

THE EFFECTS OF OIL PRICE SHOCKS ON THE STABILITY OF THE ALGERIAN ECONOMY (2018-2022)

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ABSTRACT:

This article aims to investigate the impact of oil price shocks on different macroeconomic activities and economic growth in Algeria between 2018 and 2022. Additionally, we examine the effects of other factors, such as the COVID-19 pandemic and the war in Ukraine and Russia, on the economy during this period.

The strategies to address evolving economic conditions. As demonstrated in recent years, significant fluctuations in oil prices have had a profound impact on Algeria's economic performance, with factors like the COVID-19 pandemic and war exacerbating the effects of oil price shocks. Therefore, any future changes in oil prices could have substantial consequences for the Algerian economy.

Furthermore, our study highlights the importance of developing and retaining high-level managers in both the public and private sectors to ensure the effective implementation of economic policies and investment strategies. We propose that future research should focus on measuring the productivity of the Algerian productive sectors and analyzing investment efforts in these sectors. This can help policymakers to identify the most effective policies and investment strategies to stabilize the Algerian economy and promote sustainable economic growth.

Key words: Oil Prices Shocks , Macroeconomic Indicators , Stability Economy.

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I. INTRODUCTION

Algeria, as a resource-rich nation, heavily relies on its energy sector for economic stability and growth. The hydrocarbon sector, production, and export of oil and gas resources, holds a prominent position within Algeria's economy. The revenue generated from hydrocarbon exports contributes substantially to the country's gross domestic product (GDP), government budget, and employment opportunities.

Oil price shocks can have a significant impact on macroeconomic activities in Algeria. Given that Algeria heavily relies on oil exports as a major source of revenue, fluctuations in oil prices can influence various macroeconomic indicators and activities. Oil exports constitute a substantial portion of the country's GDP and government budget. Any fluctuations in oil prices or disruptions in oil production can have a significant impact on the country's economy, leading to potential economic instability. The oil industry in Algeria provides employment opportunities for a significant number of people. Any downturn in the oil sector can result in job losses and increased unemployment rates, which can contribute to social tensions and political instability.

Also, Fluctuating oil prices affect Algeria's trade balance. Higher oil prices contribute to a trade surplus, as oil exports generate more revenue than the cost of oil imports. Conversely, lower oil prices can lead to a trade deficit, impacting the overall balance of trade and potentially straining Algeria's foreign exchange reserves.

So, the Algerian government heavily relies on oil revenue to finance its budget. Fluctuating oil prices directly impact the government's ability to meet its spending commitments. In recent years, the decline

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in oil prices has been affected by such factors as COVID-19 and the war between Russia and Ukraine and had negative effects on the Algerian economy. It caused a big decline in global oil demand as a result. The reduction in oil exports negatively impacted Algeria's government revenue, as oil revenue constitutes a significant portion of its income. With lower revenue, the government has less funding available for public spending and may face budget deficits.

Against this backdrop, this research aims to investigate the effect of oil price shocks on macroeconomic indicators and their subsequent impact on the Algerian economy. The study seeks to employ both statistical and economic analysis.

II. LITERATURE REVIEW:

An oil price shock is a sudden, unexpected change in the price of crude oil that has significant economic, social, and political consequences. Oil price shocks can be triggered

by a variety of factors, including changes in global demand and supply, geopolitical tensions, and market speculation. The consequences of oil price shocks can include inflation, recession, reduced economic growth, and social and political unrest. (**Adeniran, 2018**)

There have been some incidents that could be considered recent oil crises, but the most significant one in recent years was the 2014 oil price collapse. This event saw a rapid drop in the price of oil from over \$100 per barrel in mid-2014 to under \$30 per barrel by early 2016. The collapse was caused by a combination of factors, including oversupply due to increased production from shale oil in the United States and a slowdown in demand from China. This crisis had significant impacts on oil-producing countries and companies, as well as on the global economy. Since then, oil prices have recovered somewhat, but they remain volatile and subject to fluctuations due to various factors such as geopolitical tensions, economic growth, and energy policies. (**fattouh & Kilian, 2017**)

The term "oil crisis of 2020" refers to a sharp drop in global oil demand caused by the COVID-19

pandemic, which led to a significant decline in oil prices. This phenomenon was characterized by a sudden oversupply of crude oil in global markets due to reduced demand, resulting from widespread lockdowns and travel restrictions imposed to contain the spread of the virus. The fall in oil prices was exacerbated by an ongoing price war between major oil-producing countries such as Saudi Arabia and Russia. (**Goldthau & Kuzemko, 2020**),

