

Algeria: Status quo ante

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- The protest movement -- the Hirak -- will not be appeased until the government is no longer comprised of members of the country's old political elite.
- Without a rapid and credible roadmap for transition to full democracy, President Abdelmadjid Tebboune's five-year term will unlikely be fully served.
- The continuing unrest poses a risk to overall economic activity and foreign investment. We are doubtful that the revamped hydrocarbons law will bear fruit anytime soon.

Managing the political transition will be key

We do not see the Hirak going away until an overhaul of the existing political structure takes place or considerable concessions are made to protesters. Any government crackdown is likely to be minor.

- Marking its one-year anniversary this week, the Hirak is still demanding change having already ousted former President Abdelaziz Bouteflika and triggered a new presidential election (albeit a win for regime insider Tebboune).
- Concessions have been made to protesters in efforts to quell the Hirak, but they resemble those of Bouteflika and are seen as superficial by many protesters.
- Newly installed as president, Tebboune set up a committee to revise the country's constitution. It began work in January and aims to report within three months.
 - Bouteflika and his predecessor both revised the constitution in 1988, 2008 and 2016.
 - The 1988 revision was in response to student protests. It created a multi-party system and "limited" the power of the military.
 - In 2008, presidential term limits were abolished to allow Bouteflika to stand for re-election for a third term the following year.
 - In 2016, two-term limits were re-instated as well as a requirement that the prime minister should be nominated from the largest parliamentary party.
 - Most revisions underscored Algeria's emphasis on democracy, but none of the measures brought about any meaningful change in a country run by what is popularly known as "Le Pouvoir"(the power structure).
- In early February, Tebboune pardoned more than 10,000 prisoners with sentences of 18 months or less. (Bouteflika had also pardoned 5,000 prisoners in 2017 for Algerian Independence Day).

Tebboune has been painted as a Bouteflika loyalist, handpicked last year by army chief Ahmed Gaid Salah. His Cabinet is largely unchanged from Bouteflika's and those ministers he has picked have been predominantly members of the old guard.

Table 1 – Algeria Macroeconomic Indicators¹

| | 2016 | 2017 | 2018 | 2019 | 2020f |
|---|-------|-------|-------|-------|-------|
| Real GDP Growth (%) | 3.2 | 1.3 | 1.4 | 2.6 | 2.4 |
| Crude Oil Production (M bpd) | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |
| Oil GDP Growth (%) | 7.7 | -2.4 | -6.4 | 1.6 | 1.9 |
| Non-oil GDP Growth (%) | 2.2 | 2.1 | 3.3 | 2.8 | 2.5 |
| CPI Inflation (%) | 6.4 | 5.6 | 4.3 | 2.0 | 4.1 |
| Fiscal Balance (% of GDP) | -13.4 | -8.6 | -7.5 | -13.2 | -9.9 |
| C/A Balance (% of GDP) | -16.5 | -13.2 | -9.6 | -12.6 | -11.9 |
| Total Gov't. Gross Debt (% of GDP) | 20.5 | 27.3 | 38.3 | 46.1 | 49.2 |
| Total Gross External Debt (% of GDP) | 2.4 | 2.6 | 2.3 | 2.2 | 3.0 |
| Gross Official Reserves (Mos. of Imports) | 22.5 | 19.2 | 15.7 | 11.6 | 7.9 |
| Nominal GDP (USD B) | 160.0 | 167.4 | 173.8 | 172.8 | 178.6 |
| Population (Millions) | 40.5 | 41.3 | 42.2 | 43.1 | 43.8 |

- Tebboune, a former prime minister, won with 58% of the vote, but according to the government's electoral commission, voter turnout was just 40%.
 - Tebboune served in various ministerial positions under Bouteflika.
 - He was sacked in 2017 after only three months as prime minister following a dispute with Ali Haddad, a powerful business tycoon who was close to the former president. Haddad is now being tried for "corruption and the illicit transfer of capital abroad".
- Gaid Salah, the former deputy defence minister and army boss, died of a heart attack in December 2019. He was replaced by General Saïd Chengriha, a fellow member of the old guard.
 - On 28 December, Tebboune appointed Abdelaziz Djerad as the country's new prime minister.
- Prior to this, an interim government appointed a new head for state energy producer Sonatrach, Kamel Edine Chikhi, and a new central bank governor, Benabderahmane Ayman.
- Gaid Salah's position as deputy defence minister, traditionally an important role in a country where the top generals have held great political power, has not yet been filled.
- Several important posts have remained unchanged (energy, finance, foreign affairs, interior) signalling continuity in major state policies.

We have our doubts as to whether Tebboune's five-year term will be served fully if the establishment does not provide a rapid and credible roadmap for transition to greater democracy.

