

The impact of the crisis of covid 19 on the Algerian economy (impact based on the nature and characteristics of the Algerian economy)

تأثير أزمة فيروس كورونا على الاقتصاد الجزائري (التأثير بناء على طبيعة وخصوصيات الاقتصاد الجزائري)

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Abstract:

This research aims to show the general situation of the Algerian economy before and after the outbreak of the Corona virus, taking into account all macroeconomic indicators and how affected by the current situation, with reference to the most important elements that underpin the Algerian economy, especially the hydrocarbon sector, where statistics indicate that That this sector is affected would lead to a catastrophic situation for the country as it represents more than eighty percent of the total incomes and with the fuel markets affected in light of the current crisis related to the Corona virus, it was necessary for us to conclude in our study of these measures taken by the state and work on Sensitizing the value of economic diversification while pushing other sectors to prevent a economic crisis and a deficit in the general budget of the country. Therefore, this crisis is the true launch of the Algerian economy based on diversity and flexibility.

Keywords: *the Algerian economy; Corona virus; Economic diversification; Flexible economy; Hydrocarbons sector.*

ملخص:

يهدف هذا البحث إلى إظهار الوضع العام للاقتصاد الجزائري قبل و بعد تفشي فيروس كورونا ، مع الأخذ بعين الاعتبار جميع المؤشرات الاقتصادية الكلية و ما مدى تأثيرها بالوضع الراهن ، مع الإشارة إلى أهم المقومات التي يتركز عليها الاقتصاد الجزائري و بالأخص قطاع المحروقات ، حيث تشير الإحصائيات إلى أن تأثر هذا القطاع من شأنه أن يؤدي الى وضعية كارثية للبلاد باعتباره يمثل أكثر من ثمانون بالمئة من مداخل الاجمالية و مع تأثر أسواق المحروقات في ظل الأزمة الراهنة المتعلقة بفيروس كورونا كان لزاما علينا أن نخلص في دراستنا هاته الى الاجراءات المتخذة من قبل الدولة و العمل على التحسيس بقيمة التنوع الاقتصادي مع الدفع بالقطاعات الأخرى للحيلولة دون الوقوع في أزمة اقتصادية و عجز في الموازنة العامة للبلاد و بالتالي تعتبر هاته الأزمة هي الانطلاقة الحقيقية لاقتصاد جزائري أساسه التنوع و المرونة.

الكلمات المفتاح : الاقتصاد الجزائري ؛ فيروس كورونا؛ التنوع الاقتصادي ؛ اقتصاد مرن؛ قطاع المحروقات.

Intoduction :

The Algerian economy has undergone several transformations, perhaps the most prominent of them are the reforms undertaken in the late 1980s and during the 1990s with the assistance of international institutions still seem unfinished. The authorities have, depending on the circumstances, adopted gradualism, shock therapies but also downtime. Doubts about the Liberal project are resurfacing today in a difficult and possibly lasting environment.

The strong characteristics of the Algerian economy are those of an economy trapped in the primary specialization trap cyclically undergoing positive and negative shocks from the world hydrocarbon market. In the absence of endogenous adjustment variables, economic policies have adjusted to this movement. The budgetary and monetary safeguard policies have probably reduced the Algerian economy's exposure to these shocks somewhat, but did not eliminate it. The foreign exchange reserves and the financial savings of the public treasury, accumulated

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during the high phase of the cycle, threaten to run out in the short and medium terms and subject the economy and society to severe adjustments that can annihilate the results obtained.

It was not long after the Algerian economy that stood on its feet after a prolonged recession that lasted for a year due to the popular movement that shook the streets and removed Bouteflika from his post and put many officials behind prison bars until he suffered a violent collapse before because of the outbreak of the Corona virus in most cities and the drop in the price of a barrel It reached below \$ 25 on March 18, 2020.

The Algerian economy was exposed in a short time to a double shock to which the government did not take any account, and the most difficult of this is that the state treasury does not contain liquidity that allows room for maneuver, and therefore the economy will not be able to resist with the passage of time, and the government may be completely unable to meet the needs of citizens if it is prolonged The duration of the double crisis is too long. Through this can be posed the following question : **Can the effects of the Corona virus on the Algerian economy serve as a real beginning to changing its nature ?**

Objectives of the study :

This study aims to define the Algerian economy with its advantages and disadvantages, by diagnosing the current situation of the Algerian economy according to official figures and data, and by identifying the obstacles it faces through its exposure to the pandemic of corona virus and its repercussions on global economic aspects, in particular those linked to the macro economy through the lack of financial performance due to fluctuations and the collapse of prices on the world oil markets, which have negatively affected the Algerian economy as the main financial resource of the country and work to develop a roadmap for a better economic future starting from the transition from a rentier economy to a diversified economy.

We focused on the sequencing of the study objectives according to the following points :

- Highlight the distinctive character of the Algerian economy, with emphasis on the most important economic sectors contributing to the gross domestic product (GDP).
- Expose the effects of the Corona pandemic on the Algerian economy through macroeconomic indicators and their evolutions between the pre-pandemic and post-pandemic stages.
- Discover the economic policies adopted by the Algerian government in the face of the Corona virus crisis.
- Work on the creation of a new Algerian economic model and its role in achieving financial reform and economic renewal during and after the Corona crisis.

Section one : the algerian economy before the pandemic

1- An overview of the Algerian economy

Since gaining independence in 1962, Algeria has attempted to establish autonomous economic development by developing its industry by substituting for imports, that is to say by favoring domestic production at the expense of imports.

In general, the Algerian economy has remained largely closed to the flow of goods, services and capital. The country is, for example, one of the few not to be a member of the World Trade Organization.

One of the characteristics of the country is the weight of the hydrocarbon sector. According to the International Monetary Fund, in 2018, out of \$ 39.5 billion in exports, 37.9 billion were hydrocarbons. (IMF, 2018, p. 18)

1-1 Gross domestic product

GDP growth slowed to 0.9% in 2019 from 1.4% the year before. The petroleum sector recorded a smaller average contraction in the first nine months of 2019 compared to the previous year (-4.3% compared to -6.4% in 2018). At the same time, growth in non-hydrocarbon activity reached 2.6% over the same period, down from 3.3% in 2018. (BanqueMondiale, 2020)

The latest figures from the National Statistics Office reveal that the overall growth of Algeria's gross domestic product (GDP) reached 1.5% in the 1st quarter of 2019, compared to the same quarter of 2018, This is despite a drop in growth in the hydrocarbons sector, which recorded -7.7% in the 1st quarter of 2019, against -2.4% during the same period of the previous year.