The Algerian economy is one that is characterized by a heavy dependence on oil and natural gas exports, which make up more than 95% of total export earnings. While this has allowed Algeria to accumulate significant wealth (Karam, 2022), it has also made the country vulnerable to fluctuations in global oil prices. In recent years, the Algerian government has implemented a number of economic reforms aimed at diversifying the economy and promoting private sector growth, but progress has been slow due to a range of challenges including a cumbersome bureaucracy, an inadequate legal and regulatory framework, and a lack of investment in infrastructure. (**Martinez, 2019**)

The difference between Algeria's GDP with and without the hydrocarbon sector can be significant. In 2019, Algeria's GDP was 7,681.9 billion Algerian dinars (DZD) with the hydrocarbon sector included, and 6,351.5 billion DZD without it. This means that the hydrocarbon sector contributed around 21% to Algeria's GDP in 2019. (The International Energy Agency (IEA), 2021)

Fluctuations in oil and gas prices have a significant impact on the Algerian economy, as these commodities account for a large portion of the country's exports and government revenue. (**Aissaoui & Widdershoven, 2018**)

When oil prices are high, Algeria experiences an influx of revenue from its oil exports, which can fuel economic growth and development. However, when oil prices fall, the government's budget and foreign exchange reserves are affected, which can lead to budget deficits and a decline in economic growth. The decline in oil and gas prices in recent years has had a negative impact on the Algerian economy, which is heavily dependent on these exports. (Arieff, 2022) "The fall in hydrocarbon prices in 2014–15 led to a sharp decline in export revenues and a deterioration in Algeria's fiscal and external balances." Also, the COVID-19 pandemic and the subsequent drop in global demand for oil and gas have further exacerbated the challenges facing Algeria. **(International Monetary Fund, 2021)**

In addition to the negative impact on the government's budget and external balances, fluctuations in oil and gas prices can also affect the country's trade balance and inflation rate. A study by the International Journal of Economics, Commerce, and Management found that oil price volatility has a significant impact on the trade balance of Algeria, with higher oil prices leading to higher imports and lower exports. **(Ghoufrane & El Alaoui, 2019).**

Algeria has not been able to fully exploit its natural resources, relying heavily on hydrocarbon exports since its independence. In 2019, these exports accounted for 92.40% of total exports, with a substantial decrease of 25.78% in the first quarter of that year. It is important to note that non-hydrocarbon exports remain insignificant, representing only 7.60% of total export volume, which amounts to 578.70 million USD. Table 2 also demonstrates that nonhydrocarbon exports experienced a 12.06% volume decrease. **(The world bank's, 2022)** Overall, the impact of fluctuations in oil and gas prices on the Algerian economy is significant, and the country has been implementing reforms to reduce its reliance on these resources and diversify its economy.

The positive impact of gas prices on the Algerian economy includes significant revenue generation through natural gas exports, support for other industries such as electricity production, fertilizer production, and petrochemicals, and diversification of the economy beyond its dependence on oil exports. On the other hand, the negative impact of gas prices on the Algerian economy includes vulnerability to global market fluctuations and overreliance on the natural gas sector, which can negatively impact economic growth, government spending, and cause social welfare programs.

Algeria's real GDP is estimated to have contracted by 4.8% in 2020, compared to a growth rate of 0.8% in 2019. The pandemic has also had an impact on Algeria's budget deficit, which is estimated to have widened to 11.2% of GDP in 2020, up from 3.9% in 2019.**(the International Monetary Fund (IMF), 2021).**

III. DATA AND METHODOLOGY:

study using analytical tools to examine the effects of oil price shocks on macroeconomic activities and the stability of the Algerian economy during period (q2018-q2022). It analyzes the relationship between oil price shocks and indicators such as inflation.

The results obtained from these models are presented and discussed, providing insights into the relationships, dynamics. demonstrates the practical utility of economic stability in generating valuable insights and informing decision-making processes.

