

The role of economic diversification policy in addressing structural imbalances in Algeria

Zenati Samia ¹, and Chaoui Hanane ²

¹ Ferhat Abbas University, Sétif, Algeria. Email: Samia.zenati@univ-setif.dz

² Ferhat Abbas University, Sétif, Algeria. Email: chaouihanane@univ-setif.dz

Abstract---This study aims to analyze the role of economic diversification policy in addressing the structural imbalances inherent in the Algerian economy, particularly in light of the excessive reliance on the hydrocarbon sector and the resulting structural fragility and economic fluctuations. The study employs a descriptive-analytical approach by reviewing economic literature and analyzing a set of indicators related to the economic structure, such as the composition of Gross Domestic Product (GDP), inflation, and unemployment rates. The findings indicate that despite the significance of the efforts made toward economic diversification, they have not yet achieved the desired impact in correcting structural imbalances. The hydrocarbon sector continues to dominate economic activity, contrasted by the weak contribution of other productive sectors such as agriculture and tourism. The study concludes that achieving effective and sustainable economic diversification requires the adoption of profound structural reforms based on the development of non-oil sectors.

Keywords---Economic Diversification, Structural Imbalances, Algerian Economy, Economic Development.

1. Introduction

Economic diversification policy serves as a fundamental pillar in addressing the structural imbalances prevalent in many oil-exporting Arab nations. The heavy reliance of these countries on oil revenues renders them highly vulnerable to global market fluctuations, adversely affecting their economic stability. Economic diversification seeks to reduce dependence on the energy sector, diversify income sources, and build a more resilient economy capable of withstanding external shocks. By investing in diverse sectors—such as industry, agriculture, tourism, and technology—these nations can achieve sustainable economic growth and create new employment opportunities. Furthermore, diversification

How to Cite:

Samia, Z., & Hanane, C. (2026). The role of economic diversification policy in addressing structural imbalances in Algeria. *The International Tax Journal*, 53(1), 266–278. Retrieved from <https://internationaltaxjournal.online/index.php/itj/article/view/518>

The International tax journal ISSN: 0097-7314 E-ISSN: 3066-2370 © 2026

ITJ is open access and licensed under a Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License.

Submitted: 20 January 2025 | Revised: 09 July 2025 | Accepted: 12 November 2025

contributes to infrastructure development, enhances human capital, and improves the investment climate, thereby attracting Foreign Direct Investment (FDI) and fostering comprehensive economic development. However, the process of economic diversification requires strong political will, long-term strategic planning, and fundamental structural reforms, alongside providing an environment conducive to investment and innovation.

For decades, the Algerian economy has faced a series of structural imbalances primarily resulting from an excessive reliance on the hydrocarbon sector. This dependence has exposed the economy to external volatility and weakened its capacity to achieve sustainable growth. In light of global economic shifts and recurring oil price declines, economic diversification has emerged as a strategic imperative to address these imbalances and enhance the robustness of the national economy. Accordingly, this article aims to analyze the role of economic diversification policy in mitigating structural imbalances in Algeria.

Research Problem

The research problem can be formulated as follows: To what extent has the economic diversification policy contributed to addressing the structural imbalances in the Algerian economy?

Previous Studies

Study 1: The Impact of Economic Diversification on Economic Growth in Algeria (1990-2021) This study examined the relationship between economic diversification and economic growth in Algeria over a long period characterized by sharp fluctuations in oil prices. The researchers utilized modern econometric models, specifically the Autoregressive Distributed Lag (ARDL) model, to measure the impact of diversification on Gross Domestic Product (GDP). The results indicated that, in the short term, economic diversification did not achieve the expected positive impact on growth; rather, it showed a negative effect during certain periods. The study attributed this to the rentier nature of the Algerian economy and the poor performance of non-oil sectors in terms of productivity and competitiveness. The significance of this study lies in highlighting that the absence of genuine diversification leads to persistent structural imbalances, particularly in the production structure dominated by the hydrocarbon sector.

Study 2: Analysis and Evaluation of Economic Diversification Indicators in Algeria (2000-2018) This study sought to analyze a set of economic diversification indicators, such as output diversification, export diversification, and employment diversification. The findings revealed a relative improvement in some indicators, particularly those related to domestic non-oil activities; however, this improvement was insufficient to bring about a profound structural transformation. The importance of this study lies in its conclusion that economic diversification in Algeria has remained partial and unbalanced, leading to continued structural imbalances in the labor market and the trade balance.

Research Objective

This study aims to shed light on the role of economic diversification policy in addressing the structural imbalances of the Algerian economy, considering it one of the strategic policies aimed at restructuring the national economy and reducing the degree of dependency on the hydrocarbon sector.

1. Assessment of the Algerian Economic

Reality Assessing the reality of the Algerian economy is a highly complex task due to the interplay of various influencing factors and the multifaceted challenges it faces. On one hand, the Algerian economy relies heavily on oil and gas revenues, rendering it vulnerable to global market fluctuations. On the other hand, it seeks to diversify its sources, reduce hydrocarbon dependency, and bolster non-oil sectors such as industry and agriculture. Therefore, studying this reality necessitates an in-depth analysis of state economic policies and an evaluation of performance across various sectors, in addition to

examining the impact of external factors—such as climate change and geopolitical developments—on the national economy.