Thus, the growth rate of GDP, excluding hydrocarbons, was 3.9% in the 1st quarter of this year, compared to the same period of 2018.

Non-hydrocarbon GDP growth, which remains "appreciable", is mainly driven by the activity of market services, industry, construction, public works and hydraulics (BTPH) and finally the agricultural sector.

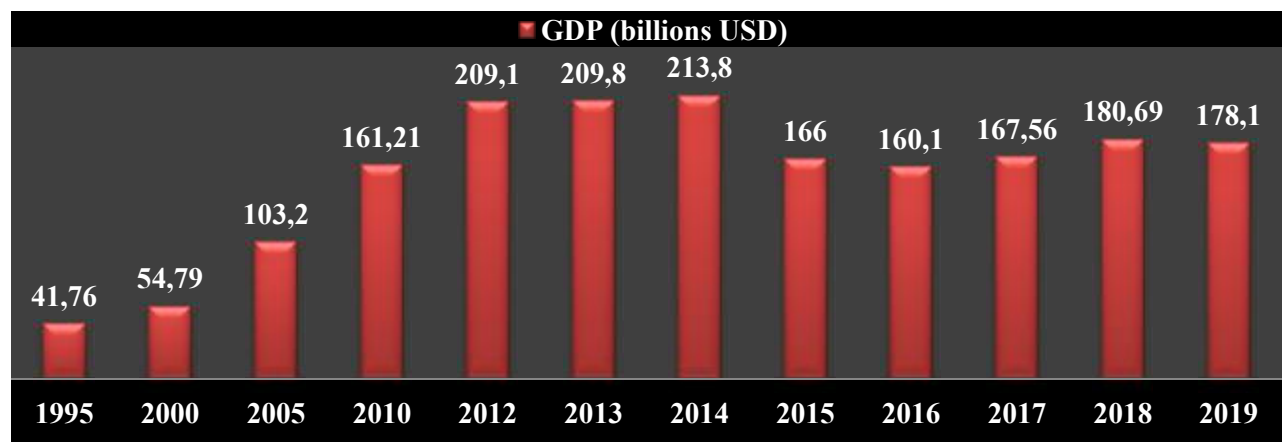
Figures from the National Statistics Office (ONS) say that market services activity experienced real growth of around 5.6% during the first quarter of 2019, compared to 3.6% in the same period in 2018. Other sectors excluding hydrocarbons participated in this GDP performance, like industry, construction and petroleum works (<http://bourse-dz.com>, 2019)

TABLE 01 : Changes in Algerian GDP for the period 1995-2019

Year	1995	2000	2005	2010	2012	2013	2014	2015	2016	2017	2018	2019
GDP (billions USD)	41.76	54.79	103.2	161.21	209.1	209.8	213.8	166	160.1	167.56	180.69	178.1
GDP (Constant Prices, Annual % Change)	3.8	3.8	5.9	3.6	3.4	2.8	3.8	3.7	3.2	1.3	1.4	0.9

Source: (International Monetary Fund, 2020)

Fig 01 : Changes in Algerian GDP for the period 1995-2019



Source: Prepared by the researcher Based on the IMF – World Economic Outlook Database, 2019

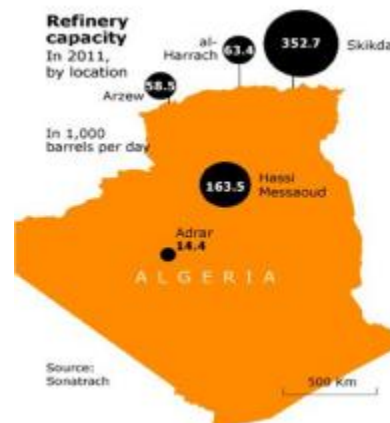
2-The Most Important Economic Sectors in the Country :

2-1- Industry :

Algerian industry has always been dominated by oil and natural gas in two ways. First, the hydrocarbon sector is by far the largest industrial sector. Second, the revenues generated by the export of oil, gas, and related products have been the main source of investment capital for other industries, along with huge loans from the international capital market that form a mortgage on those reserves.

From the major production sites in the Sahara desert, oil and natural gas are transported to the Mediterranean coast. The industrial areas surrounding major cities such as Algiers, Oran, and Annaba are home to huge refineries and petrochemical complexes and plants for the liquefaction of natural gas that is transported in tankers to foreign markets.

As the main entity responsible for the oil and gas sector, the state oil company SONATRACH (Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures, National Company for the Exploration, Production, Transport, Transformation, and Commercialization of Hydrocarbons) is often considered a state within the state. After its foundation in 1963, it grew in size and significance with the nationalization of foreign oil interests in the following decade.



The 120,000-strong workforce operates the entire production chain, from exploration to consumer sales. The decentralization of certain parts of the company and the increasing cooperation with foreign oil firms have not substantially changed the position of SONATRACH as a power centre. This is reinforced by the interlinking and exchange of personnel with other parts of the state apparatus, especially the Oil and Energy Ministry.

In the 1970s, the government invested billions of petrodollars (and money borrowed on the international markets) in the construction of heavy industries, especially the steel industry, supplied by Algerian iron-ore deposits. Together with other basic industries (e.g., cement plants), steel mills were meant to be the basis of extensive industrial development and provide inputs to light industries producing consumer goods. This approach of 'industrializing industries' did not work out as planned, due in part to political factors inherent in the rentier economy. Many industries remained inefficient and appeared to be generators of jobs for the regime's constituency of workers and managers and the bureaucracy at the ministries in charge. (fanack, 2018)

With shrinking resources and increased foreign debt, the restructuring and ultimate privatization of part of the industrial sector seemed inevitable. In the 1980s, many large state enterprises were divided. A decade later, the emphasis shifted to a policy of attracting foreign investment in the Algerian industrial sectors. This policy was not pursued to its full extent, as some activities were still considered to be of strategic interest to the state. More importantly, the structural deficits and inefficiencies that had plagued many enterprises in the state sector discouraged foreign companies from investing, as did the civil war. After 1999, the apparent stabilization of the political and security situations and the beginning of a new era of rising oil and gas revenues began to change this picture. As a result, the emblematic steel complex at al-Hajar went into the hands of the Indian Arcelor Mittal group. Increased opportunities for foreign investment also led to the French

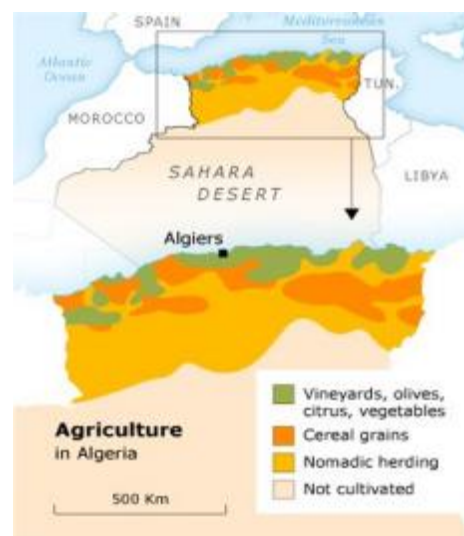
company Renault producing cars in Algeria. Negotiations and other preparations moved slowly, but the fact that two-thirds of Algerian cars are produced in France provided sufficient motivation.