, we will first address a descriptive analysis of the data. Secondly, we will perform a Markov Switching modeling then a VAR (Vector Auto regression) modeling. Then with Expert modeler modeling, finally we will have the optimal resu

IV. THE ALGERIAN ECONOMY:

"The Algerian economy is one that is characterized by a heavy dependence on oil and natural gas exports, which make up more than 95% of total export earnings. While this has allowed Algeria to accumulate significant wealth, it has also made the country vulnerable to fluctuations in global oil prices. In recent years, the Algerian government has implemented a number of economic reforms aimed at diversifying the economy and promoting private sector growth, but progress has been slow due to a range of challenges including a cumbersome bureaucracy, an inadequate legal and regulatory framework, and a lack of investment in infrastructure." (Martinez, 2019)

The government has taken steps to diversify the economy, but progress has been slow due to a range of structural challenges. The country has also been affected by a decline in global oil prices, which has led to a contraction in economic activity." (Karam, 2022)

The Algerian economy is heavily reliant on the oil and gas sector, which accounts for more than 90 percent of export earnings and more than 60 percent of government revenue. The country is the largest natural gas producer in Africa and the second-largest oil producer in the region, after Nigeria. However, despite its abundant natural resources, the Algerian economy faces a number of challenges, including a lack of diversification, an underdeveloped private sector, and high youth unemployment. In recent years, the government has taken steps to address these challenges, including encouraging foreign investment, but progress has been slow."

(Arieff, 2022)

IV.1. Macroeconomic indicators:

Macroeconomic indicators are key metrics that provide insight into the overall health and performance of an economy. They are used by policymakers, economists,

investors, and others to analyze economic trends, identify areas of concern, and make informed decisions. (Mankiw, Macroeconomics , 2019)

IV.2. Gross Domestic Product (GDP):

The market value of all final goods and services produced within a country in a given period of time. It is considered one of the most important measures of a country's economic health as it represents the total income earned by a country's residents and businesses. (Mankiw, Macroeconomics, 2019)

IV.3. Inflation rate:

The inflation rate is defined as "the percentage increase in the overall level of prices in the economy." Inflation occurs when the overall price level of goods and services in the economy rises, which can decrease the purchasing power of money and affect economic growth.

(Mankiw, Principles of Macroeconomics, 2017)

IV.4. Unemployment rate:

The unemployment rate is defined as "the percentage of the labor force that is without work but actively seeking and willing to work." Unemployment is considered an important indicator of economic health as it can impact consumer spending, business investment, and economic growth. (Baumol & Blinder, 2016)

IV.5. External debt:

External debt is defined as "the amount that a country owes to foreign lenders and governments." External debt can impact a country's ability to borrow in the future and affect economic stability. (Feenstra & Taylor, International Economics, 2017)

IV.6. Balance of trade:

The balance of trade is defined as "the difference between a country's exports and imports of goods and services." A positive balance of trade occurs when a country exports more than it imports, while a negative balance of trade occurs when a country imports more than it exports. (Mishkin, 2015)

IV.7. Trade:

Trade refers to the exchange of goods and services between two or more countries. In this exchange, each country gains access to goods and services that it cannot produce efficiently or at a low cost, and, in return, exports goods and services that other countries find relatively more costly to produce. Trade is a mutually beneficial exchange that can lead to higher levels of economic growth, as countries can specialize in the production of goods and services that they are relatively more efficient at producing, and enjoy the benefits of comparative advantage. (Feenstra & Taylor, International Economics, 2017)

IV.8. Exports:

Exports refer to goods and services produced domestically and sold to foreigners. (Feenstra & Taylor, International Economics, 2017, p. 87)

IV.9. Imports:

Imports are goods and services produced abroad and consumed domestically. An import is a good or service produced in one country and sold to another country. Like exports, imports can take the form of goods (such as cars or machinery) or services (such as tourism or consulting). (Feenstra & Taylor, International Economics, 2017)

IV.10. Fiscal Balance:

Fiscal balance measures the difference between government revenue and expenditure. A positive fiscal balance means that the government is generating more revenue than it is spending, while a negative balance indicates that the government is spending more than it is earning. In Algeria, a negative fiscal balance can lead to a buildup of public debt, which can have long-term implications for the economy.

IV.11. Hydrocarbon:

"Hydrocarbon: A compound consisting entirely of carbon and hydrogen. Hydrocarbons are the primary components of crude oil and natural gas, and they are also produced by refining processes. They are used as fuels and feedstocks in the production of chemicals, plastics, and other materials. (Chang & Goldsby's, 2015)