1.2. GDP Growth Rates

The Gross Domestic Product (GDP) growth rate serves as a comprehensive "health certificate" for the Algerian economy, clearly reflecting the extent of growth and development across various productive sectors, ranging from industry and agriculture to services. As defined by the World Bank, GDP is the total market value of all final goods and services produced within a country's borders during a specific period, whether for domestic consumption or export. Consequently, any increase in the GDP growth rate indicates a rise in productivity and economic efficiency, contributing to improved living standards, increased employment opportunities, and a strengthened position for Algeria in the global economy. Furthermore, analyzing GDP components—such as the individual contribution of each sector—provides policymakers and economists with a clear picture of economic strengths and weaknesses. This data-driven insight assists in making informed decisions to foster sustainable growth, diversify income sources, and ensure long-term stability.

The following figure illustrates the evolution of the GDP growth rate:

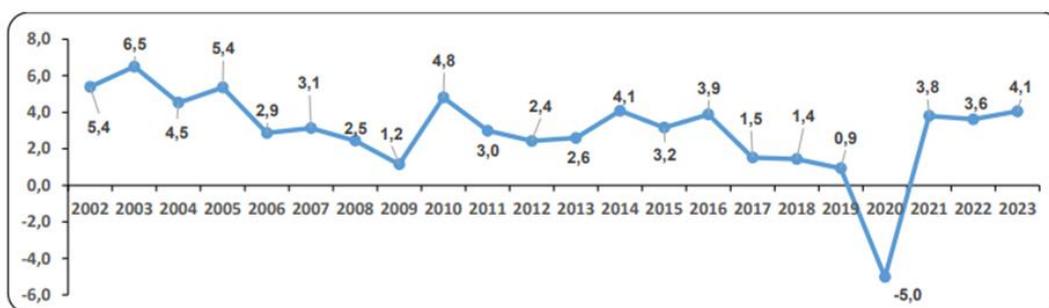


Figure 1: Evolution of the GDP Growth Rate

Source: National Office of Statistics (ONS), Economic Accounts 2021-2023. Available at: https://www.ons.dz/IMG/pdf/Compt2021_2023.pdf

Over the first two decades of the twenty-first century, the Algerian economy underwent radical transformations heavily influenced by global oil price volatility and geopolitical shifts. After achieving accelerated growth at the beginning of the millennium, driven by soaring "black gold" prices, the economy faced formidable challenges following the oil price collapse in the mid-2000s. This collapse led to a sharp decline in government revenues and a widening budget deficit. Despite these external shocks, Algeria maintained a degree of economic stability owing to its substantial hydrocarbon reserves and the Revenue Regulation Fund (FRR). However, the inherent fragility of an economic model so heavily reliant on hydrocarbon revenues became increasingly evident.

In recent years, Algerian policymakers have sought to diversify income sources and mitigate dependence on non-renewable natural resources. These efforts included incentivizing investment in non-oil sectors—such as industry, agriculture, tourism, and technology—supporting local production, and infrastructure development. Consequently, the GDP growth rate has passed through several pivotal stages:

Period 2002–2004: This phase marked a significant turning point in Algeria's economic trajectory, characterized by unprecedented accelerated growth. Growth rates surged, peaking at 6.5% in 2003. This remarkable improvement was primarily attributed to the sharp rise in global oil prices, which acted as a powerful catalyst for an economy heavily dependent on these revenues.

Period 2005–2009: The economy experienced rapid shifts, with growth closely indexed to global oil fluctuations and ambitious government policies. Following the early 2000s oil boom, Algeria achieved strong growth—averaging 5.4% in 2005—fueled by oil revenues that financed large-scale infrastructure projects. This investment momentum stimulated non-oil sectors like construction and services. However, this close correlation with oil left the economy vulnerable; by 2007, growth slowed to 3.4% as prices began to soften. With the 2008 global financial crisis, oil prices collapsed, causing a sharp deceleration in growth to 2.4% and 1.5% in 2008 and 2009, respectively. This period underscored the fragility of the growth model and the urgent need for diversification.

Period 2010–2014: To accelerate development, Algeria implemented the Five-Year Development Plan alongside a "growth consolidation" policy. These joint efforts yielded an average economic growth rate of 4.1%. This achievement highlights the pivotal role of structural reforms and cross-sector investments in driving economic momentum.

Period 2015–2019: The economy witnessed a noticeable slowdown following the end of the oil boom. Growth rates gradually declined, reaching 0.9% in 2019 compared to 1.4% the previous year. While the service sector performed relatively well, it could not offset the significant contraction in the energy sector. Notably, non-oil GDP—a key indicator of diversification efforts—grew by 2.4% in 2019, reflecting some progress. In response, authorities shifted toward fiscal rationalization, reducing budgets for public investment programs.