Light industry is more diversified and has always involved greater private entrepreneurship. As with heavy industry, most factories are found near the main urban centres in the north, although the decentralization of the 1980s has also led to the creation of more light industry in the increasingly populous centres of the High Plateaux and some oasis towns. The light industrial sector comprises the processing of food and the manufacture of household appliances and some luxury items. In many cases, though, consumers prefer imported goods that bring higher social status. (fanack, 2018)

2-2 Agriculture :

By the early 21st century, grain products occupied a strategic place in Algeria's diet and economy, making up 40 per cent of the fertile agricultural area. The Ministry of Agriculture divides the period between 2000 and the end of 2017 into two to monitor the development of agricultural and livestock production in the country, namely 2000-2009 and 2010-2017.

The ministry estimated the area planted with grain in 2010-2017 at 3.4 million hectares, a 6 per cent increase on the 3.2 million hectares in 2000-2009. Grain production was estimated at 41.2 million quintals, a 26 per cent increase on the 32.6 million quintals produced in 2000-2009. (fanack, 2018)



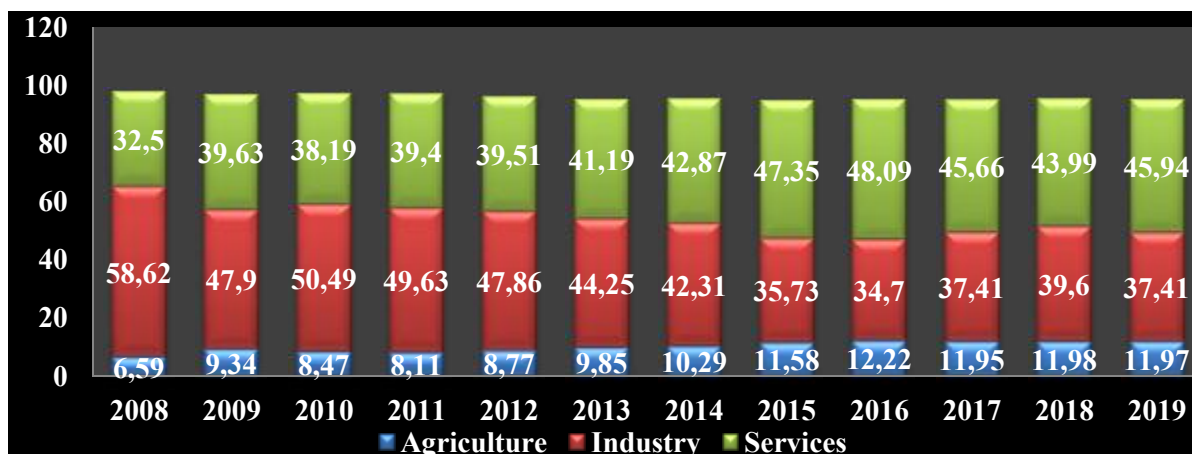
Grain production consists mainly of durum and barley, which accounted for 51 per cent and 29 per cent respectively of the total grain produced in 2010-2017.

The main industrial crops are tomatoes and tobacco, which covered 19,400 hectares in 2000-2009 and 2010-2017. For tobacco, the average cultivated area was 485,000 hectares during both periods. Tomato production increased by 136 per cent as a result of improved productivity per hectare. Vegetable production also increased, by 121 per cent in 2010-2017 compared to the previous period.

During 2000-2009, orchards covered an area of 396,500 hectares, 39 per cent of which were reserved for olive groves, 30 per cent for fruit trees, 23 per cent for palm trees and 8 per cent for citrus trees.

During 2010-2017, this area increased by 47 per cent compared to 2000-2009. The area of olive groves increased by 58 per cent, fruit trees by 56 per cent, citrus trees by 41 per cent and palm trees by 20 per cent. (fanack, 2018)

Fig 02 : The Contribution of Each Economic Sector to the GDP



Source : (<https://www.statista.com>, 2020)

3- Algerian Foreign Trade in Figures :

Algeria has an open economy in which foreign trade represents 58% of GDP (World Bank, 2018). Natural gas and petroleum products account nearly for all of exports. Algeria's main imports were wheat, cars, petroleum products, dairy products and medicines. Hydrocarbons represent 93% of the total volume of exports. In 2018, the share of foreign trade in GDP decreased slightly.

In 2017, Italy was the top destination for Algerian exports (16%), followed by France, Spain, the United States and Brazil. (world integrated trade solution, 2019) China was by far the main supplier of goods in Algeria (18.1% of all imports), followed by France, Italy, Germany and Spain. (world integrated trade solution, 2019). France ranked 1st in 2018 for imports (increase of 10%), followed by Italy, Spain, the United States and Turkey according to Comtrade, Latest Available Data 2019 (**Tab 04 Main Exports Customers**). Algeria ratified the African Continental Free Trade Area (ZLECAf) Agreement in December 2019 in Accra, Ghana. The ratification referred to in the Agreement granted the countries concerned to benefit from the progressive elimination of tariff barriers over a period of five years after its entry into force scheduled for July 2020. The entry into force of this agreement should free African countries from their dependence on the extraction of raw materials and will promote inter-African trade.

