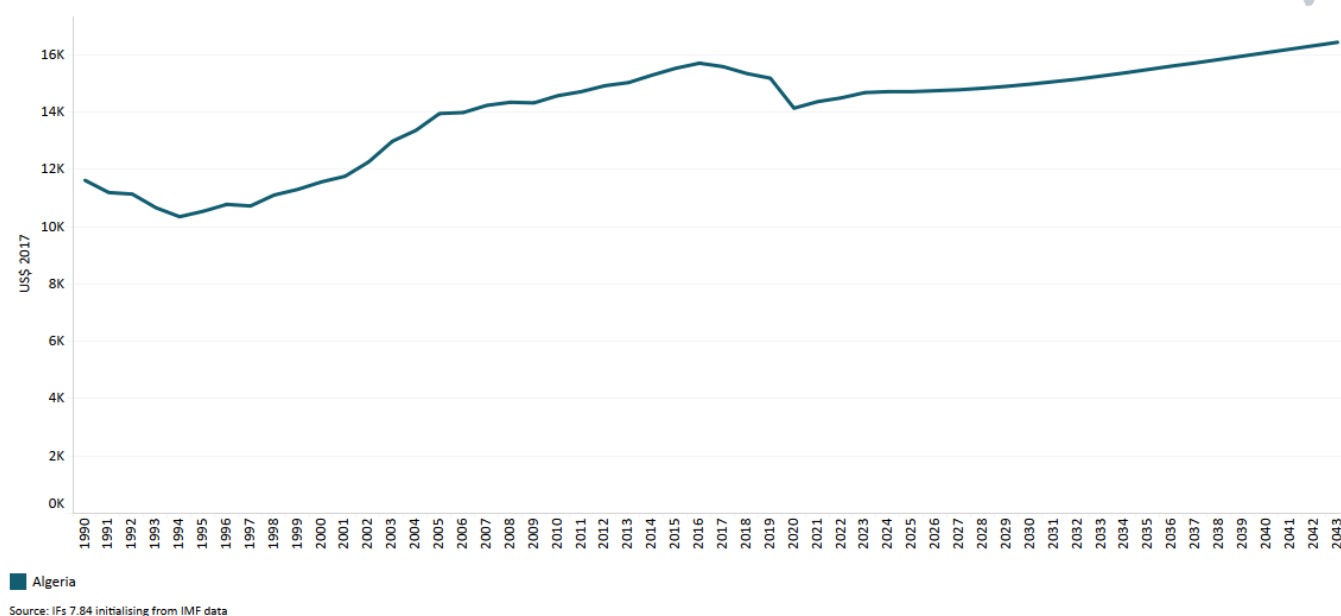


Chart 6 presents average GDP per capita from 1990 and includes the Current Path forecast to 2043.

In 2019, Algeria had the second highest GDP per capita among North African countries after Libya and did slightly better than Tunisia and Egypt. It also had the highest GDP per capita among Africa’s 23 lower-middle-income countries.

Algeria's per capita income is expected to improve by nearly a thousand dollars from US\$15 200 in 2019 to US\$16 400 in 2043. Its GDP per capita income will remain above the average of low-middle-income African countries by 2043. From 2028, Algeria's GDP per capita is forecast to be below the average of upper-middle-income African countries.

Chart 2 Chart 4 Chart 5 Chart 6 Chart 7 Chart 11 Chart 12 Chart 13 Sheet 11 Chart 15 Chart 17

Chart 7: Extreme poverty in Current Path as % of population and numbers, 2019-2043