The 2020 Shock: The Algerian economy suffered a severe contraction of -5.10% due to a "double shock": the collapse of oil prices and the COVID-19 pandemic, which disrupted global supply chains. In response, the government launched an ambitious Economic Recovery Plan (2020–2024) aimed at structural diversification and sustainable growth.

Period 2021–2023: The economy marked a significant positive turnaround, recording an average growth of 4.1% by 2023. This recovery is attributed to the comprehensive economic reform program initiated in 2020, which enhanced efficiency, productivity, and sectoral diversification.

2.2. Unemployment Growth Rates in Algeria

The evolution of unemployment growth rates reflects a complex interplay of socio-economic factors that shape the labor market within a country. High unemployment rates often indicate a persistent mismatch between labor supply and demand mechanisms. This imbalance may stem from several factors, including a slowdown in economic growth, shifts in the economy's industrial composition, or a "skills mismatch"—where the competencies demanded by the market do not align with those available within the workforce. Furthermore, deeper structural causes, such as technological advancements leading to job displacement, also contribute significantly to these trends. The following figure illustrates the trajectory of unemployment rates in Algeria throughout the period 2010–2023.

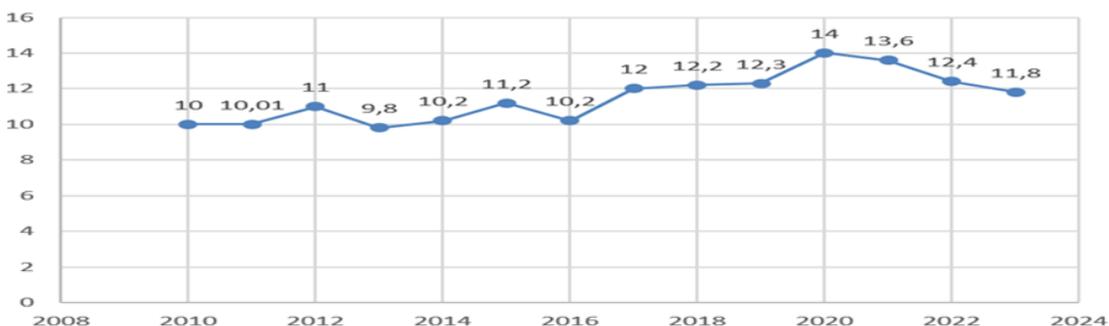


Figure 2: Evolution of Unemployment Rates in Algeria (2010–2023)

Source: World Bank Open Data, Algeria Profile. Available at: <https://data.worldbank.org>

Unemployment rates in Algeria between 2010 and 2023 experienced significant fluctuations, influenced by a multitude of economic and political factors. After a period of relative decline at the beginning of the second decade of the twenty-first century, unemployment rates began a gradual ascent, particularly among the youth. Experts attribute this rise to several factors, notably the slump in oil prices—the backbone of the Algerian economy—economic growth deceleration, and the inefficiency of policies aimed at job creation. Although some periods witnessed marginal improvements due to government interventions, such as youth employment programs and support for Small and Medium Enterprises (SMEs), these gains remained limited and failed to address the root causes of the issue.

The evolution of unemployment rates during this period can be categorized into the following stages: **Period of Relative Stability (2010–2014):** Following the global financial crisis, Algeria experienced a phase of relative stability in unemployment. The rate decreased from 10.2% in 2009 to 9.8% in 2014, before stabilizing back at 10.2% by the end of the period. This stability was primarily driven by the sustained high global oil prices, which bolstered government revenues and financed new developmental projects. Furthermore, the government adopted expansionary fiscal policies to stimulate growth and create jobs, particularly within the public sector. Despite this, the problem remained acute among the youth, highlighting persistent structural challenges in the labor market.

Phase of Gradual Deterioration (2015–2018): This period was marked by a steady decline in socio-economic conditions due to the sharp drop in global oil prices. This contraction in oil revenues forced the government to significantly reduce public spending, leading to an economic slowdown and a decline in investment. Consequently, the labor market was adversely affected; unemployment rose to 11.2% in 2015, dipped slightly to 10.2% in 2016, and then surged to 12.2% in 2018. This rise coincided with deteriorating living standards as the prices of goods and services increased.

Period of Complex Challenges (2019–2023): Algeria faced intertwined economic and social challenges during this phase, as the collapse in oil prices coincided with the global COVID-19 pandemic. This unprecedented "double shock" led to severe economic deterioration, causing unemployment to peak at a record 14% in 2020. This spike resulted from the suspension of economic activities due to lockdown measures and the depletion of oil revenues that previously funded job-creating investments. As a gradual recovery began, aided by a slight rebound in oil prices, unemployment rates started to recede, falling to 13.6% in 2021 and 12.4% in 2022. This relative improvement is attributed to the implementation of developmental projects aimed at revitalizing the economy, especially in non-oil sectors. The positive trend continued into 2023, with the rate declining further to 11.8%, indicating the relative success of certain policies in addressing economic challenges.

