THE WAVERLEY SERIES

ALGERIA

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

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office@lordwaverley.com • www.lordwaverley.com

ALGERIA — AT A GLANCE

Capital	Algiers
Population	≈ 47–48 million
Real GDP growth	3.8% (2025); projected between 2.9% and 3.7% for 2026 and around 2.7% for 2027, reflecting an anticipated slowdown as energy-price tailwinds fade
GDP per capita	≈ USD 6,100–6,600 (nominal, 2026)
Inflation	Turned negative in mid-2025 before recovering; projected around 2–3.5% for 2026 depending on the source
Unemployment	Overall unemployment in the high single to low double digits; youth unemployment (ages 15–24) remains elevated at approximately 29%
Current account	Projected to swing to an estimated USD 11.4 billion deficit in 2026 as energy windfalls fade
Currency	Algerian dinar (DZD)
Hydrocarbon dependence	Oil and gas account for roughly 92–93% of exports and around 46% of budget revenue according to the IMF's most recent Article IV consultation
2026 budget	Approximately USD 135 billion, signed by President Tebboune in December 2025, continuing an expansionary fiscal course pursued since 2020
Governing framework	President Abdelmadjid Tebboune, in office since December 2019; a succession of liberalising economic laws since 2020, including the 2022 Investment Law, 2023 Banking and Monetary Law, 2024 AfCFTA accession, and 2025 Mining Law

Algeria remains one of Africa's three largest economies, anchored by substantial hydrocarbon wealth, continued European gas-market dominance, and a genuinely active, multi-year reform programme launched in 2020 aimed at diversification and private-sector-led growth. This month, Algeria severed 50 years of diplomatic relations with the United Arab Emirates, citing accumulated 'provocative and hostile' actions including alleged Emirati support for Kabylia separatism, in a rupture rooted substantially in the two countries' opposing positions on the Western Sahara dispute. The UAE's own response was notably measured, expressing hope the rupture would prove temporary. Investors should weigh Algeria's genuine hydrocarbon wealth and reform momentum against structural fiscal deficit concerns and a foreign-policy posture that has now demonstrated willingness to sever a major Gulf economic relationship on short notice.

1. INVESTMENT & FDI

A succession of liberalising economic laws since 2020 signals genuine reform intent, even as underlying business-environment concerns continue to temper foreign investor enthusiasm.

Since 2020, Algeria has enacted a consistent sequence of investment-liberalising legislation: a new Hydrocarbon Law, the 2022 Investment Law partly lifting foreign ownership restrictions, the 2023 Banking and

Monetary Law, the 2023 Economic Land Law, accession to the African Continental Free Trade Area in 2024, and a new Mining Law in 2025. The September 2021 Government Action Plan formally prioritised transitioning to private-sector-led growth, rationalising public spending, reducing imports and boosting non-hydrocarbon exports.

- **A genuinely sustained reform sequence:** the consistency of new investment-relevant legislation across five consecutive years represents a sustained, verifiable policy commitment rather than an isolated announcement, even if implementation and investor perception have lagged the legislative intent.
- **Independent business-environment caution:** independent risk analysis notes that while Algeria's resource-rich geography could offer genuine opportunities, particularly in mining commodities relevant to the energy transition and AI-related supply chains, ongoing concerns about the broader business environment may continue deterring foreign firms from fully capitalising on these openings.
- **Sonatrach's substantial capital programme:** the state energy company's $40 billion investment programme for 2023-2027, spanning exploration, refining and renewable integration, represents Algeria's single largest current capital-deployment commitment and a genuine anchor for associated service and supply-chain investment.
- **Limited diversification progress despite reform:** the World Bank's own assessment notes that productivity growth and economic diversification have remained limited despite the reform sequence, a gap between legislative intent and measurable outcome that investors should factor into realistic timeline expectations.

2. TRADE & BUSINESS

Europe remains Algeria's anchor export market for gas, with new agreements extending pipeline deliveries even as the current account is projected to swing into deficit.

The European Union accounts for roughly 65% of Algeria's exports, led by Italy, France, Spain, the Netherlands and Germany, underpinned by established pipeline infrastructure: the Medgaz subsea link to Spain and the Transmed link to Italy. A July 2026 agreement with Germany's VNG will increase pipeline gas deliveries to Germany from January 2027, accompanied by new cooperation on green hydrogen. Despite this continued European anchor, Algeria's current account is projected to swing to an estimated $11.4 billion deficit in 2026 as the energy-price windfalls of recent years fade.

