

The Impact of the COVID-19 Pandemic on Inflation and Price Increases in the Algerian Economy: Government Policies and Economic Recovery

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ABSTRACT

This study examines the significant impacts of the COVID-19 pandemic on the global economy in general and on the Algerian economy in particular. The pandemic caused widespread economic disruptions due to business closures and the stringent measures taken by governments to limit the spread of the virus. These disruptions led to inflationary pressures, with rising prices affecting both businesses and consumers. This study aims to analyze the impact of the pandemic on price increases and inflation in Algeria, as well as to evaluate the government measures taken to address these issues and stimulate economic recovery. The Algerian government responded to these challenges through a range of interventions, including crisis management plans, government investments, and increased public spending to stimulate the economy. The research findings revealed that these measures played a significant role in mitigating the negative effects of inflation and rising prices on the economy. Specifically, these interventions helped alleviate the adverse impacts on consumers' purchasing power and contributed to stabilizing inflation levels to some extent. While challenges remain, government interventions proved effective in managing the crisis and preventing further economic deterioration. Overall, this study highlights the importance of proactive government policies in responding to economic crises and facilitating recovery.

Keywords: COVID-19 pandemic, global economy, Algerian economy, inflation, government measures.

1. Introduction

The phenomenon of rising prices is one of the most significant economic issues that attracts the attention of governments and economists worldwide. Numerous studies have sought to understand the scope of this phenomenon by exploring its causes, effects, and potential policy responses (Laourari & Abderrahim, 2022). In light of recent global crises, new challenges have emerged that have deeply affected the global economy. Among these is the COVID-19 pandemic, which generated an unprecedented economic shock (OUIS & OUIS, 2023).

The pandemic has had broad and long-lasting effects on the prices of goods and services. Many countries, including Algeria, have experienced substantial price increases due to disruptions in global supply chains, shortages of raw materials, and higher transportation and labor costs (IMF, 2021; World Bank, 2021). Although experts initially expected the crisis to ease and prices to normalize, the persistence of COVID-19 effects has instead amplified inflationary pressures, especially in developing economies already weakened by previous economic shocks (Bensaoula, 2023; Himer, 2021).

Even though the COVID-19 pandemic has gradually receded in most countries, its effects continue to weigh on both global and domestic economies, including Algeria. The suspension of economic activity and the breakdown of supply chains caused serious disruptions in international markets, aggravating inflationary pressures worldwide (World Bank, 2020). In Algeria, a country still heavily dependent on imports and global hydrocarbon prices, these repercussions remain tangible. This underlines the importance of analyzing the pandemic's impact on national macroeconomic performance and inflation dynamics (Mellab, 2025). While the Algerian government has implemented various monetary and fiscal

measures, the key challenge lies in evaluating the real effectiveness of such interventions in curbing inflation and stabilizing growth (Bank of Algeria, 2022). Therefore, the issue of this study can be raised through the following question:

How did the COVID-19 pandemic affect the rise in prices and inflation in the Algerian economy, and what is the effectiveness of the governmental measures taken to mitigate these effects and promote economic recovery?

From this, the following sub-questions arise:

1. What are the local and international economic factors that contributed to the exacerbation of inflation and rising prices in Algeria during the COVID-19 pandemic?
2. How did the decline in domestic production and the shortage of raw materials affect price levels and inflation in the Algerian market?
3. What is the effectiveness of the Algerian government's policies aimed at combating inflation, and did these policies contribute to improving the purchasing power of citizens and enhancing economic stability?

The study aims to analyze the impact of the COVID-19 pandemic on price increases and inflation in the Algerian economy, as well as to examine the local and international economic factors that contributed to the exacerbation of this phenomenon. It also seeks to evaluate the effectiveness of the government policies implemented to combat inflation and assess their impact on improving citizens' purchasing power and enhancing economic stability in Algeria.

This study relies on a descriptive-analytical approach to analyze the impact of the COVID-19 pandemic on inflation and rising prices in the Algerian economy. Economic data will be collected from reliable sources such as the Central Bank of Algeria, the Ministry of Finance, and international reports to study the changes in prices and the factors contributing to the exacerbation of inflation. A comparative approach will also be used to compare the impact of the pandemic in Algeria with countries that have similar economies, in order to understand the differences in the effects of government policies. Additionally, government policies will be analyzed by evaluating the measures taken by the Algerian government to combat inflation and stimulate the economy, such as supporting affected sectors and enhancing local production. Finally, recommendations will be proposed to improve future economic policies, including strengthening local production, reducing dependency on imports, and implementing monetary and fiscal policies to mitigate the effects of inflation on citizens.