2.3. Evolution of Inflation Rates

Inflation rates in Algeria have undergone varied transformations over the years, significantly influenced by a multitude of economic and political factors. Following a period of relative stability, inflation rates witnessed a marked increase during certain intervals, adversely affecting citizens' purchasing power and intensifying economic challenges. The drivers of these fluctuations are multifaceted, including oil price volatility—a fundamental pillar of the Algerian economy—the impact of implemented economic reforms, and global factors such as international financial crises and price shifts in essential commodities. In response, the Algerian government has enacted a series of measures to curb inflation, including the tightening of monetary policy, diversifying income sources, and incentivizing domestic production. Nevertheless, achieving long-term inflationary stability and ensuring an improved standard of living for citizens remains a persistent challenge. The following figure illustrates the evolution of inflation rates in Algeria during the period 2010–2023.

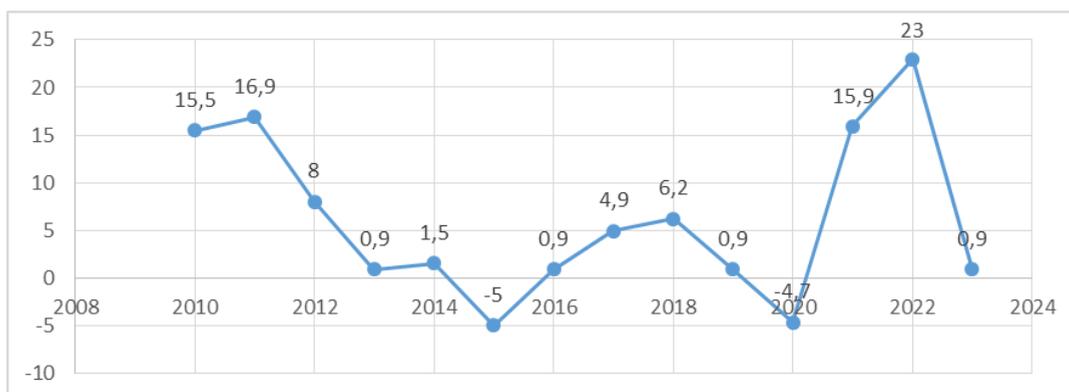


Figure 3: Evolution of Inflation Rates in Algeria (2010–2023)

Source: World Bank Open Data, Algeria. Available at: <https://data.worldbank.org>

3. Evolution of Inflation Growth Rates

Inflation rates in Algeria between 2010 and 2023 experienced significant fluctuations, heavily influenced by both global and domestic economic developments. At the beginning of the second decade of the twenty-first century, inflation stabilized at relatively low levels, supported by cautious monetary policies and stable oil prices. However, this stability was short-lived. Recent years have seen a gradual rise in inflation due to several factors, including the depreciation of the Dinar, rising food prices, and the impact of the COVID-19 pandemic on global supply chains. These developments prompted the Bank of Algeria to implement measures to contain inflation, such as raising interest rates and tightening monetary policy.

The evolution of inflation in Algeria can be traced through the following stages:

Relative Stability Phase (2010–2015): This period marked a notable shift characterized by relative price stability. After inflation peaked at 16.9% in 2011, it declined sharply to reach its lowest point in 2015, recording a contraction of -5%. This significant drop is attributed to cautious monetary policies—including raising interest rates to increase borrowing costs and encourage saving—and tightening liquidity. Additionally, the decline in global oil prices helped curb inflation, given Algeria's heavy reliance on oil revenues. Economic reforms, such as price liberalization and subsidy reductions, also contributed to this relative stability.

Gradual Rise Phase (2016–2020): This period saw marked shifts in inflation rates. It began with a gradual increase in the prices of goods and services, with inflation recording a slight rise of 0.9% in 2016. By 2018, the pace accelerated to 6.2%, primarily due to the sharp decline in oil prices and the depreciation of the Algerian Dinar against foreign currencies, which inflated import prices and production costs. However, this rise was temporary; inflation dropped back to 0.9% in 2019, driven by a decline in aggregate demand resulting from government austerity measures. The COVID-19 pandemic further altered the landscape, as lockdown measures halted economic activities, leading to a domestic economic contraction and a negative inflation rate of -4.7% in 2020.

Exacerbation Phase (2021–2023): Between 2021 and 2023, the inflationary crisis intensified due to the repercussions of the pandemic and the war in Ukraine. These global events disrupted supply chains and spiked raw material and energy prices, directly impacting domestic consumer prices. Consequently, inflation jumped to 15.9% in 2021 and reached a record 23% in 2022. By 2023, however, a significant shift occurred as inflation rates fell by 0.9% compared to the previous year. This decline is credited to government interventions, including market regulation, subsidies for essential goods, and the promotion of domestic production.

4. Assessment of Diversification in Economic Sectors

Studying the diversification of economic sectors in Algeria is of paramount importance given current economic challenges. This assessment aims to evaluate the extent of diversification, identifying strengths and weaknesses to formulate effective strategies for income source diversification and national competitiveness.

