



Stagnation or Growth? Algeria's development pathway to 2040

Introduction

Jakkie Cilliers and Stellah Kwasi

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Introduction

Algeria finds itself at a crossroads: the country needs comprehensive social, economic and governance reforms to rebuild its fractured social contract and end the ongoing stalemate between the *Hirak* movement and the regime.

The country also has to manage the impact of the COVID-19 pandemic and the plunge in oil prices, which has decimated government revenues and cut the state budget by roughly 50%.

For many, the political uncertainty and rising social tensions reflect the long-running and increasingly unsustainable economic, political and social system that has come to characterise Algeria. This system has marginalised large sections of the population.

Using the International Futures (IFs) forecasting system, we project that Algeria will achieve a modest average gross domestic product (GDP) growth rate of 1.8% between 2020 and 2040.

Given the country's closed and state-led economic system, dependence on hydrocarbons, the drop in oil prices, high unemployment rates and the generous yet ineffective subsidy system, this growth rate is insufficient to adequately improve the incomes and livelihoods of most Algerians.

The country is in desperate need of comprehensive structural reform towards an opportunity-based economy hinged on a legitimate government that acts in the interests of all its citizens.

Moreover, Algeria faces other pressures in terms of its limited natural resources like water and the impact of climate change, which will worsen the country's already poor agricultural yields and high dependence on imported foodstuffs.

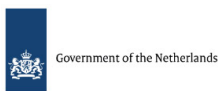
The country's working-age population as a portion of its total population has stagnated and Algeria needs more capital (through savings and investments) if it wants to improve productivity and incomes. Also crucial are better technology and modern management practices.

In addition, Algeria has not completely weathered the storm of domestic and regional terrorist threats coming from Tunisia, Libya, Niger and Mali. Its security apparatus, particularly the army, which has thus far dealt effectively with these threats, remains on high alert.

The country missed its chance to diversify its economy in recent decades characterised by high revenues on the back of oil prices. The current socio-political uncertainty, worsened by the impact of the COVID-19 pandemic, might heighten if policymakers fail to act quickly and decisively. In fact, the World Bank has recently reclassified Algeria from an upper- to a lower middle-income country.

Comprehensive structural reforms are needed to advance good governance, as well as transform and modernise the economic system to tear down market barriers, accelerate economic growth and create greater social cohesion in the country.

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About the authors

Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees, head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute, and is an extraordinary professor at the University of Pretoria. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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