While the trade balance was historically positive, the surplus has vanished completely since late 2012 and the country has had a trade deficit since 2015. This reduction was due to a sharp fall in hydrocarbon exports, which represent nearly all of exports, this trend continued in 2018. Incomes have also decreased drastically with the fall of oil prices. After hitting record high levels both in 2015 and 2016 (USD 17.84 billion and USD 19.96 billion respectively), the deficit narrowed in 2017 due to a recovery in oil exports and a decrease in imports. In 2018, imports decreased by 3.6% and exports decreased by 4.3, bringing trade deficit to a higher amount than the previous year. According to WTO data, in 2018 Algeria exported 41,16 billion USD worth goods whereas it imported goods for the total value of 46,19 billion USD. With regards to services, the country imports stood in the same year at 10,45 billion USD and exports amounted to 3 billion USD. (santandertrade, 2020)

Table 02 : The Algerian Foreign Trade Values

Foreign Trade Values	2014	2015	2016	2017	2018	2019
Imports of Goods (million USD)	58,580	51,501	46,727	46,059	46,197	41,934
Exports of Goods (million USD)	62,886	37,787	28,883	35,191	41,168	35,824
Imports of Services (million USD)	11,244	10,522	3,069	10,837	10,452	0
Exports of Services (million USD)	3,460	3,622	3,561	2,915	3,040	0

Source: World Trade Organisation (WTO) ; Latest available data 2019.

Table 03 : The Algerian Foreign Trade Indicators

Foreign Trade Indicators	2014	2015	2016	2017	2018	2019
Foreign Trade (in % of GDP)	62.1	59.7	55.9	55.9	58.0	52.0
Trade Balance (million USD)	576	-17,812	-20,000	-14,241	n/a	n/a
Trade Balance (Including Service) (million USD)	-7,678	-25,385	-27,449	-22,556	n/a	n/a
Imports of Goods and Services (Annual % Change)	8.4	6.9	-2.8	-7.1	-3.6	-5.7
Exports of Goods and Services (Annual % Change)	0.2	0.5	7.0	-6.1	-4.3	-5.7
Imports of Goods and Services (in % of GDP)	31.9	36.5	35.1	33.2	32.3	29.5
Exports of Goods and Services (in % of GDP)	30.2	23.2	20.9	22.7	25.6	22.6

Source: World Bank ; Latest available data 2019 .

Table 04 : The Algerian Main Partner Countries (Exports & Imports) 2019

Unit : Millions dollars

Main Imports Customers	Values	Evolution
China	7 654	2,60%
France	4 278	10,78%
Italy	3 410	7,18%
Spain	2 929	17,21%
Germany	2 833	0,97%
Turkey	2 141	7,41%
Argentina	1 812	4,18%
United states of America	1 418	13,77%
Brazil	1 136	5,48%
India	968	25,43%

Unit : Millions dollars

Main Exports Customers	Values	percentage of the total Algerian exports
France	5 050	14,11%
Italy	4 620	12,90%
Spain	3 990	11,15%
United Kingdom	2 290	6,42%
Turkey	2 240	6,27%

Source: Comtrade, Latest Available Data 2019 .

Table 05 : The Algerian Main products (Exports & Imports) 2019

Products exported in 2019		Products imported in 2019	
Mineral fuels including oil	32.5 \$ billion (93.6% of total exports)	Industrial gear	1,905 \$ billion (32% of total imports)
Fertilizers	850.1\$ million (2.4% of total exports)	Imported foodstuff	1,293 \$ billion
Inorganic chemicals:	501.6 \$ million (1.4% of total exports)	Semi-finished materials	1,247 \$ billion
Salt, sulphur, stone, cement	137.2 \$ million (0.4% of total exports)	Non-food consumables	934,21 \$ millions
Iron, steel	129.2 \$ million (0.4% of total exports)	Raw materials	374,34 \$ millions
Fruits, nuts	102.2 \$ million (0.3% of total exports)	Power group and lubricant (fuel)	339.16 \$ millions
Machinery including computers	76 \$ million (0.2% of total exports)	Agricultural equipment materials	35,70 \$ millions
Sugar, sugar confectionery	62.5 \$ million (0.2% of total exports)		
Organic chemicals	37.9 \$ million (0.1% of total exports)		
Fish	28.4 \$ million (0.1% of total exports)		

Source: (<http://www.worldstopexports.com>, 2020)

Section Two: impact of coronavirus on the Algerian economy:

In the context of the ongoing outbreak of Coronavirus (**COVID-19**) the global public health threat posed by COVID-19 is high, with more than 3,635,934 reported cases worldwide. On 4 May the Algerian Ministry of Health announced 4,648 confirmed cases of COVID-19, including 465 deaths, in Algeria.

In that respect, the government of Algeria has implemented various measures with a view to limiting the spread of COVID-19. On 17 March 2020, Algeria announced the immediate closure of all land borders and the suspension of non-cargo international air and maritime travel. As of 22 March 2020, all domestic flights have also been suspended. Cultural, sporting, and commercial events are suspended, and restaurants and cafes, schools, universities, public baths, event halls, nightclubs and all forms of public transportation are closed.

Pursuant to Decree 20-100 dated 19 April 2020 relating to the reconduction of the COVID-19 protection measures, the COVID-19 protection measures have been reconducted **until 14 May 2020**.

The consequences of Covid-19 in Algeria, as in many places in the world, are significant in many respects. The sanitary and social protection measures taken by the Algeria Government have a major impact on Algeria's economic activity.

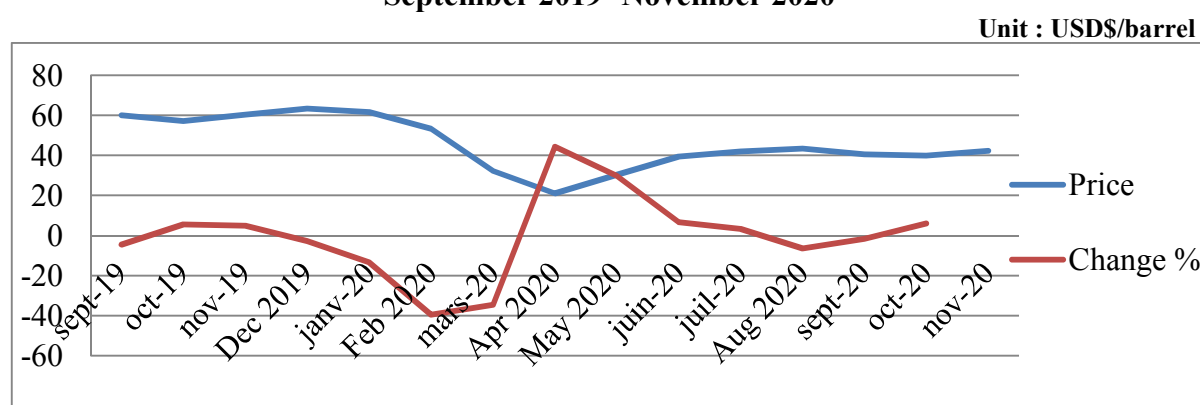
1- The impact of Covid 19 on the main incomes of Algeria :

