ALGERIA

Algeria’s economic freedom score is 49.7, making its economy the 162nd freest in the 2021 Index. Its overall score has increased by 2.8 points, primarily because of an improvement in fiscal health. Algeria is ranked 13th among 14 countries in the Middle East and North Africa region, and its overall score is below the regional and world averages.

After a decade-long slide, Algeria’s economic freedom score turned upward this year. It remains repressed but is very close to the threshold for a higher ranking. To put the country on the path to greater economic freedom, the government needs to strengthen the judicial system and other rule-of-law institutions. Greater openness and increased financial freedom would improve the investment climate.

IMPACT OF COVID-19: As of December 1, 2020, 2,447 deaths had been attributed to the pandemic in Algeria, and the economy was forecast to contract by 5.5 percent for the year.

BACKGROUND: The National Liberation Front has dominated politics in Algeria ever since the country’s independence from France in 1962. President Abdelaziz Bouteflika was forced out of office in April 2019 after 20 years in power, and Abdelkader Bensalah was named interim president. Abdelmadjid Tebboune was elected president on December 12, 2019. Political stability has been eroded by widespread popular disillusionment with the political system and by Algeria’s weak economy. Since 2015, Algeria has pursued an import substitution policy, adopting protectionist measures to encourage domestic production. Algeria is the world’s seventh-largest exporter of natural gas. Oil and gas account for almost 95 percent of export revenues and more than 30 percent of GDP.
The government controls most real property in Algeria, and unclear titles and conflicting ownership claims make the purchase of private real estate difficult. Although secured interests in property are generally recognized and enforceable, court proceedings can be lengthy, and the results can be unpredictable. The judiciary is generally weak, slow, and subject to political pressure. Cronyism and corruption plague the business and public sectors, especially in energy.

The top individual income tax rate is 35 percent, and the top corporate tax rate is 26 percent. The overall tax burden equals 37.2 percent of total domestic income. Government spending has amounted to 38.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 5.4 percent of GDP. Public debt is equivalent to 46.3 percent of GDP.

Starting a business, dealing with construction permits, and obtaining electricity connections have all become cheaper, but interruptions of electricity occur with slightly greater frequency. The value added per worker has risen, increasing labor freedom. The government, facing a steep budget deficit caused by lower oil prices, sharply reduced fuel subsidies in 2020.

Algeria has two preferential trade agreements in force. The trade-weighted average tariff rate is 13.8 percent, and layers of nontariff barriers are in place. Foreign investors are generally limited to minority status, and restrictions on foreign ownership still limit much-needed investment dynamism. Capital markets are underdeveloped, and the financial sector remains dominated by public banks. In 2020, the central bank lowered the reserve requirement ratio.