



EXECUTIVE SUMMARY

Algeria is facing a new crossroad as its political and socio-economic balance has become increasingly weakened by the consequences of the oil price collapse since 2014. Algeria is faced with stark choices, as illustrated by the interplay between its energy sector and its political & economic challenges and opportunities. Budgetary constraints are putting pressure on its key hydrocarbon industry, which was already suffering from years of underinvestment due to tough fiscal terms, challenging business climate and security risks. The North African nation needs to intensify efforts to revive its oil and gas upstream sector with new projects, avert the long-term production decline at mature fields, whilst meeting growing domestic demand and honoring gas export commitments. The widening fiscal deficit and the rapid erosion of financial buffers since the oil price fell is further increasing the need for foreign capital to boost oil and gas reserves, amid growing competition with other producing nations to attract capital and technical know-how from international oil companies. But the lack of upstream investment is just one of the challenges facing Algiers in its energy sector and beyond.

Algeria's current economic structure comes from an intricate historical and political legacy. The exposure to the volatility of global oil prices combined with years of expansionary policy have brought out the limits of Algeria's socio-economic model. In particular, the burden of social transfers and the pervasive effect of energy subsidies on energy consumption means consistent reforms are more pressing than ever. But reforms also come up against the need to maintain a tenuous social stability among the wider population, especially in the run-up to the next presidential election in April 2019.

Two key scenarios can be envisaged on the way forward. The dependence on oil prices and markets fluctuations will persist under a scenario of political status quo and in the absence of strong policy implementation in the short to medium term. At the same time, there remains huge potential for further diversification in the energy sector and beyond, from the development of a home-grown renewable industry to enabling the growth of the private sector in non-oil industries. Alternatively, at a critical time for its political and economic future and under a scenario of gradual change, bolder choices through stringent policy reforms are offered to authorities. These could help ensure the transition to a more viable growth model, where both political & social stability and financial & economic sustainability could be achieved.