The COVID-19 pandemic and concurrent crash in oil prices endangered Algeria's vulnerable macroeconomic environment, and the new authorities are now grappling with a multifaceted crisis. Swift lockdown measures have helped slow down the pandemic, severely affecting activity in the meantime. The sharp fall in global hydrocarbon prices and demand (**Fig 03**) added to the sector's difficulties, cutting further into the hydrocarbon rent. Therefore, swift action to

curb the twin deficits and structural reforms to foster private-led growth have only become more urgent, In the following figure, we will explain the fuel sector, as it is the main engine of the Algerian economy, through the fluctuations in oil prices affected by the Coronavirus. As a result, while 2020 is not ready to end, the next six months are too likely to be economically difficult for Algeria. Especially with the presence of aggravating factors, such as the damaging impact of the Coronavirus pandemic on crude prices, and the price war between Saudi Arabia and Russia, which is raging in the oil market.

Algeria's exports, limited to hydrocarbons, represent, at an average price of \$ 50, \$ 33 billion per year. While its annual imports are estimated at 45 billion dollars. This gap between imports and exports creates a deficit in the trade balance of at least \$ 12 billion. The deficit in question is expected to widen further with the current state of the oil market. Consequently, it is inevitable that the government, in order to close the gap which is the source of the deficit, will draw on foreign exchange reserves which will shrink automatically, following an increasingly accelerated decay process, by the collapse of crude oil prices. Therefore these reserves will not hold until next year. (Bank, (April 2020))

**Fig (03) : Oil prices and their percentage changes in the period
September 2019 -November 2020**



Source : (indexmundi, 2020)

It is noticeable through the previous figure that Covid 19 had a negative impact on oil prices, since from the beginning of the year 2020, from 61.63 dollars per barrel in January to a third of its value in a period of four months, since in April 2020 the price of a barrel reached 21.04 dollars Per barrel, which is what greatly affected Algeria, as it represents more than 85 percent of the country's public income.

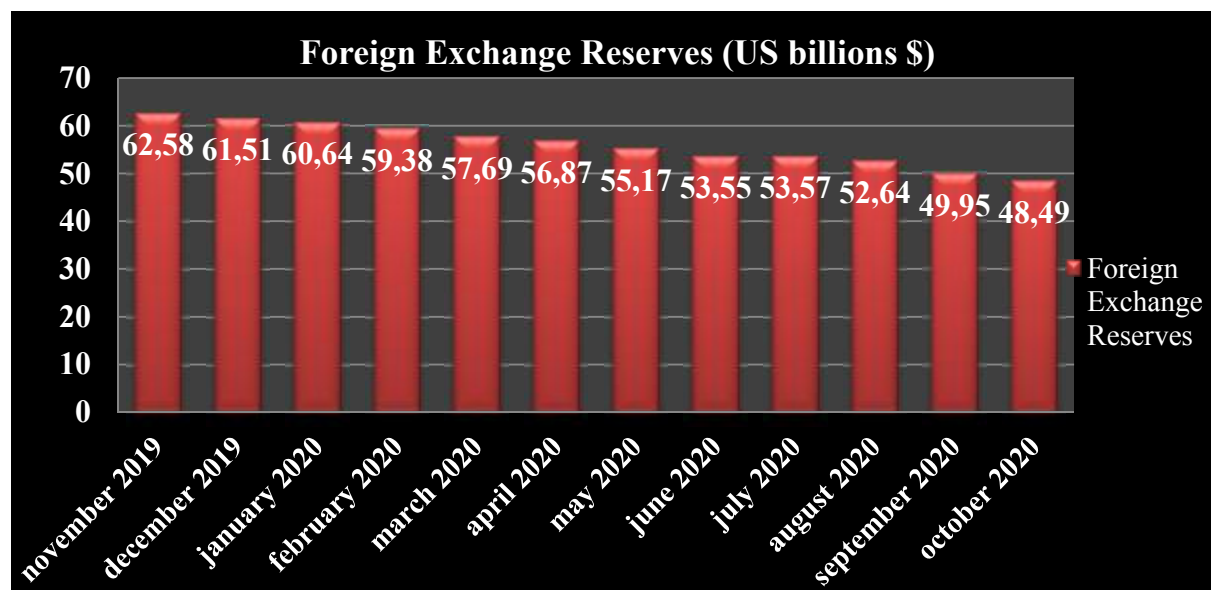
2- Impact of Covid 19 on The Exchange Reserve :

Financial pressures increased after the coronavirus outbreak caused oil prices to plunge further, forcing the government to cut spending and investment planned for this year in several sectors including hydrocarbons.

That also impacted foreign exchange reserves which are currently around \$60 billion, down from \$72.6 billion in April last year. The amount of reserves expected by the end of 2020 will cover a year of imports, Belhimer said (Government spokesman). (reuters, 2020)

In ten months from the start of the pandemic, the foreign exchange reserves decreased to more than twelve billion dollars, as shown in Figure (04), which made the authorities sound the alarm and work to develop an urgent plan for the advancement of the Algerian economy, which affected the components of the overall economy, which is what we will address in the following.

Fig 04 : Foreign Exchange Reserves November 2019 – October 2020



Source : (<https://www.ceicdata.com>, 2020)

3- Impact of Covid 19 on Macroeconomic:

The COVID-19 pandemic and concurrent crash in oil prices stormed Algeria's vulnerable macroeconomic environment, and the new authorities are now grappling with a multifaceted crisis. Swift lockdown measures have helped slow down the pandemic, severely affecting activity in the meantime. The sharp fall in global hydro-carbon prices and demand added to the sector's difficulties, cutting further into the hydrocarbon rent. Therefore, swift action to curb the twin deficits and structural reforms to foster private-led growth have only become more urgent. (WorldBank, 2020)