2. The Impact of the COVID-19 Pandemic on the Global and Algerian Economies

Many studies suggest that the COVID-19 pandemic triggered an unprecedented global economic shock, which significantly impacted the Algerian economy.

2.1. The Impact of the COVID-19 Pandemic on the Global Economy:

The COVID-19 pandemic caused widespread economic disruptions globally, significantly impacting supply chains, leading to severe price fluctuations and increased transportation costs. It also resulted in notable changes in supply and demand patterns in global markets, leading to the following negative effects on world economies:

1. **Disruptions in Supply Chains:** The pandemic caused significant disruptions in production and distribution, leading to shortages of essential goods and higher production costs. This impacted global markets, driving up prices (International Monetary Fund, 2020).
2. **Fluctuations in Commodity Prices:** Due to supply shortages and shifts in consumer demand, prices of essential goods like food and energy experienced significant volatility, with some goods becoming more expensive (World Bank, 2021).
3. **Changes in Demand and Supply:** Reduced production and government restrictions led to a decrease in supply, causing price increases in some sectors. The demand for health products and protective supplies surged, intensifying supply shortages.
4. **Transportation and Logistics Costs:** Restrictions on transportation led to increased shipping and logistics costs due to container shortages and disruptions in global trade routes. These cost increases were reflected in the final prices of goods.
5. **Global Supply and Demand Effects:** Geopolitical and health crises led to shifts in global supply and demand, causing significant price volatility across various markets as supply-demand dynamics changed worldwide.

These changes continue to impact the global economy, highlighting the need to strengthen the resilience of economic systems and effectively manage global supply chains in future crises.

2.2. The Impact of COVID-19 on the Algerian Economy:

The COVID-19 pandemic had a significant effect on the Algerian economy, which heavily depends on oil and gas revenues. The pandemic led to a sharp decline in oil prices, resulting in a significant drop in government revenues and an increase in the budget deficit. The slowdown in economic activities also led to a decline in key economic performance indicators, emphasizing the urgent need for economic diversification and promoting investment, especially in non-oil sectors, to strengthen economic sustainability.

Studies indicate that the COVID-19 pandemic worsened the economic crisis in Algeria due to the sharp drop in oil prices, which led the government to implement measures to revive the economy and counter the negative impacts of the crisis (Sarah Bensaoula, 2023). Additionally, the decline in macroeconomic indicators during the pandemic highlighted the importance of diversifying income sources and promoting investment to enhance exports and reduce import costs (Hamoud Himer, 2021).

In a recent econometric study, OUIS and OUIS (2023) confirmed that the pandemic left significant negative structural marks on the Algerian economy, particularly concerning growth and fiscal balances, underscoring the necessity of urgent and comprehensive structural reforms. Research also shows that the Algerian economy, heavily reliant on hydrocarbons, experienced fluctuations in inflation rates, negatively affecting citizens' purchasing power. Rising inflation eroded the real income of people with fixed wages, while individuals with variable incomes, such as business owners and traders, benefitted from the crisis (World Bank, 2021).

Regarding financial impacts, some studies indicated that the measures taken to counter the pandemic negatively affected public finances. Tax and oil revenues declined, while spending on the health sector increased, contributing to a higher fiscal deficit and rising public debt (IMF, 2021). Additionally, some research showed that the pandemic led to a sharp decline in municipal financial resources, while their expenditures remained fixed, leading to a financial imbalance at the local level (Bensaoula, 2023). This underscores the need to adopt more efficient fiscal policies to manage future crises.

3. Inflation Trends in Algeria:

The global economies were significantly impacted by the COVID-19 pandemic, as lockdown measures led to the suspension of economic activities and disruption of supply chains. This halt resulted in a global economic recession and a decline in growth rates in most major economies. Many countries also witnessed a notable increase in inflation rates due to fluctuations in supply and demand, as well as rising production and transportation costs.

The inflation development chart post-COVID-19 shows a significant global increase in 2022, with the global average rising to 7.97%, influenced by supply chain disruptions and the aftermath of the pandemic. Algeria also experienced a peak inflation rate in the same year, reaching 9.27%, surpassing the global average. This reflects the impact of both internal and external economic crises on the country.