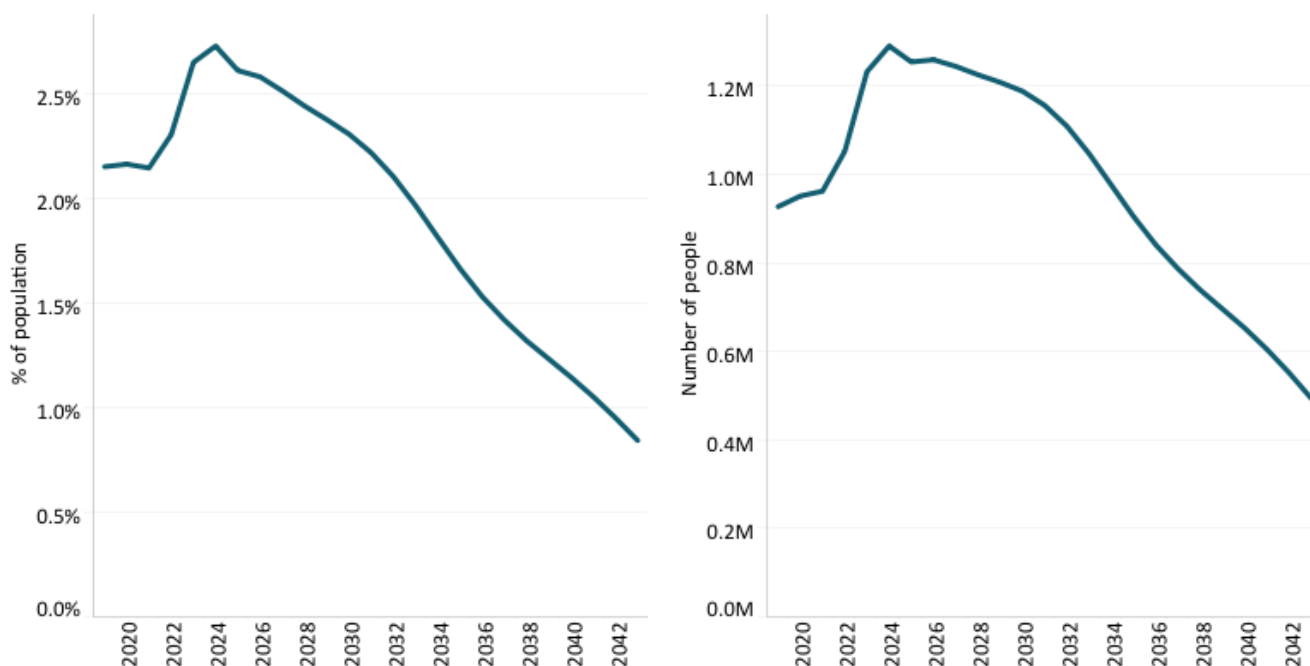


Geography

Poverty lines

Algeria

\$3.20



Algeria

Source: IFs 7.84 initialising from UNPD population prospects estimate, WDI and PovcalNet data

View on Tableau Public

Share

Chart 7 presents the number of people living in extreme poverty, also expressed as a per cent of the population.

In 2015, the World Bank adopted US\$1.90 per person per day (in 2011 prices using GNI), also used to measure progress towards achieving Sustainable Development Goal (SDG) 1 of eradicating extreme poverty. In 2022, the World Bank updated the US\$1.90 to US\$2.15 in 2017 constant dollars. They are:

- US\$3.20 for lower-middle-income countries, now US\$3.65 in 2017 values.
- US\$5.50 for upper-middle-income countries, now US\$6.85 in 2017 values.
- US\$22.70 for high-income countries. The Bank has not yet announced the new poverty line in 2017 US\$ prices for high-income countries.

This page still uses US\$1.90 and US\$3.20.

Algeria has significantly reduced extreme poverty in the last two decades. In terms of human development, it is among the 20 countries on the continent to have achieved the most substantial decrease in Human Development Index deficit

between 1990 and 2015.