As in most countries, lockdown measures to curb contagion have impacted entire sectors. Labor-intensive and informal service and construction sectors are particularly affected, putting the livelihoods of vulnerable segments of the population at risk. During Q1-2020, a sharp decline in hydrocarbon production and early consequences from the COVID-19 pandemic exacerbated economic difficulties. As the hydrocarbon sector shrank by 13.4 percent against Q1-2019, GDP contracted by 3.9 percent. Nonhydrocarbon GDP shrunk by 1.5 percent, against a sharp investment contraction, and moderate ones for private and public consumption. Services sectors suffered most, consistent with the imposition of lockdown measures. Industrial and construction activity stagnated, tracking public and private demand, while the agricultural sector proved resilient. Meanwhile, shrinking hydrocarbon production and a competitive global market caused a severe export volume contraction, compensated by an even higher fall in imports, curbing the current account deficit despite lower oil prices. Inflation remained low, at 2.1 percent during S1-2020. (World Bank, 2020)

Table 06 : Algerian macroeconomic indicators for the period 2017-2022

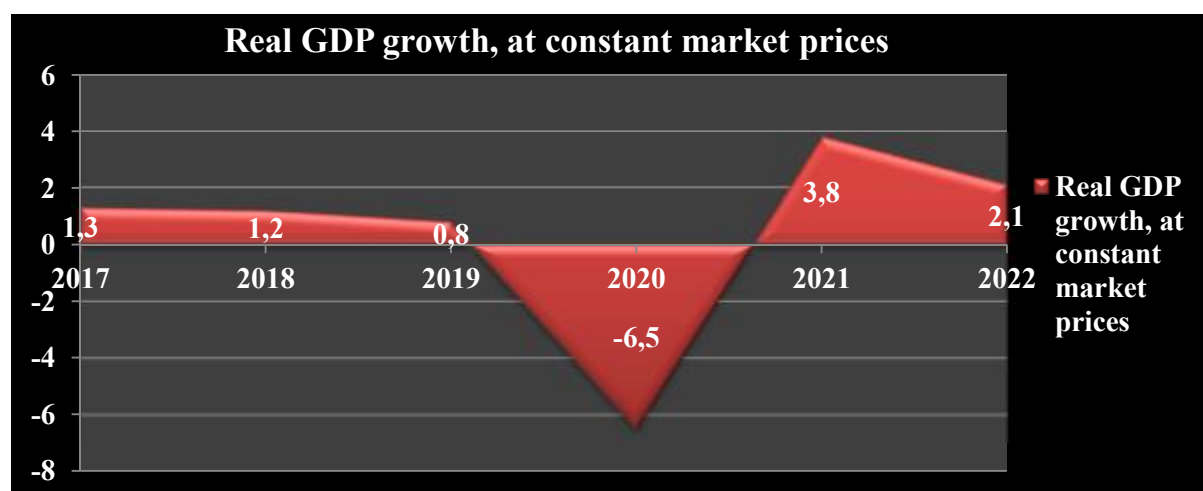
	2017	2018	2019	2020e	2021f	2022f
Real GDP growth, at constant market prices	1.3	1.2	0.8	-6.5	3.8	2.1
Private Consumption	1.8	2.8	2.1	-5.5	5.2	2.8
Government Consumption	2.8	2.3	1.9	-3.2	-2.4	-2.4
Gross Fixed Capital Investment	3.4	3.1	1.0	-16.6	10.6	2.7
Export, Goods and Services	-6.1	-3.7	-6.1	-15.0	9.4	6.4
Imports, Goods and Services	-7.1	-3.6	-6.9	-24.3	16.1	4.6
Real GDP growth, at constant factor prices	1.7	1.5	1.0	-6.5	3.8	2.0

Agriculture	0.6	3.5	2.7	2.1	2.2	2.2
Industry	-0.1	-2.6	-1.7	-8.2	4.4	2.5
Services	4.0	5.6	3.3	-6.8	3.7	1.5
Inflation (Consumer Price Index)	5.9	3.5	2.3	2.1	3.8	4.2
Current Account Balance (% of GDP)	-13.0	-9.5	-10.0	-13.4	-15.7	-14.6
Fiscal Balance (% of GDP)	-8.4	-6.8	-9.6	-15.8	-12.9	-9.6
Debt (% of GDP)	27.4	37.7	47.0	68.2	77.4	81.2
Primary Balance (% of GDP)	-7.5	-6.3	-9.0	-15.1	-12.2	-8.8

Source : World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practi

The Algeria's GDP has only increased by 0.8% in 2019, compared to 1.2% in 2018 (IMF). Recent expansionist policies should provide support for growth in the next years, but could also increase macroeconomic imbalances and moderate growth over the medium-term. However, according to the updated IMF forecasts from 14th April 2020 (**Fig 05**), due to the outbreak of the COVID-19, GDP growth is expected to fall to -6.5% in 2020 and pick up to 3.8% in 2021, subject to the post-pandemic global economic recovery.

Fig 05 : GDP, its current data and its future projections for the period 2017-2022



Source : Prepared by the researcher Based on the data of the World Bank (April 2020).

The overall balance of payments deficit recorded a decline of nearly 57% in the first quarter of 2020 compared to the same quarter of 2019, falling from \$ 5.9 billion to \$ 2.5 billion, said Tuesday a Communiqué of the Bank of Algeria (BA).

In a press release on the economic situation during the first quarter of 2020 and the outlook for development, the Central Bank specifies that "given a surplus in the 'capital and financial operations' account of \$ 1.623 billion, the overall deficit of the balance of payments fell 56.98% to \$ 2.536 billion in the first quarter of 2020, compared to \$ 5.896 billion in the first quarter of 2019.

During the first quarter of 2019, compared to that of the same period of 2018, the balance of payments deficit widened by + 33.7%, recalls the BA. (www.almanach-dz, 2020)

Official foreign exchange reserves contracted by 3.830 billion US dollars at the end of the first quarter compared to the end of December 2019, she said, stressing that this decline "is much less than that recorded in the first quarter. 2019 (- \$ 7.311 billion) ".

In terms of changes in the balance of payments indicators, imports of goods (fob) fell from \$ 12.578 billion at the end of March 2019, to \$ 9.958 billion at the same period of the current year, a decrease of 20.83%, according to the press release.

Stressing that the quarterly average price of a barrel of oil, in the 1st quarter of 2020, reached 53.295 dollars per barrel, against 63.967 dollars in the first quarter of 2019, a decrease of 6.7%, the BA specified that the quantities of hydrocarbons exports saw their level drop by 23.03% for the same period.

As a result, total hydrocarbon exports declined in value by 29.07%, from \$ 8.85 billion in the first quarter of 2019, to \$ 6.277 billion in the first quarter of 2020.

Non-hydrocarbon exports, meanwhile, stood at \$ 478 million in the first quarter of the current year. (conjoncture-dz.com, 2020)

In total, exports of goods reached \$ 6.755 billion in the first quarter of 2020, compared to \$ 9.412 billion in the same period of 2019, a contraction of 28.23%.