4.1 Contribution of Sectors to Value Added and GDP Composition

The Algerian economy relies heavily on the contribution of various sectors to the Gross Domestic Product (GDP). Although the hydrocarbon sector remains the primary pillar, there are increasing efforts to enhance the contribution of sectors such as industry, agriculture, and services. Algeria seeks to increase the Value Added (VA) in these sectors by boosting local production, encouraging investment, and developing infrastructure. Nonetheless, the country faces challenges including high import dependency, oil price volatility, and low productivity in certain sectors. Achieving sustainable development requires a comprehensive strategy to foster inter-sectoral integration and reduce hydrocarbon dependency.

Table 1: Sectoral Contribution to Value Added and GDP Composition (2023)

		Production PB	Value Added (VA)	Domestic Income (RI)
Agriculture, Fishing & Forestry	2023	4 964 381,3	4 098 898,9	4 092 124,7
	2022	3 936 541,8	3 226 135,3	3 220 222,6
Water & Energy	2023	512 722,4	282 612,0	116 813,4
	2022	478 302,7	255 011,8	92 541,7
Hydrocarbons	2023	8 456 162,4	6 791 967,1	5 992 824,0
	2022	10 255 408,1	8 705 293,8	7 964 064,5
Mining & Quarrying	2023	125 515,3	85 991,3	70 665,1
	2022	123 151,9	84749,3	70 667,9
Construction & Public Works	2023	257 598,7	144 124,6	106 421,8
	2022	243 892,2	127 037,7	92 521,8
Chemicals, Rubber & Plastics	2023	336 331,3	153 195,5	135 699,8
	2022	286 421,8	124 314,9	108 768,3
Food Processing Industry	2023	1 905 449,2	576 435,6	510 572,0
	2022	1 799 980,9	550 627,5	488 384,9
Textile Industry	2023	149 795,0	48 135,7	44 433,2
	2022	124 899,9	39 638,8	36 514,8
Leather & Footwear Industry	2023	12 435,5	5 509,5	5 184,2
	2022	10 580,5	4 672,4	4394,9
Wood & Paper Industry	2023	73 842,8	33 894,6	30 771,2
	2022	63 806,6	29 527,6	26 838,3
Transport & Communications	2023	3 611 431,8	2 406 531,4	1 899 028,6
	2022	3 469 847,0	2 297 891,3	1 825 078,0
Trade	2023	4 083 138,8	3 392 343,7	3 214 240,0
	2022	3 629119,6	3 003203,3	2 839 276,3
Hotels, Cafes & Restaurants	2023	518 056,5	448 848,1	417 611,6
	2022	420 140,3	358 693,2	333 089,5
Business Services	2023	454 264,7	38 0824,8	341 712,2
	2022	420 429,8	352 371,7	316181,3
Household Services	2023	479 767,8	410 204,4	404 360,2
	2022	448 174,7	384 256,9	378 782,3

Source: National Office of Statistics (ONS), National Accounts 2021-2023, Algeria.

The year 2023 witnessed notable shifts in the sectoral composition of Value Added (VA) and Gross Domestic Product (GDP) in Algeria. Although the hydrocarbon sector continues to dominate the economic structure, there are positive indicators of a diversifying production base. Several non-oil sectors recorded significant growth, driven by government efforts to diversify the economy and incentivize investment in promising sectors.

These transformations included an increased contribution of the industrial sector to value added, particularly in manufacturing, supported by new investment projects and state support for domestic manufacturing. The services sector also acted as a catalyst for economic growth, especially in Telecommunications and Information Technology, fueled by the country's digital transformation. Despite these gains, the agricultural sector continues to face challenges that limit its full potential contribution to GDP.

Agriculture, Fishing & Forestry: This sector showed a remarkable improvement, with its production value reaching 4,964,381.3 million DZD in 2023, an increase of 1,027,833.9 million DZD compared to the previous year.

Hydrocarbons: While remaining the backbone of the economy, the sector's production reached 8,456,162.4 million DZD in 2023, representing a decline from 10,255,408.1 million DZD in 2022. This contraction reflects both global market dynamics and strategic efforts to reduce oil and gas dependency.

Manufacturing Industries: The food processing industry grew to 1,905,449.2 million DZD in 2023 (an increase of 105,468.3 million DZD). Similarly, the textile industry surged from 124,899.9 million DZD in 2022 to 149,795 million DZD in 2023. This performance underscores the success of policies aimed at bolstering the role of manufacturing in the national economy.

Services and Trade: The Transport and Communications sector increased its contribution from 3,469,847 million DZD in 2022 to 3,611,431.8 million DZD in 2023. Furthermore, the Trade sector achieved substantial growth, rising from 3,629,119.6 million DZD to 4,083,138.8 million DZD during the same period, highlighting its pivotal role in stimulating economic activity.