V. CHARACTERISTICS OF THE ALGERIAN ECONOMY :

The Algerian economy is heavily reliant on oil and gas. Hydrocarbon exports accounted for over 94% of Algeria's total exports in 2019, making the Algerian economy vulnerable to fluctuations in global oil and gas prices due to this high dependence on a single sector. Additionally, the Algerian economy is characterized by a large state sector, which has led to a lack of private investment and entrepreneurship, as well as a heavy bureaucracy that can hinder economic growth and development. The country's labor market also faces a relatively high unemployment rate, particularly among young people, which was 26.4% in 2019. Furthermore, the Algerian economy faces several challenges, such as a shortage of skilled workers, limited access to finance, and an inadequate legal and regulatory framework, which have hindered the country's ability to diversify its economy and promote sustainable economic growth. It has several distinguishing features, including a heavy reliance on hydrocarbon exports, specifically oil and gas, which generate most of the country's export earnings and government revenues. The state sector has a significant presence in many areas of the economy, including energy, telecommunications, and transport. However, the government's historical focus on the hydrocarbon sector has led to a lack of economic diversification, with sectors such as agriculture and manufacturing being neglected. The

economy also exhibits a high level of import dependence, mainly for food and consumer goods, due to limited domestic production and inefficient logistics and distribution systems. Additionally, the private sector is relatively weak, struggling to compete with state-owned enterprises dominating many industries. High youth unemployment rates have contributed to social and political tensions, necessitating job creation and economic reform. (BENAMEUR.al, 2020).

Table 1 : Evolution of exports: Period: First quarter of the years 2019-2020 on million

	First quarter 2019			First quarter 2020			Evol%
	DZD	USD	structure%	DZD	USD	structure%	
Hydrocarbon product	1124898,09	9483,51	93,51	848117,84	7038,84	92,40	25,78
non-hydrocarbon products	78054,39	658,04	6,49	69372,49	578,70	7,60	12,06
total	1202952,48	10141,55	100%	917850,32	7617,09	100%	24,89

Source: Ministry of Finance of Algeria.

Table (2) shows that Algeria has not been able to fully exploit its natural resources, relying heavily on hydrocarbon exports since its independence. In 2019, these exports accounted for 92.40% of total exports, with a substantial decrease of 25.78% in the first quarter of that year. It is important to note that non-hydrocarbon exports remain insignificant, representing only 7.60% of total export volume, which amounts to 578.70 million USD. also demonstrates that non-hydrocarbon exports experienced a 12.06% volume decrease. (The world bank's, 2022)

V.1. Agriculture sector:

This sector is important for Algeria's food security and employs a significant portion of the country's workforce. Major crops produced in Algeria include wheat, barley, and olives agriculture sector accounted for 11.2% of

Algeria's GDP in 2020. (The world bank's, 2022)

V.2. Manufacturing sector:

The manufacturing sector in Algeria is relatively small but has been growing in recent years. The sector includes industries such as textiles, cement, and steel. the manufacturing sector accounted for 4.8% of Algeria's GDP in 2020. (the United Nations Industrial Development

Organization (UNIDO) Statistical Database, 2020)

V.3. Services sector:

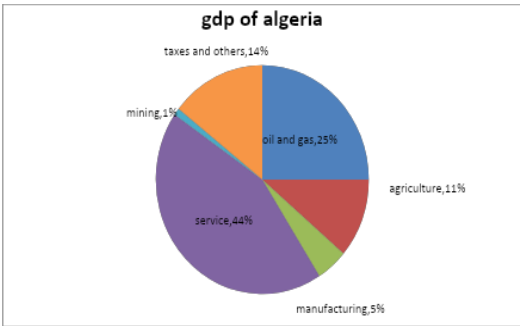
The services sector is the largest employer in Algeria and includes industries such as telecommunications, finance, and tourism. The services sector accounted for 43.6% of Algeria's GDP in 2020. (The world bank's, 2022)

V.4. Mining sector:

Algeria possesses significant mineral resources, including iron ore, phosphate, and zinc.. In 2020, the mining sector contributed less than 1% to Algeria's GDP. (the African Development

Bank's African Economic , 2021)

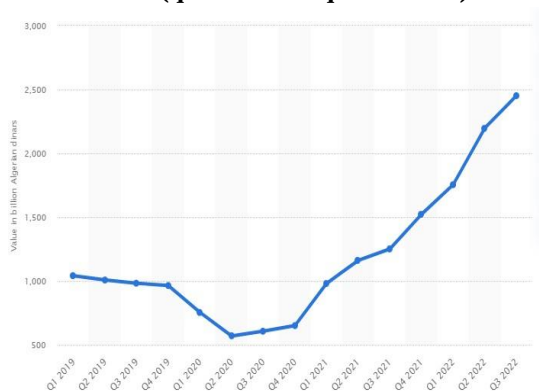
Figure 1: the sectors of Algerian GDP



The effect of fluctuations in oil and gas prices on various macroeconomic indicators from 2018-2022:

Oil prices have a significant positive impact on the growth of Algeria's economy. This positive relationship is attributed to the fact that the country heavily relies on oil and gas exports as a source of revenue. Additionally, the Algerian government has been able to successfully manage its oil wealth and use the revenue generated to invest in infrastructure and other development projects that have contributed to the country's overall economic growth.