- **A deepening German gas relationship:** the VNG agreement, combined with its explicit green hydrogen cooperation component, represents a genuine expansion of Algeria's European energy partnerships beyond its traditional Spanish and Italian pipeline relationships.
- **Extreme hydrocarbon export concentration:** with oil and gas representing 92-93% of exports according to the IMF's most recent Article IV consultation, Algeria's external trade position remains almost entirely determined by global energy-price cycles.
- **A current account swinging into deficit:** the projected shift to an $11.4 billion current account deficit in 2026 reflects the fading of the energy-price tailwinds that had temporarily strengthened Algeria's external position, a trend worth monitoring for its implications on reserve adequacy and dinar stability.

3. MAJOR ECONOMIC DEVELOPMENTS

A major diplomatic rupture with the UAE this month underscores Algeria's continued prioritisation of sovereignty and regional positioning, even as fiscal deficits and hydrocarbon dependency persist as structural concerns.

On 10 September 2026, Algeria's Foreign Ministry announced it had severed diplomatic relations with the United Arab Emirates, stating it had 'exhausted all avenues' to preserve the relationship after years of accumulated 'provocative and hostile' actions; the UAE ambassador was given 48 hours to leave the country. Algeria's stated grievances included alleged Emirati support for the Movement for the Autonomy of Kabylia, a separatist movement, and broader accusations of destabilising activity across Africa and the Arab world; independent analysis traces much of the underlying tension to the two countries' opposing positions on Western Sahara, where the UAE backs Morocco's claim while Algeria supports the Polisario Front. Algeria closed its airspace to UAE-registered civil and military aircraft, though commercial passenger flights were exempted until an existing bilateral agreement expires at the end of 2026. The UAE's response was notably measured: its Foreign Ministry expressed hope the decision would prove 'temporary,' preserving 'fraternal ties,' while presidential adviser Anwar Gargash called, without directly naming Algeria, for relations to be conducted with 'rationality, dialogue and clarity of interests.'

- **A significant, abrupt diplomatic rupture:** the severing of five decades of diplomatic relations, following a February 2026 move to terminate the two countries' bilateral air services agreement, represents Algeria's most consequential foreign-policy action toward a Gulf state in recent memory.
- **Contested underlying causes:** Algeria's stated justifications and the Western Sahara-rooted rivalry identified by independent analysts represent different, not necessarily contradictory, explanations for the rupture; investors should note this reflects a genuine, unresolved geopolitical dispute rather than a settled matter.
- **A measured response suggesting the rupture may not be permanent:** the UAE's conciliatory public statements and the absence of any announced retaliatory measures suggest Abu Dhabi is not seeking to escalate the dispute further, a factor worth weighing against the severity of Algeria's own action.
- **Persistent structural fiscal concerns:** the IMF has directly attributed this year's growth resilience to higher oil and gas prices linked to the Iran conflict, while warning that 'stubborn fiscal deficits threaten the long-term outlook' independent of near-term energy-price fluctuations.
- **An expansionary budget continuing since 2020:** the approximately $135 billion 2026 budget, signed by President Tebboune in December 2025, continues a spending trajectory funded substantially by hydrocarbon revenue even as legacy field production gradually declines.

4. MAJOR PROJECTS & INFRASTRUCTURE

Sonatrach's $40 billion multi-year investment programme anchors Algeria's energy-sector infrastructure pipeline, with new gas fields expanding output.

- **Sonatrach's five-year capital programme:** spanning exploration, refining and renewable integration through 2027, this programme represents the clearest, largest single channel through which Algeria's energy-sector infrastructure ambitions are being realised.
- **New field production expansion:** output growth from the Hassi R'mel and Touat fields has directly expanded Algeria's natural gas production capacity, supporting both domestic supply and the export commitments described in Section 2.
- **Green hydrogen infrastructure cooperation:** the new cooperation component within the Germany-VNG agreement represents an early-stage but concrete entry point for renewable-energy infrastructure investors specifically interested in Algeria's emerging green hydrogen ambitions.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant international investment conferences or forums specific to this period were identified beyond the bilateral energy and diplomatic engagements described elsewhere in this briefing.