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Algeria	4,52	8,89	3,25	2,92	4,78	6,40	5,59	4,27	1,95	2,42	7,23	9,27	7,84	2,98
E.U	3,29	2,66	1,22	0,20	-0,06	0,18	1,43	1,74	1,63	0,48	2,55	8,83	3,1	2,6
U.S.A	3,16	2,07	1,46	1,62	0,12	1,26	2,13	2,44	1,81	1,23	4,70	8,00	4,5	2,3
The World	4,82	3,73	2,62	2,35	1,44	1,61	2,22	2,44	2,21	1,94	3,47	7,97	6,66	5.4

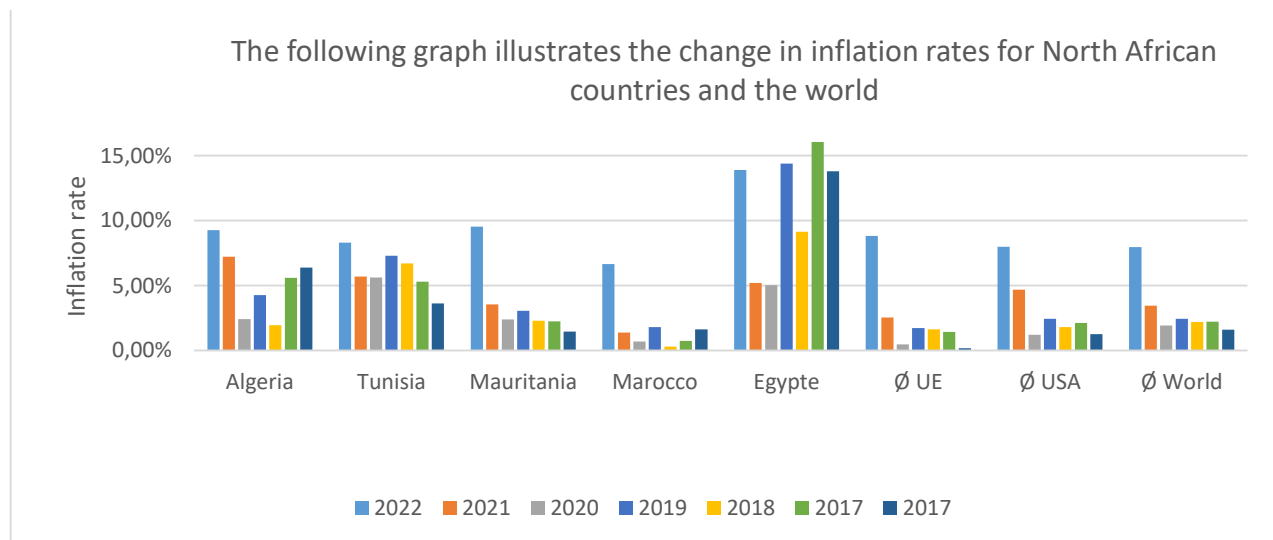
Table 01: Evolution of Inflation Rates in Algeria and the World from 2011 to 2024.

Source: Database: International Monetary Fund, World Bank, and OECD Inflation CPI indicator (doi:10.1787/eee82e6e-en)

However, in 2024, Algeria experienced a significant decline in inflation, reaching 2.98%, marking a substantial improvement close to pre-pandemic levels. In comparison, the global average inflation rate in 2024 decreased to 5.4%, indicating that Algeria achieved a faster pace in controlling inflation recently. Despite this improvement, inflation in Algeria remains higher than levels seen in some years prior to the pandemic, which necessitates careful monitoring and continued efforts to control prices amid ongoing global economic pressures.

When comparing to other North African countries, we observe that Algeria had lower inflation rates than Tunisia and Mauritania in 2022, with Tunisia at 8.31% and Mauritania at 9.53%. Egypt was more severely affected, with an inflation rate of 13.90% in 2022, reflecting the significant economic challenges faced by these countries due to the pandemic. Although North African countries were not immune to the effects of the pandemic on inflation, the graph below shows that inflation levels in Algeria, Mauritania, and Morocco were relatively low until 2019, after which they began to rise.