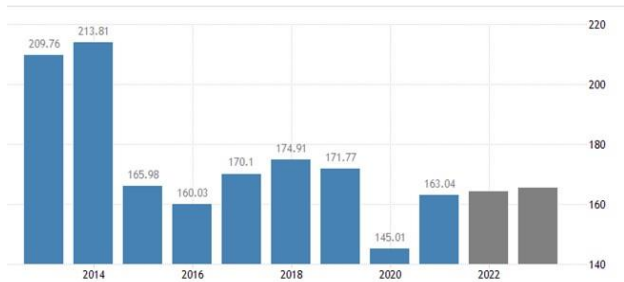
Figure 2: Contribution value of the hydrocarbon sector to GDP in Algeria (quarter2018-quarter2022).



he graph clearly shows the significant contribution of the hydrocarbon sector to the GDP of Algeria. The sector has been a major source of revenue for the country, and the graph highlights how the value added by this sector has fluctuated over time. Starting in 2019, there were fluctuations in the value added by the hydrocarbon sector. during the second quarter of 2020 we remark the second due to the impact of the COVID-19 pandemic. In the third quarter of 2022 underscores the importance of the hydrocarbon sector to the Algerian economy.

The fact that the country exported over 23 billion U.S. dollars of crude oil and petroleum products in 2021, and that oil rents accounted for around 10 percent of the GDP, further emphasizes the significance of the hydrocarbon sector in Algeria. Without this sector, the country's GDP would be much lower, and the economy would be heavily impacted. It is, therefore, crucial for Algeria to continue to explore ways to diversify its economy, reduce its reliance on the hydrocarbon sector, and promote other industries to support long-term sustainable economic growth.

Figure 3: GDP of Algeria 2013 to 2022



Based on the graph of Algeria's GDP from 2013 to 2021, there has been a general upward trend in GDP during this period. However, there was a decline in GDP in 2019, as mentioned, which is likely attributed to the decrease in oil and gas revenues due to lower global oil prices. Despite this setback, the GDP of Algeria recovered in 2021 and reached a value of 163.04 billion US dollars, representing a small but notable contribution to the global economy. It is important to note that while the hydrocarbon sector has been a significant driver of Algeria's GDP, diversification and growth in other sectors can contribute to a more sustainable and resilient economy.

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Figure 4: inflation rate in Algeria from 2016 to 2021



Looking at the graph below, we can see that the inflation rate in Algeria has been fluctuating in the past few years. In 2016 and 2017, it was relatively high at 6.4% and 5.6%, respectively. However, it decreased significantly in 2018 to 2.0%.

In 2019, the inflation rate increased again to 4.3%, but it decreased in 2020 to 1.9%, which was the lowest rate in the past few years. The estimated rate for 2021 is 4.5%, which is higher than the previous year. This increase in inflation could be attributed to various factors such as the COVID-19 pandemic.

The projection for 2022 is also at 4.5%, while for 2023 it is estimated to be at 4.0%. It is important to note that high inflation can have negative effects on an economy, such as reducing purchasing power, increasing the cost of living, and decreasing the competitiveness of exports.

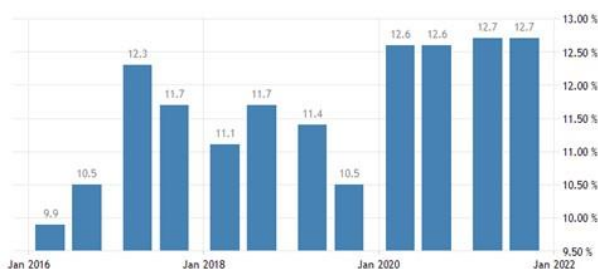
V.5. Unemployment Rate:

In Algeria, high unemployment rates have been a persistent problem, particularly among young people, especially in the last few years.

The graph below shows that the unemployment rate in Algeria has remained high over the years, with a slight increase in recent years. The rate was 11.7% in 2019, which is relatively high. This is a concerning issue, as high unemployment rates can indicate economic instability, and a lack of job opportunities for young people can lead to social and political unrest.