The Strategic Role of the Agricultural Sector (2010–2023)

The agricultural sector has demonstrated robust growth over the last decade, emerging as a critical source for revitalizing the national economy and potentially generating foreign currency. Its contribution to GDP rose significantly from 9,968 billion DZD in 2010 to 35,588.7 billion DZD in 2023. In terms of percentage, agriculture's share of GDP increased from 8.47% in 2010 to 11.82% in 2023. These figures confirm a substantial structural evolution and a tangible move toward diversifying income sources and mitigating excessive reliance on hydrocarbon revenues.

Table 2: Contribution of the Agricultural Sector to GDP Composition (2000–2023)

Year	GDP (PIB)	Agriculture	% of GDP
2000	4,123.5	346.2	8.40%
2001	4,227.1	412.1	9.75%
2002	4,522.8	417.2	9.22%
2003	5,252.3	515.3	9.81%
2004	6,149.1	580.5	9.44%
2005	7,562.7	581.6	7.69%
2006	8,501.6	641.3	7.54%
2007	9,352.9	708.1	7.57%
2008	11,043.7	727.4	6.59%
2009	11,043.7	931.4	9.34%
2010	9,968.0	1,015.3	8.47%
2011	14,588.5	1,183.2	8.11%

Year	GDP (PIB)	Agriculture	% of GDP
2012	16,209.6	1,421.7	8.77%
2013	16,647.9	1,640.0	9.85%
2014	17,228.6	1,772.2	10.28%
2015	16,712.7	1,935.1	11.57%
2016	17,514.6	2,140.3	12.22%
2017	18,876.2	2,219.1	11.76%
2018	20,393.5	2,429.4	11.91%
2019	20,500.2	2,598.5	12.67%
2020	18,476.9	2,546.9	13.78%
2021	22,244.4	2,688.3	12.08%
2022	28,386.5	3,326.1	11.72%
2023	35,588.7	4,206.9	11.82%

Source: Prepared by the authors based on Bank of Algeria, Quarterly Statistical Bulletin, various issues. National Office of Statistics (ONS), official website: <https://www.ons.dz> (Accessed on January 27, 2025)

3. Assessment of Gross Fixed Capital Formation (GFCF) Trends

Gross Fixed Capital Formation (GFCF) in Algeria serves as a vital indicator of investment levels and overall economic activity. This indicator has witnessed significant fluctuations over the decades, driven by both internal and external factors. Historically, GFCF trends have been closely correlated with oil prices—rising during booms and stagnating during slumps. However, heavy reliance on hydrocarbon revenues has introduced high volatility in investment levels, hindering efforts to diversify the Algerian economy. In recent years, the Algerian government has sought to bolster investment in non-oil sectors, such as industry, agriculture, and infrastructure, leading to a relative improvement in investment stability.

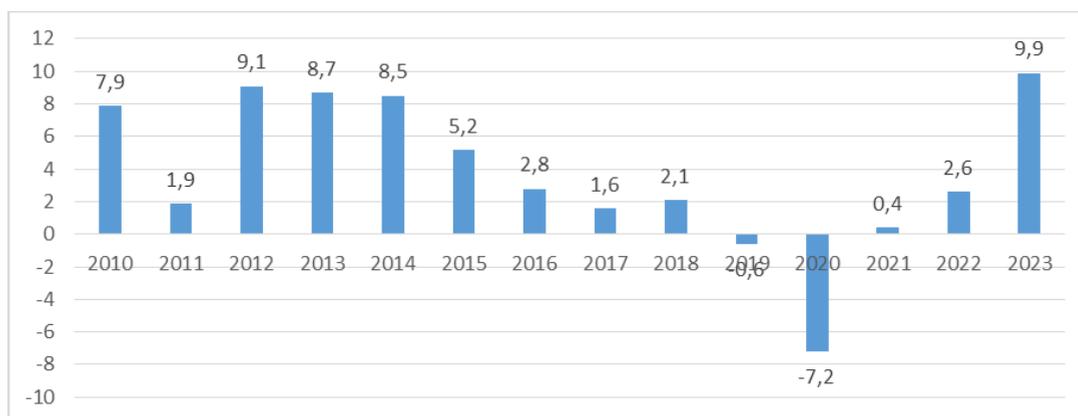


Figure 4: Evolution of Gross Fixed Capital Formation in Algeria (Percentage)

Source: World Bank Data (<https://data.worldbank.org>)

The contribution of GFCF to Algeria's GDP from 2010 to 2023 was directly impacted by global oil price volatility. High prices in the early years of this period facilitated an increase in both public and private investments. However, the post-2014 price collapse inverted this equation, leading to a marked decline in investment and adversely affecting economic growth. This heavy dependency underscores the fragility of the investment climate to external shocks, identifying three distinct phases of development:

Phase of Relative Stability (2010–2014): This period was characterized by noticeable fluctuations in GFCF growth. It began with strong momentum in 2010 at 7.9%, which sharply declined to 1.9% in

2011 due to various factors affecting the investment climate. Growth rebounded to 9.1% in 2012 before settling at 8.5% in 2014. These fluctuations are attributed to volatility in raw material prices and shifts in economic policies and geopolitical events.