- Tebboune also faces the contradictory task of satisfying demonstrators' wishes as well as those of the military, which has entrenched political interests in keeping the government the same.
- Meanwhile, the Hirak is calling for the total overhaul of the existing political structure.
- While the Hirak does not accept Tebboune's presidency, the movement is weakened by lacking clear leadership.
 - It remains on the streets, however, demanding the end of corruption, the end of military influence, and radical change.

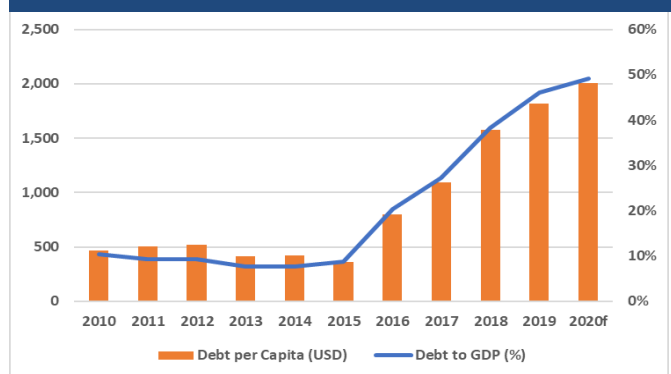
¹ Arabia Monitor; IMF.

The economy braces for bumpy ride

The continuing unrest poses a risk to the country's oil and gas sector and to Algeria's ambitions to attract new foreign investment. We are doubtful that either a revamped hydrocarbons law or other changes designed to improve the economy will bear fruit anytime soon.

- The IMF forecasts growth at 2.4% for 2020, down from 2.6% in 2019. We expect this to be revised even further downwards, and be closer to the government forecast of 1.8% for 2020, especially if oil production does not recover rapidly.
 - Oil production averaged 1.03 Mb/d from January to November last year, its lowest average since 2002.
 - Meanwhile, Algeria's economy continues to be one of the least diversified in the region, with the hydrocarbon sector accounting for over one-third of GDP, two-thirds of government revenue, and virtually all exports. This exposes government finances to a high degree of uncertainty.
- The IMF expects inflation to rise to 4.1% in 2020 from 2% in 2019, on par with the government forecast, driven by higher taxes on cars and tobacco. Further reform will be difficult under the current political climate.
 - Slowing growth alongside rising inflation poses a “double-whammy” of downside risks, exacerbated by high youth unemployment (over 30%) -- all of which will be felt by the demonstrators.
 - There are a number of contributing factors, including skills mismatch, labour market rigidities, and weak private sector activity.
 - The country has also lost more than half a million jobs since unrest began.
- The 2020 budget forecasts a deficit of about USD 12.5B (7% of GDP), versus 8% targeted last year, driven by a 9% spending cut and higher taxes on items including tobacco and cars.
 - Sensitive subsidies for products including basic foodstuffs, fuel and medicine were kept unchanged to avoid social unrest.
- The public debt has sharply increased from low levels: the IMF expects it to reach 49% of GDP in 2020, from 8.8% in 2015.
 - Cash in the oil stabilisation fund, Fonds de Regulation des Recettes, has become insufficient to cover the fiscal deficit since 2016, prompting the government, reluctant to borrow externally, to change the banking law and borrow directly from Banque d'Algérie.
 - Public debt rose to an estimated record high of 46.1% of GDP at the end of last year from 38% in 2018 and 27% in 2017.
 - The 2020 budget provides for external borrowing for the first time in 15 years. The country's level of external debt, however, is quite low at 2.2% of GDP.

Figure 1 – Algeria Public Debt²



- In order to revitalise growth, Algeria adopted a new finance law in December to withdraw its “51/49 rule” that limited foreign investment in non-strategic sectors.
- The restriction now applies only to yet-to-be-defined strategic sectors, likely to include energy.
- The challenge will be for business environment reforms to be pushed through in order to encourage investment in job-creating sectors such as tourism and manufacturing.
- The latest figures on FDI inflow show it stood at USD 1.5B in 2018, compared with USD 1.2B the previous year and USD 1.6B in 2016.
 - The bulk of the 2018 inflow was the investment by China's BAIC International in a manufacturing plant, as well as some inflows from of Hyundai and Ford during that year.

Although Algeria took recent steps to bolster investment, such as the adoption of a much-awaited hydrocarbon law in November, it does not resolve the main impediment to foreign investment.

- Foreign companies are still required to partner with Sonatrach under the “51/49 rule”, with the former owned by Sonatrach. But they can now benefit from lower taxes and contractual flexibility under the new law.
- Investment in the hydrocarbon industry has been limited over the past few years and this trend is likely to continue over the medium term due to security concerns and the unfavourable business environment for foreign investors.
- While the new law intends to boost foreign involvement into the country's oil and gas sector, the impact of the revised incentives will only be fully realised after the law is formally and properly decreed over the next 2-3 years.
 - This may run into challenges as ongoing protests have targeted the new law, with opponents saying the law hands too many concessions to international energy companies who will take over control of the country's natural resources.

² Arabia Monitor; IMF.

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