6. BUSINESS & INVESTMENT EVENTS

Notably, some regional business media had reported in mid-September on prospects for Algeria and the UAE to 'bolster economic ties and spur investment flows,' coverage that appears to have been quickly overtaken by the diplomatic rupture described in Section 3, illustrating how rapidly the bilateral relationship shifted within this reporting period specifically.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

A major rupture with the UAE this month stands in sharp contrast to deepening relationships with China and continued European energy partnerships.

- **United Arab Emirates:** diplomatic relations severed 10 September 2026, as described fully in Section 3, marking the most significant recent shift in Algeria's Gulf relationships specifically.
- **China:** ties have grown significantly in recent years, with imports exceeding $11 billion and a strategic partnership signed encompassing trade, infrastructure and industrial investment, positioning China as an increasingly central economic partner.
- **Germany:** the new VNG gas agreement and green hydrogen cooperation component represent a genuinely deepening European energy relationship distinct from Algeria's more established Spanish and Italian pipeline partnerships.
- **Other Gulf states:** President Tebboune has explicitly described Algeria's relations with Saudi Arabia, Kuwait, Oman and Qatar as 'brotherly,' a direct signal that the UAE rupture reflects a specific bilateral dispute rather than a broader Algerian pivot away from Gulf relationships generally.
- **IMF:** the most recent Article IV consultation, completed in September 2025, remains the primary channel of ongoing macroeconomic policy dialogue and monitoring.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

The government's own action plan explicitly prioritises private-sector-led growth, even as productivity and diversification gains remain limited.

The September 2021 Government Action Plan formally committed Algeria to a private-sector-led growth model, explicitly prioritising rationalised public spending, reduced import dependence and expanded non-hydrocarbon exports. Despite this stated commitment and the legislative reform sequence described in Section 1, the World Bank's own assessment finds that productivity growth and diversification have remained limited, while youth unemployment stays elevated at approximately 29%, reflecting the continued gap between formal job creation and Algeria's large, youthful labour force.

- **A stated but not yet fully realised private-sector transition:** the formal policy commitment to private-sector-led growth represents genuine intent, though the persistence of limited productivity and diversification gains indicates implementation has lagged the stated ambition.
- **Elevated youth unemployment as a persistent structural gap:** at approximately 29%, youth unemployment remains a significant social and economic challenge that formal GDP growth figures alone do not capture, relevant to any investor assessing Algeria's labour-market readiness for expanded private-sector activity.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Mining sector liberalisation and renewable and green hydrogen cooperation define the newest formally opened sectors for foreign capital.

- **2025 Mining Law:** this legislation represents the clearest recent evidence of Algeria's diversification commitment, opening a formal pathway for foreign investment in a resource-rich geography with genuine potential in commodities relevant to the global energy transition and artificial intelligence supply chains specifically.
- **Green hydrogen cooperation with Germany:** the VNG agreement's renewable-energy component offers a concrete, newly formalised entry point for investors and technology partners in Algeria's emerging green hydrogen ambitions.
- **Sonatrach's renewable-integration component:** within its broader $40 billion programme, Sonatrach's renewable-energy integration workstream offers co-investment and technical-partnership opportunities distinct from its traditional oil and gas exploration and refining activities.

SUMMARY ASSESSMENT

Algeria remains one of Africa's three largest economies, anchored by substantial hydrocarbon wealth, continued European gas-market dominance, and a genuinely active, multi-year reform programme since 2020 aimed at diversification and private-sector-led growth. Sonatrach's $40 billion investment programme, new field production growth, and a deepening German gas relationship with green hydrogen cooperation all represent concrete, verifiable elements of this economic story.

This month's rupture of 50-year diplomatic relations with the UAE, triggered by accumulated tension over Western Sahara, alleged Emirati support for Kabylia separatism, and broader regional rivalry, illustrates Algeria's continued willingness to prioritise sovereignty and regional positioning over commercial relationships, even as the UAE's own measured, conciliatory response suggests the rupture may not prove permanent. Set alongside this: stubborn fiscal deficits that the IMF has directly flagged as a long-term concern, extreme hydrocarbon export concentration, and persistently elevated youth unemployment all represent genuine structural challenges independent of the diplomatic dispute.

For investors, the coming months offer concrete signals to watch: whether the UAE rupture proves temporary as Abu Dhabi has suggested it hopes, whether the current account deficit's widening prompts fiscal adjustment or continued expansionary spending, and whether the 2025 Mining Law and green hydrogen cooperation translate into measurable new foreign investment beyond Algeria's traditional hydrocarbon base.