In contrast, Tunisia and Egypt had higher inflation levels earlier, suggesting that the rise in inflation is not solely due to the pandemic, but also requires a deeper analysis of the macroeconomic variables in these two countries. The following graph illustrates the change in inflation rates for North African countries and the world:



Source: <https://www.donneesmondiales.com/inflation.php>

4. Price Increase Analysis:

Table 02: Annual Inflation Rate by Sector and Product Category in Algeria (2019–2024)

Source: Bank of Algeria Database, available at: <https://www.bank-of-algeria.dz/ipc-et-inflation/>

The analysis of inflation by sectors and products in Algeria between 2019 and 2024, shown in the table below, reveals noticeable fluctuations in inflation rates due to the effects of the COVID-19 pandemic. Several sectors were impacted by

Group/Category	2019	2020	2021	2022	2023	2024
OVERALL	2.43%	3.52%	8.48%	9.29%	7.84%	2.98%
FOOD AND NON-ALCOHOLIC BEVERAGES	-0.23%	2.46%	12.50%	13.58%	10.25%	1.24%
CLOTHING - FOOTWEAR	6.39%	5.54%	5.41%	6.83%	9.73%	4.16%
HOUSING-CHARGES	1.88%	1.33%	1.98%	2.45%	1.09%	0.82%
FURNITURE AND HOUSEHOLD ITEMS	4.86%	3.65%	5.94%	6.17%	4.36%	5.04%
HEALTH AND PERSONAL HYGIENE	3.15%	4.18%	6.30%	7.97%	9.72%	2.94%
TRANSPORT AND COMMUNICATIONS	1.96%	2.77%	0.86%	0.79%	0.97%	0.59%
EDUCATION-CULTURE-LEISURE	14.78%	0.39%	10.77%	12.51%	4.73%	0.19%
MISCELLANEOUS (N.D.A)	6.52%	9.09%	11.24%	9.98%	9.92%	12.15%

the pandemic, with "food and non-alcoholic beverages" experiencing sharp inflation, peaking at 13.58% in 2022, before decreasing to 1.24% in 2024. The "education, culture, and recreation" sector also saw a significant increase in prices, with inflation reaching 12.51% in 2022, dropping to 0.19% in 2024. The "health" sector also experienced continuous price increases, with inflation at 7.97% in 2022, decreasing to 2.94% in 2024. In contrast, sectors such as "housing and taxes" and "transport" were less affected by inflation, showing only slight increases during these periods.

This analysis shows that sectors related to food and education were more affected by price inflation, while sectors such as housing, health, and transport experienced more stable and less significant increases. At the same time, the results indicate that the economic policies implemented have started to achieve positive outcomes, as they helped stabilize prices and reduce the impact of inflation in most sectors over time.

5. Determinants of Inflation in Algeria

Inflation in Algeria is the result of the interaction of several economic and financial factors. A study showed that inflation is influenced in the long term by import prices, public expenditures, and GDP. However, no significant relationship was found between inflation and certain independent variables in the short term. These findings align with earlier research, such as the econometric study which analyzed the evolution of inflation in Algeria from 2010 to 2020. Her work confirmed that fluctuations in the national currency's exchange rate and money supply significantly determined inflation trends prior to the pandemic (Mekkaoui, 2024; Laourari & Abderrahim, 2022).

In the same context, studies confirmed that inflation is closely linked to budget deficits and unconventional financing adopted by the government (Sahli & Bousba, 2024). On the other hand, a study by the Bank of Algeria identifies four main determinants influencing the increase in inflation over the long term: the money supply (M2), the nominal effective exchange rate, the import price index, and budget expenditures. The study revealed that an increase in the money supply affects inflation by 52%, while the import price index contributes 39%, meaning these two factors account for 91% of inflationary causes in Algeria.

After the COVID-19 pandemic, imported inflation became the main determinant of domestic price changes, mainly driven by higher import prices and exchange rate volatility (Laourari & Abderrahim, 2022). Additionally, Leila Mezi Alloua (2022) highlighted that the lack of independence of the Bank of Algeria and the political use of monetary policy pose obstacles to adopting an effective strategy for targeting inflation, leading to greater price volatility. The absence of a developed financial market reduces the ability of monetary authorities to effectively control inflation and stabilize the economy (Cheddad & Mekidiche, 2023).

Based on these studies, it is clear that addressing inflation in Algeria requires deep reforms in fiscal and monetary policies, strengthening the central bank's independence, adopting more effective strategies for price monitoring, and reducing excessive reliance on imports and oil price fluctuations.

6. Economic Measures Taken by Algeria to Address the Impact of the COVID-19 Pandemic

The Algerian government implemented a series of economic measures to mitigate the effects of the COVID-19 pandemic, aiming to support households and businesses while minimizing the impact on employment, taxes, and financial liquidity.

One of these measures was the imposition of mandatory paid leave for half of the employees in both the public and private sectors, which helped reduce income loss for families. In addition, tax declarations and payments for individuals and small and medium-sized enterprises (SMEs), except for large companies, were postponed, giving affected businesses the opportunity to stabilize their financial situation. Furthermore, penalties for delays in implementing public contracts were suspended, allowing companies to continue their activities despite the economic disruptions.