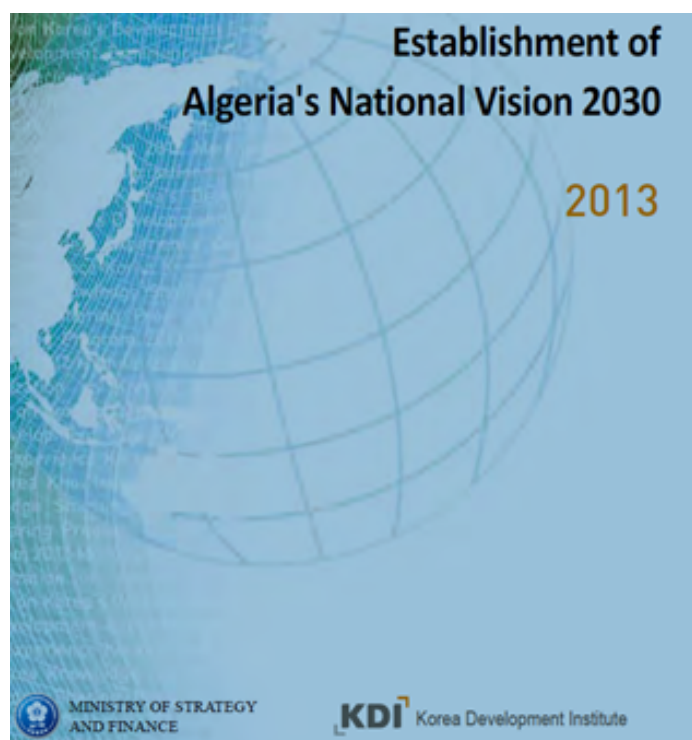
The country now has inclusive, albeit low-quality, social services (universal education and healthcare, and subsidised food, housing and public transportation). These policies have lessened inequality, although subnational and regional differences remain significant.[15]

Although Algeria's subsidies and transfers have reduced poverty, they have also created other social and regional inequalities owing to inefficient and poor targeting of subsidy items.[16] These disparities manifest in significant inequalities in consumption rates with a gap of nearly 28% between rich and poor people.[17]

IFs estimate that 128 000 people (0.3% of Algeria's population) lived on less than US\$1.90 per day in 2021. Using the US\$3.20 benchmark for lower-middle-income countries, IFs estimate that about 962 000 Algerian people lived on less than US\$3.20 per day in 2021. The figure is expected to decrease to 494 000 people by 2043.

The Multidimensional Poverty Index (MPI) shows that only 1.4% of Algerians (600 000 people) in 2020 were multidimensionally poor. The intensity of deprivation in the country, which is the average deprivation score among people living in multidimensional poverty, was 39.2%. Deprivation in education contributes the most to the index (49.3%), followed by health (31.2%) and standard of living (19.5%).[18] Unemployment, coupled with declining oil prices, will however make tackling poverty and inequality a serious challenge in the future.

Chart 8: National Development Plan of Algeria



In 2012, the Knowledge Sharing Program (KSP) with Algeria was carried out with the objective of supporting the establishment of Algeria's National Vision 2030. The vision includes five priority areas:

1. Restructuring Algerian industries through industrial diversification
2. National reform in the governance structure

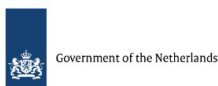
3. Improvement of human capital through education reform
4. National land development for growth and equality
5. Enhanced quality of life for Algerians through reform in the public health sector

Representative in Algeria. 'The implementation of Government Action Plan measures to increase mobilization of tax revenues, more efficiently use public resources, and promote private sector investment is essential to navigating the global challenges safely and put Algeria on the path of a sustainable and inclusive growth.'

Endnotes

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Dr **Blessing Chipanda** joined the African Futures and Innovation (AFI) programme in January 2023. Before joining the ISS he worked as an assistant lecturer/ research assistant at the University of Pretoria, Department of Economics. He is particularly interested in tasks within the wider realm of international trade, development economics, public policy, monetary policy, and econometric modelling. Equally interested in economic and socio-economic activities that impact social welfare. Blessing has a PhD in economics from the University of Pretoria, South Africa.

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