Phase of Gradual Deterioration (2015–2020): This phase saw an accelerated decline in capital formation. Growth fell from 5.2% in 2015 to a mere 0.6% in 2019. The situation reached its nadir in 2020 with a sharp contraction of -7.2%, primarily due to the COVID-19 pandemic which paralyzed many economic sectors and halted investment projects.

The Period of Challenges: The 2021–2023 period witnessed a significant transformation, characterized by an unprecedented and accelerated growth in Gross Fixed Capital Formation (GFCF). The growth rate rose from 0.4% in 2021 to 2.6% in 2022, before surging to 9.9% in 2023. This remarkable improvement is primarily attributed to a series of economic policies adopted by the Algerian government, aimed at economic diversification and enhancing self-sufficiency through local production. These policies fostered an attractive investment climate, encouraging domestic investors to increase capital injections across various economic sectors. Furthermore, they played a pivotal role in stimulating economic growth and bolstering the competitiveness of Algerian products in both domestic and regional markets.

4. Impact of Economic Diversification on Structural Imbalances

This section explores the mechanisms through which economic diversification can mitigate structural imbalances in the Balance of Payments (BoP) and achieve a more balanced structure for exports and imports.

4.1 Impact of Tourism Revenues on Trade and Current Account Balances

Tourism is a fundamental pillar for sustainable development in Algeria, possessing immense potential to diversify income sources. Beyond its contribution to GDP, tourism directly improves the trade balance by attracting foreign currency through tourist expenditures on various services and products. This foreign capital inflow helps reduce the trade deficit and strengthens the national currency (the Dinar).

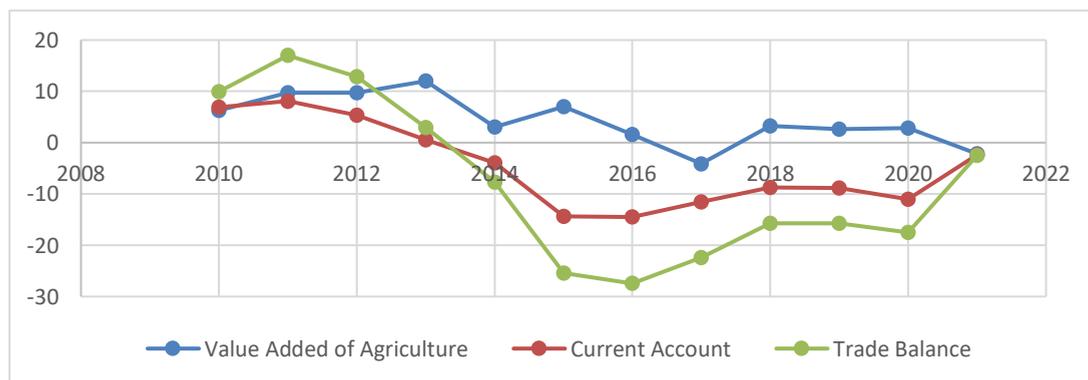


Figure 5: The Impact of Tourism Receipts on the Trade Balance and the Current Account Balance in Algeria.

Source: World Bank Data, available at: <https://data.worldbank.org>

Algeria witnessed a growing interest from 2010 to 2023 in the role of tourism in diversifying income sources and strengthening the national economy. Despite the challenges faced by the sector, tourism revenues contributed significantly to addressing deficits in the trade balance and the current account. These revenues worked to alleviate pressure on foreign exchange and increase monetary reserves. However, the scale of this contribution remains limited compared to the role of other sectors such as

oil and gas, necessitating further efforts to develop tourism infrastructure and diversify tourism products to attract more tourists and increase revenues.

The aforementioned figure highlights that the contribution of tourism receipts to total Algerian exports, despite some slight improvement at the beginning of the study period, remained generally limited. This contribution reached its historical peak in 2015 with a modest share of 0.9% of total exports, before declining sharply to an extremely low level of only 0.2% in 2020. This sharp decline is primarily attributed to the devastating repercussions of the COVID-19 pandemic, which paralyzed the global tourism sector. Strict precautionary measures, such as lockdowns and quarantines, led to a near-total halt in tourism movement, particularly impacting the Algerian tourism sector.

Consequently, despite the efforts made by the government to push the tourism sector toward addressing economic imbalances resulting from the decline in oil revenues, these contributions remained very limited and unable to bridge the large deficit left by the sharp contraction in the energy sector. This is due to the fact that the tourism sector's contribution to GDP is still weak compared to the oil sector, which represents the backbone of the Algerian economy. Despite intensive government efforts to drive growth in the tourism sector, it still suffers from many challenges that prevent a real breakthrough, highlighting the urgent need to diversify income sources and reduce dependence on oil.