On the monetary front, the Bank of Algeria took accommodative measures to support liquidity in the banking system, including reducing the required reserve ratio from 10% to 8% and cutting the interest rate by 25 basis points, setting the key interest rate at 3.25% as of March 15, 2020. These measures were aimed at facilitating credit and stimulating investment, helping businesses cope with financial pressures resulting from reduced demand and revenue.

Additionally, the authorities prepared a supplementary finance law aimed at including compensatory measures for the losses incurred by businesses due to the pandemic, while ensuring that essential spending in health and education sectors was maintained. As part of controlling public expenditure, the government announced a 30% reduction in public spending without affecting employee salaries or budgets allocated to key social sectors.

Although these measures helped contain the immediate effects of the crisis, they led to an exacerbation of the budget deficit, necessitating the adoption of structural reforms to enhance the diversification of the Algerian economy and reduce its reliance on hydrocarbons, ensuring its sustainability in the face of future crises.

7. Inflation Control Strategy in Algeria

Controlling inflation in Algeria requires a reevaluation of the current economic model to ensure price stability and foster sustainable growth. According to reports from the International Monetary Fund (2023) and the World Bank (2020), inflation in Algeria has reached record levels in recent years, necessitating the implementation of deep reform measures. To achieve this, the following areas should be prioritized:

- **Diversifying the National Economy:** It is crucial to reduce dependence on the hydrocarbons sector by supporting other productive sectors such as industry, agriculture, and technology. A study by the Bank of Algeria (2022) confirmed that imported inflation, driven by rising import prices, is one of the key determinants of inflation in Algeria. This necessity is further highlighted by the IMF, which stresses the importance of structural reforms to enhance resilience and stabilize inflation (IMF, 2021).

- **Improving the Business Environment:** private sector can help boost domestic production and reduce reliance on imports. These structural efforts are essential to foster economic diversification and long-term resilience within the Algerian economy (Mellab, 2025).
- **Attracting Foreign Direct Investment (FDI):** Creating an attractive investment climate through legislative stability, improving infrastructure, and ensuring investor rights is essential for improving economic performance and reducing inflationary pressures.
- **Enhancing Integration into the Global Economy:** Expanding trade partnerships and opening up to international markets to support exports and diversify financing sources can help achieve balance in the trade balance and mitigate inflationary fluctuations.

In addition to economic reforms, there needs to be a reassessment of the monetary policy tools of the Bank of Algeria to ensure price stability, through the following measures:

- **Ensuring Central Bank Independence:** It is important to empower the central bank to make effective decisions without political interference, as its lack of independence is one of the factors hindering effective inflation targeting (Bank of Algeria, 2022).
- **Enhancing Transparency in Monetary Policy Management:** This ensures the effectiveness of the policy and supports financial stability, in line with recommendations from international financial institutions.
- **Avoiding Unconventional Financing (Money Printing) to Cover Budget Deficits:** Given the serious inflationary consequences of this practice, the International Monetary Fund (2023) reports that such measures exacerbate price increases and negatively affect purchasing power.

Adopting these reforms comprehensively—by supporting local production, improving the business climate, and strengthening monetary stability—would contribute to controlling inflation rates, achieving economic stability, and ensuring sustainable growth in Algeria.

8. Conclusion

In conclusion, the study highlights the significant economic challenges faced by Algeria due to inflation and rising prices, particularly exacerbated by the global COVID-19 pandemic. The research underscores how the pandemic disrupted supply chains, leading to a rise in production costs and, consequently, inflation. Additionally, it emphasizes that Algeria's dependence on oil exports, which faced a downturn in global markets, further worsened the economic situation.

The study also points to the government's response measures, such as providing support to affected sectors and reducing tax burdens on businesses. However, these actions, while positive, have not been sufficient to curb the long-term effects of inflation. The authors suggest that the Algerian economy needs diversification to reduce its reliance on oil and strengthen other productive sectors.

Furthermore, the research calls for the implementation of more effective monetary and fiscal policies, including strengthening the independence of the central bank and reducing reliance on unconventional financing. Such reforms are essential for long-term economic stability. Ultimately, the study stresses that overcoming inflation and stabilizing the economy will require a comprehensive, multi-pronged approach, including enhancing the business environment, attracting foreign investment, and ensuring sound financial and monetary policies.

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