World Economic Situation and Prospects
Weekly Highlights

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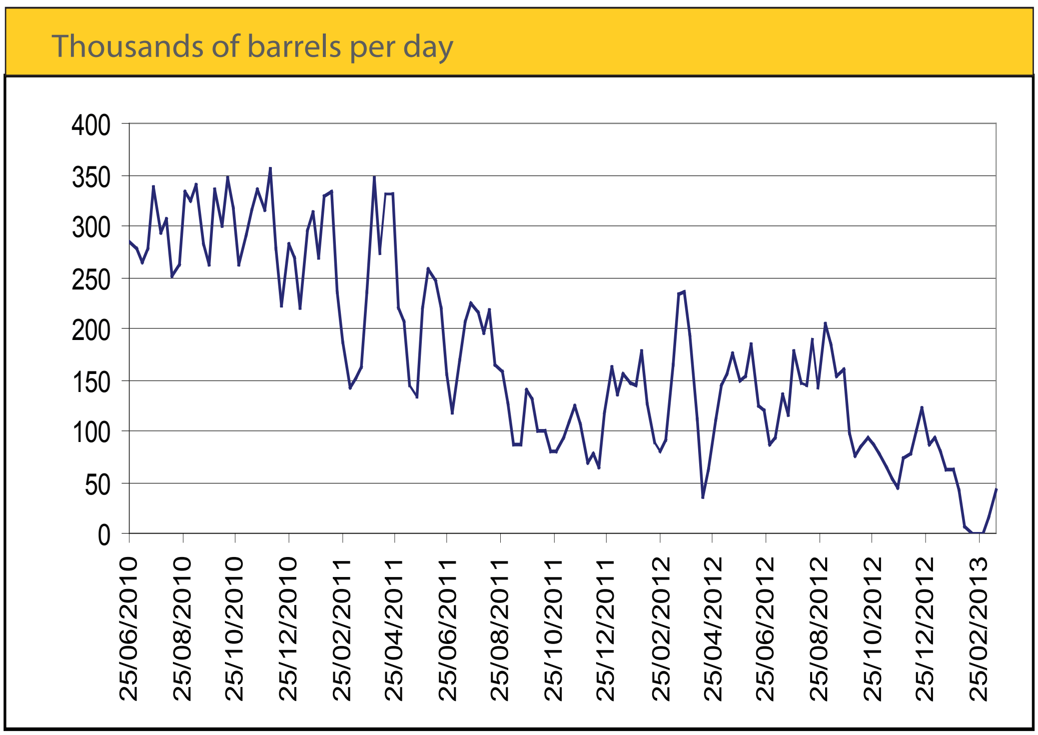
Algeria's oil exports and implications for its fiscal position

Algeria's trade surplus is down by 39 per cent for the period from January to the end of April compared to the same period in 2012. This appears to be a result of both a drop in exports and a rise in imports, but the most significant reason is a fall in oil exports to the United States. The rise in oil produced by hydraulic fracturing in the US has greatly increased oil production there and the oil produced by this process —called light tight oil (LTO) —competes relatively closely with the light sweet crude produced in Algeria. While exports from Algeria to the US averaged around 300 thousand barrels per day in 2010, exports are now down below 100 thousand barrels per day (see figure) . In addition to this, a fall in oil prices by around 7 per cent since the start of the year has also cut into the value of Algerian oil exports.

Oil Exports from Algeria to the United States (4-week moving average)



Source: U.S. Energy Information Administration

The recent decline in the volume and value of oil exports highlights Algeria's vulnerability to a volatile oil market. Oil exports make up over 90 per cent of total exports and the country requires a very high average oil price in order to cover domestic spending. The IMF's most recent article IV consultation in February pointed to a price of $121 per barrel to balance the government budget which was higher than average owing to new increases in civil service wages and current transfers in 2012. The price to cover the budget is expected to fall to around $110 in 2013 as increases in wages are expected to slow in the 2013 budget and growth in spending on social programs will be subdued. While this will help to reduce the deficit for the current year, the country remains vulnerable to a drop in oil prices given that the current Brent oil price benchmark is already below the the price necessary to cover the budget .

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[1]Overall oil output was about 1.2 million barrels per day in 2012.