The drop in total exports of goods by 28.23%, in the context of a smaller drop of 20.83% in the invoice for imports of goods led to a slight widening of the trade balance deficit of 1.17%, going from 3.166 billion dollars at the end of March 2019, to a deficit of 3.203 billion dollars in the same period of 2020, according to the BA.

The structural deficit of the item "services, excluding factor income" narrowed from \$ 2.201 billion in the 1st quarter of 2019 to \$ 1.06 billion in the 1st quarter of 2020, a decrease of 51.86%.

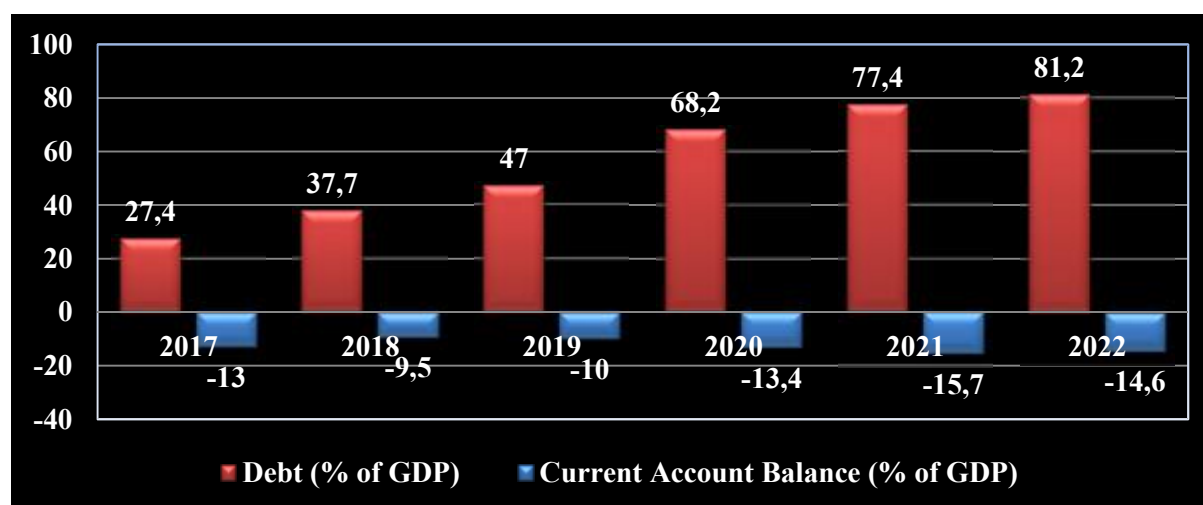
Regarding the "net transfers" item, it continues to record surpluses of \$ 458 million at the end of March 2020.

Thus, the current account balance deficit narrowed from \$ 5.843 billion in the first quarter of 2019 to \$ 4.159 billion in the first quarter of the current year, an improvement of 28.81%, mainly due to the decrease in the deficit of the balance of factor income and that of net transfers.

In monetary terms, the M2 money supply reached 17,039.8 billion dinars at the end of March 2020, against 16,499.68 billion dinars at the end of December 2019, an increase of 3.27%.

As for credits to the economy, they recorded "a slight decline" during the 1st quarter of 2020 (-1.17%), or 10.730.99 billion dinars at the end of March 2020, against 10.857.84 billion dinars at end of December 2019. (radioalgerie, 2020).

Fig 05 : Current data and future expectations of the trade balance and public debt as a percentage of GDP for the period 2017-2022



Source : Prepared by the researcher Based on the data of the World Bank (October 2020).

The trade balance risks deteriorating as the Algerian Dinar depreciates, the price of a barrel falls and public investment is reduced. On average, the model forecasts a current account deficit of around 16% in 2020, slightly below what the IMF forecasts (-18.3%).

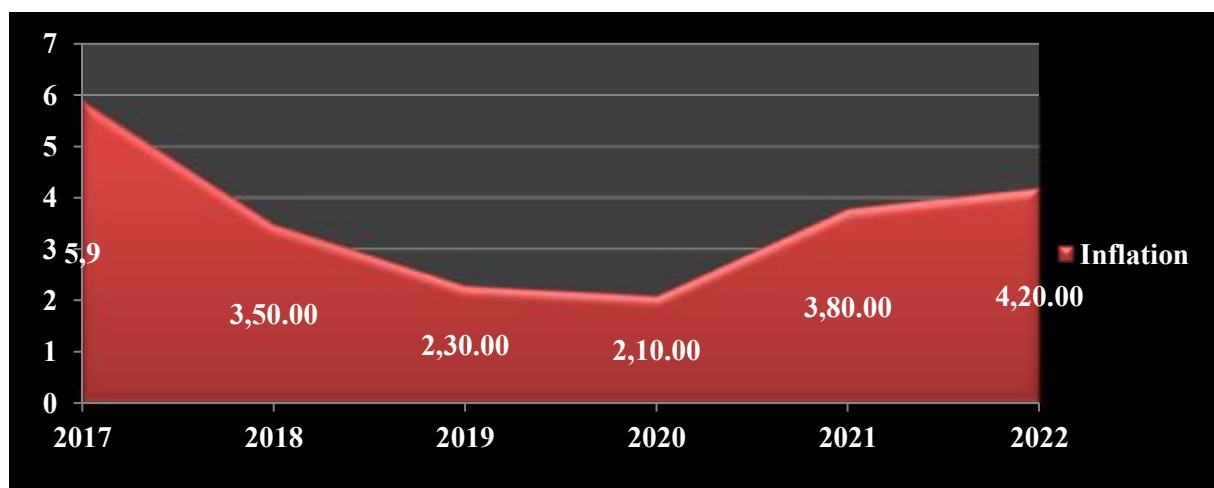
As for Algeria Government Debt to GDP Generally, Government debt as a percent of GDP is used by investors to measure a country ability to make future payments on its debt, thus affecting the country borrowing costs and government bond yields.

The decline in hydrocarbon revenues and the increase in spending led to an increase in the budget deficit to 9.6% of GDP, and public debt approached 47% of GDP in 2019, 70% of which is due to the central bank after large cash financing operations. It is expected that the financing operations of the Central Bank will increase during this year (2020), as it is expected to reach 68.2% by its end (**as shown in the previous figure No. 05**), and this is due to the great negative impact of the COVID-19 pandemic on the well-being and level. The livelihood of the population, especially with the deterioration of the value of the dinar, in addition to the fact that such operations of financing in the consumer sectors would increase the slowdown of growth, limiting the possibility of creating jobs and reducing poverty.