The recent data shows that the unemployment rate has remained unchanged at 12.7% in the third quarter of 2021 compared to the second quarter of 2021. This could be due to a combination of factors, including a lack of job creation and slow economic growth. Addressing high unemployment rates in Algeria will require a concerted effort from the government, private sector, and civil society to create more job opportunities and promote economic growth.

Figure 5 : Unemployment rate of Algeria from 2016 to 2021



V.6. Balance of trade:

In the case of Algeria, the country is heavily dependent on its exports of oil and gas, which account for a large share of the country's total exports. As a result, fluctuations in the prices of these commodities can have a significant impact on the country's balance of trade and overall economic stability.

For example, during the oil price slump in 2014-2016, Algeria's trade balance deteriorated significantly, as the value of its oil and gas exports declined sharply. This led to a significant reduction in the country's foreign exchange earnings and put pressure on the government's ability to finance its budget.

On the other hand, when oil prices rise, Algeria's trade balance improves, providing the government with more revenue to invest in economic development and social programs.

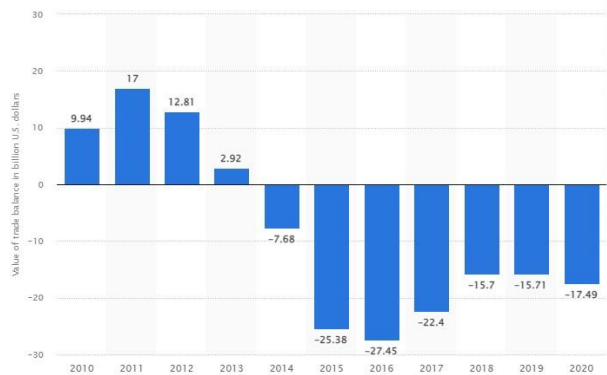
In addition to oil and gas, Algeria also has a relatively diversified economy with significant exports of other goods, such as agricultural products, textiles, and electronics.

On the graph below, the balance of trade in Algeria has been negative in recent years. In 2019, the balance of trade was -\$9.81 billion, and in 2020 it decreased to -\$7.92 billion. In 2021, it is estimated to be around -\$10.09 billion, and the projection for 2022 is also negative at -\$10.45 billion.

This persistently negative balance of trade can have negative effects on the stability of the Algerian economy. It puts pressure on foreign exchange reserves and may lead to a shortage of foreign currency, making it difficult to import essential goods and services. Additionally, a negative balance of trade can indicate a lack of competitiveness in domestic industries, which may hinder economic growth and development.

It is important for Algeria to address its balance of trade deficit by implementing policies to increase exports and reduce imports. This can include promoting domestic industries, investing in infrastructure, and seeking new trading partners. By improving its balance of trade, Algeria can promote economic stability and sustainable growth.

Figure 6: The balance of trade of Algeria from 2010 to 2020



The consequences of the heavy reliance on the hydrocarbon sector are numerous. One of the main consequences is the vulnerability of the Algerian economy to fluctuations in oil and gas prices on the international market. When oil prices are high, Algeria's economy tends to perform well, but when prices are low, the economy suffers.

Additionally, the reliance on the hydrocarbon sector has resulted in a lack of diversification in the Algerian economy, which can make it more difficult to weather economic shocks. The overreliance on the hydrocarbon sector has also led to the neglect of other sectors, such as agriculture and manufacturing, which have the potential to contribute significantly to the country's economy. (International Energy Agency, 2021).

VI. CONCLUSION:

In conclusion, . We have seen in this article that the hydrocarbon sector plays a significant role in the growth of the Algerian economy, accounting for a large portion of the country's GDP and government revenue. However, the Algerian economy is heavily dependent on this sector, which makes it vulnerable to fluctuations in global oil and gas prices, as we have seen in Section Three. And we have identified several major factors that can affect the stability of the Algerian economy, including political instability, lack of diversification, and insufficient investment in exploration research during this period .

We have also examined the indicators of

Algeria, such as the trade balance, inflation rate, and unemployment rate. The results indicate that these factors have a significant impact on the Algerian economy, with negative consequences for the country's economic growth and development. The fluctuation in oil and gas prices has significant effects on the Algerian economy's growth, as it is a major source of revenue for the country. Moreover, various internal and external factors have contributed to the Algerian economy's instability, including political instability, corruption, and low diversification of the economy.

In light of these findings, we suggest that the Algerian government needs to adopt a more diversified and sustainable economic model that relies less on the hydrocarbon sector. This can be achieved by investing in other productive sectors, such as agriculture, industry, and tourism, and by promoting entrepreneurship and innovation.

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