4.2. The Impact of Agricultural Value Added on the Trade Balance and the Current Account Balance

Agriculture in Algeria is considered a vital sector that can significantly contribute to addressing imbalances in the trade balance and the current account. By increasing domestic agricultural production and diversifying crops, Algeria can reduce its dependence on food imports, thereby lowering the import bill. Furthermore, developing agricultural value chains and enhancing related manufacturing industries contributes to increasing agricultural exports, which bolsters the country's revenues and improves the balance of payments. Additionally, agriculture can contribute to providing new job opportunities in rural areas. The following figure illustrates the extent of the contribution of agricultural value added in addressing the trade balance and current account balance in Algeria.



Figure 6: The Contribution of Agricultural Value Added to Addressing the Trade Balance and Current Account Balance in Algeria

Source: World Bank Data, available at: <https://data.worldbank.org>

The agricultural sector has played a significant role in the Algerian economy over the past two decades; however, its contribution to improving the trade balance and current account remains limited. Despite efforts to diversify the economy and reduce reliance on hydrocarbon revenues, the agricultural sector has faced numerous challenges, including climate change, insufficient investment, and continued dependence on traditional farming methods. Nevertheless, agriculture possesses the potential to contribute more substantially to export promotion and import substitution by enhancing productivity, improving product quality, and encouraging organic farming and local food processing. Furthermore,

the agricultural sector can generate employment opportunities, increase national income, and achieve food security, as illustrated in the aforementioned figure.

This relationship can be clarified through the analysis of historical data. For instance, in 2001, when the agricultural value added (AVA) increased by 9.7%, a notable improvement was observed in the trade balance by 8.1% and the current account balance by 17%. Conversely, when the AVA declined by 4.1% in 2017, the growth of the trade balance contracted by 22.4%, and the current account balance growth fell by 11.6%.

These figures clearly indicate that agriculture serves as a fundamental lever for enhancing economic performance and reducing import dependency. However, agricultural value added experienced a continuous decline until 2020 due to various factors, including the COVID-19 pandemic, falling commodity prices, and the war in Ukraine.

These challenges have intensified national focus on the agricultural sector, leading Algeria to adopt several programs and policies to support domestic production. These efforts have yielded positive results; in 2022, agricultural value added rose by 5.2%. Concurrently, a significant improvement was recorded in the trade balance by 22.61% and in the current account balance by 8.6%.

These findings underscore the importance of investing in the agricultural sector and bolstering its role in the national economy. By increasing agricultural output and diversifying crops, Algeria can achieve self-sufficiency in various products, reduce the import bill, enhance food security, and open new horizons for agricultural exports.

5. Conclusion

This study aimed to highlight the role of economic diversification policies in addressing the structural imbalances of the Algerian economy, given its persistent dependency on the hydrocarbon sector. Through descriptive analysis and a review of existing literature, the study reached the following key conclusions:

Structural Imbalances: The Algerian economy suffers from deep-seated structural imbalances, primarily the dominance of the hydrocarbon sector over GDP and exports, alongside the weak contribution of non-oil sectors to value creation and employment.

Limited Impact of Policies: Despite their importance, diversification policies have not yet achieved the desired restructuring of the national economy. Diversification has remained largely limited in impact due to a weak productive base, lack of integration between economic sectors, and limited productive investment.

Strategic Imperative: Economic diversification remains an indispensable strategic choice for mid-to-long-term stability, provided that comprehensive structural reforms are adopted to develop non-oil productive sectors.

Innovation vs. Quantity: Diversification in Algeria has primarily focused on the quantitative expansion of certain sectors without sufficient attention to innovation and technology-driven diversification, which has limited productivity growth and competitiveness.

References

- Kourtel, N., Kheddache, F., & Alfiky, M. S. (2025). A Standard Study on the Impact of Economic Growth Rate In Algeria Using the ARDL Model for the Period 1990-2021. *Journal of North African Economies*, 20(35).
- Chergui, F. (2024). Economic Diversification Strategies in Algeria between Theory and Application. *Journal of Advanced Studies in Finance and Accounting*, 7(1). [In Arabic].
- Abdelmounaim, H., & Mazian, S. (2019). Economic Diversification in Algeria: Reality, Prospects, and Determinants. *Al-Hadath Journal for Financial and Economic Studies*, 2(2). [In Arabic].
- Senoussi, A. (2021). Economic Diversification Policy in Algeria between Performance and Evaluation: A Statistical Analytical Study [Master's Thesis, University of M'Sila]. [In Arabic].
- Daami, M. (2024). The Reality of Productive Sectors' Contribution to Achieving Economic Diversification and their Role in Exiting the Mono-Economy. *Journal of North African Economies*. [In Arabic].
- Abdellaoui, S. A. (2022). The Algerian Economy Between Oil Dependence and the Inevitability of Economic Diversification. *International Journal of Economic Perspectives*, 5(2).
- Sadok, C., & Nadjat, D. S. (2022). Impact of Export Diversification on Economic Growth: The Case of Algeria. *Journal of Economy and Environment*, 5(1).
- Zoulikha, Z. (2024). The Determinants of Economic Diversification in Algeria: An Empirical Approach. *Journal of Economy and Human Development*, 15(1).