3- Impact of covid 19 on the Inflation :

With regard to inflation, according to the expectations of the World Bank, it will decline, and this despite the great impact of the Corona pandemic on the Algerian economy, especially the deterioration of the value of the dinar, which further worsens the trade balance, and by virtue of the fact that inflation in Algeria, not a while ago, is not considered a real and expressive indicator. This is in view of the government support provided in the field of consumer goods, which is what makes the World Bank predict an increase in government support, especially during this critical period that was accompanied by the Corona pandemic, where it is expected that the subsidy will increase and inflation will decrease from 2.3 to 2.1 As shown in the following figure (Figure 06).

Fig 06 : Current data and future expectations of the Inflation as a percentage of GDP for the period 2017-2022



Source : Prepared by the researcher Based on the data of the World Bank (October 2020).

4- Corona's future risks to the Algerian economy :

- The scale and rapid growth of budget and current account deficits require urgent action, as public debt increases, reserves are expected to run out in 2021, and off-balance sheet commitments are imminent. Past and present measures taken by governments to try to resolve the double deficit issue, including import restrictions or monetary financing, are short-term solutions that should be complemented by reforms to remedy structural

weaknesses in the economy. The depreciation of the exchange rate could bring another breath of fresh air.

- Lower than expected oil prices could worsen budget and current account deficits and accelerate the loss of international reserves. In the context of a limitation on planned international borrowing, domestic borrowing will increase, as will the cost of borrowing. The use of additional monetary financing could create risks of inflation.
- Faster spread of COVID-19 in the country could further reduce private consumption and investment, increase public health spending and lower non-oil budget revenues, worsening the deficit. (world bank, (April 2020))

5- The precautionary measures taken by the Algerian state to reduce the effects of the Covid 19 virus on its national economy :

To this end, we have put together a summary of the key measures taken by the Government and other Algerian authorities to try and mitigate the impact of Covid-19 on the economic activity.

Customs Measures

- The Ministry of Finance is tasked to **facilitate customs clearance** of imported food products and to speed up the related banking procedures in the light of the exceptional situation the country is going through. In that respect, the Central Customs Department (*Direction Générale des Douanes*) has establish **and made available to professionals (i.e. customs brokers) a list of goods** necessary in the context of the Covid-19 outbreak (e.g. health devices and basic products) and which benefit from a **green circuit** (i.e. allowing for expedited customs clearance and removal).
- Certain products are **temporarily suspended for export**, including some foodstuffs and pharmaceutical products.

Tax Measures

- **An extension** has been granted for the deadline **for declarations and the payment of duties and taxes** until (i) 20 may 2020 for the monthly and trimestral declarations (série G n°50 and série G n°50 ter), (ii) 30 June 2020 for the annual declarations (*bilan et annexes*) and (iii) 31 May 2020 for the companies attached to the Tax Corporate Section (*Direction Générale des Entreprises*).
- The possibility of requesting a **tax debt payment rescheduling** for taxpayers who find themselves in a difficult financial situation.

Banking Measures

- In order to reduce the impact of the Covid-19, **the Bank of Algeria specified exceptional measures to soften certain prudential provisions** applicable to banks and financial institutions, in terms of liquidity, capital and debt classification. Such measures notably include **the possibility to reschedule and restructure clients' debt**.
- Pursuant to Instruction No. 05-20 of the Bank of Algeria, the Association of Banks and Financial Institutions (ABEF) invites banks and financial institutions **to examine the individual situation of each client** (individual professionals, very small businesses, small and medium-sized enterprises, small and medium-sized industries and large companies) and **grant the appropriate following measures** :
 - Extension and/or renewal of deadlines for credits maturing on or after 31 March 2020 ;
 - Consolidation of unpaid debts not treated on or after 31 March 2020 ;
 - Extension of the deadlines for the use of credit facilities and deferred payments ;
 - Cancellation of penalties for late payment of receivables due on or after 31 March 2020 ;
 - Maintenance and/or renewal of operating loans.

- o The measures decided are applicable for a period of 6 months from 31 March 2020. (Bourabiat, 2020)

Conclusion :

Through the previous analysis of the structural nature of the Algerian economy and the identification of the most important economic sectors affected by the outbreak of the Corona virus. Unlike other shocks I had previously, which affected one side of the overall economy (supply or demand), it turned out that the Corona virus directly affected both demand and supply side and as a result we came up with a set of conclusions that focus mainly on the following:

- This requires a broad response in monetary and fiscal policies to support demand and provide the necessary financing for the various sectors most affected by the spread of the Coronavirus. Therefore, an immediate financial response is absolutely essential by boosting spending on the health services sector, patient care, and limiting the spread of the virus.

- Although the monetary and financial policies put forward by the country are considered stimulus policies that help to stimulate aggregate demand in the economy by stimulating the consumption pattern and encouraging investment, it is necessary to beware of the implications for this on their budgets, conditions for the external sector, the exchange rate of its currency and capital flows the money.

There is still a great deal of uncertainty about the potential economic effects of the Corona virus, but projections indicate that the shock may be significant (depending on strong domestic consumption, exchange rate flexibility and the depth of the foreign exchange market), especially with regard to providing production inputs. Consumer goods are imported, and the strength and integrity of the banking sector through its supply and demand shocks can reduce the impact of the Corona pandemic. In addition to other factors such as the strength of social protection networks and the strength of the SME sector, this is what Algeria definitely lacks.

- As an inevitable result that was drawn in previous crises, especially in the current Corona crisis, it is necessary to review the nature of the Algerian economy and work to get out of the excessive dependence of one sector, namely the hydrocarbons sector and work to make the Algerian economy in a balanced structure by reviewing and pushing other sectors, especially The three main sectors (agriculture, industry and tourism), given that the capacities in these sectors are available, especially in the field of agriculture, in order to achieve internal sufficiency on the one hand to reduce the burden of the trade balance deficit on the other hand.

- One of the things that gives hope that the launch will be fruitful this time is the government taking targeted steps towards diversification of the economy, perhaps the most prominent of which is efforts to stimulate private investment, such as the abolition of rule No. 51/49 for non-strategic sectors, will be hampered by national and global suspicions. However, in the medium term, it will be necessary to significantly improve the business climate to boost private investment, encourage diversification while building resilience and stimulating growth.

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