

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing June 2016

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#### Algeria Summary 20 June 2016

*President Abdelaziz Bouteflika (1999-present) appoints new energy and finance ministers in his fifth partial cabinet reshuffle since prime minister Abdelmalek Sellal took office in 2012. The president appoints Nouredine Bouterfa as energy minister, replacing Slaah Khebri, and Hadji Baba Ammi as finance minister, replacing Abdelerrahmane Benkhalfa. Separately, the president replaces the governor of the central Banque d'Algérie (central bank), Mohammed Laksaci, with Mohammed Loukal, chairman of the Banque Extérieure d'Algérie (BEA). The economic situation remains poor as the dinar hits record lows against the dollar and foreign exchange reserves fall \$6.1 billion in the first half of 2016 to \$137 billion. However, the International Monetary Fund (IMF) is broadly positive of the government's plan to diversify the economy away from hydrocarbons in its annual review of the country's economy. The telecoms regulator awards three 4G licences to telecoms operators, which are now free to roll out high speed data services across the country.*

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#### Partial cabinet reshuffle

President **Abdelaziz Bouteflika** (1999- present) appointed new energy and finance ministers in a partial cabinet reshuffle on 11 June.<sup>1</sup> The government did not give a reason for the fifth cabinet reshuffle since prime minister **Abdelmalek Sellal** took office in 2012, but **Algeria** is facing the economic impact and fiscal pressures from a sharp fall in hydrocarbon export revenue due to the continued low international oil and gas prices.<sup>2</sup>

Bouteflika named **Nouredine Bouterfa**, the head of state-owned gas and electricity utility **Société Nationale de l'Electricité et du Gaz (Sonelgaz)** as energy minister.<sup>3</sup> Bouterfa replaces **Salah Khebri**, whom Bouteflika only appointed in May 2015. As head of Sonelgaz, Bouterfa called for higher domestic electricity prices, claiming costly government subsidies are unsustainable. The appointment of Bouterfa as energy minister indicates that Algeria may no longer fear popular unrest due to increased electricity prices.<sup>4</sup> The government's 2016 budget increased electricity prices for the first time since 2005, but the government still has a long way to go.<sup>5</sup>

*"Other Algerian leaders have acknowledged the need for changes to the subsidy regime, but the government hasn't acted yet for fear of stirring unrest of the sort that swept through the region in 2011."*<sup>6</sup>

Bouteflika also named junior budget minister **Hadji Baba Ammi** as finance minister. Ammi replaces **Abdelerrahmane Benkhalfa**, whom Bouteflika also only appointed in May 2015. Bouteflika reportedly replaced Benkhalfa because of his failure to deliver on a wide range of objectives including reining in the informal economy when the government needs more avenues of domestic taxation due to the decline of oil and gas export revenue.<sup>7</sup> Ammi will face the difficult task of implementing

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<sup>1</sup> Reuters, 11 Jun 2016.

<sup>2</sup> Reuters, 11 Jun 2016.

<sup>3</sup> Reuters, 11 Jun 2016.

<sup>4</sup> Bloomberg, 13 Jun 2016.

<sup>5</sup> Bloomberg, 13 Jun 2016.

<sup>6</sup> Bloomberg, 13 Jun 2016.

<sup>7</sup> Fr.investing.com

economic reform while considering the interests of the established political and economic forces, known as *'le pouvoir'*.<sup>8</sup> The established Algerian elite wants to ensure it remains at the helm of Algeria's political and business environment and is willing to tolerate policy stagnation.<sup>9</sup>

*"The debate was lively between reformers who want to make the Algerian economy less dependent on revenue from the exploitation of hydrocarbons and the old guard who wants to maintain an economic system dominated by the state."*<sup>10</sup>

Benkhalfa's sacking also has political undertones. Benkhalfa was reportedly close to **Amar Saādani**, influential secretary general of the ruling **Front de Libération Nationale (FLN)**, who is jockeying to become a leading candidate to replace Bouteflika, expected to step down before the end of his term in 2019.<sup>11</sup>

In a separate statement on the same day of the partial cabinet reshuffle, Bouteflika named former foreign minister **Boualem Bessaïah** as a special presidential adviser.<sup>12</sup> Bessaïah is close to Bouteflika and the former head of the **Conseil Constitutionnel** (constitutional council). He is expected to offer advice to Bouteflika on a wide range of issues.<sup>13</sup>

### **Bouteflika replaces central bank chief....**

Bouteflika has fired the governor of the **Banque d'Algérie (BA)** (central bank) after the dinar hit a record low against the dollar on 30 May.<sup>14</sup> Critics of the government have put Bouteflika under pressure to make changes at the BA due to disagreements over its handling of the current poor economic situation. Bouteflika fired **Mohammed Laksaci** on 31 May. Laksaci served as BA governor from 2005 to 2016.<sup>15</sup> Key figures in the regime who were critical of Laksaci's handling of the economy include Saādani, who told the media that Laksaci

*"...held this position for such a long time without ever doing anything, he just rolled out the same programme year after year".*<sup>16</sup>

The president appointed **Mohammed Loukal** as the new governor of the BA the same day.<sup>17</sup> Loukal is chairman of state-owned **Banque Extérieure d'Algérie (BEA)** (Algerian external bank).<sup>18</sup> He has headed the BEA since 2005, and has a reputation as a reformer and a moderniser.<sup>19</sup> The BEA is the financing partner of many key state-owned enterprises and has helped move Algeria away from a model where resources are largely state-owned.<sup>20</sup> The media speculated that the government might move Loukal from his BEA post in 2015 after the fall in oil prices led to a difficult restructuring of the bank.<sup>21</sup> However, the administration kept him on to oversee the BEA's overhaul.<sup>22</sup> According to local sources he is an effective operator:

*"Loukal turned BEA around and has a good reputation among his colleagues and co-workers, he is very much in the reformist camp of the ruling elite."*<sup>23</sup>

<sup>8</sup> Source, political analyst, Algeria

<sup>9</sup> Source, political analyst, Algeria

<sup>10</sup> Afrique.lepoint.fr

<sup>11</sup> Fr.investing.com

<sup>12</sup> www.algerie-focus.com

<sup>13</sup> www.algerie-focus.com

<sup>14</sup> Liberté, 31 May 2016.

<sup>15</sup> Liberté, 31 May 2016.

<sup>16</sup> Saadani in l'Opinion, 1 Jun 2016.

<sup>17</sup> Liberté, 31 May 2016.

<sup>18</sup> Liberté, 31 May 2016.

<sup>19</sup> L'Opinion, 1 Jun 2016.

<sup>20</sup> L'Opinion, 1 Jun 2016.

<sup>21</sup> Algeria Focus, 24 May 2015.

<sup>22</sup> Algeria Focus, 24 May 2015.

<sup>23</sup> Source, investment banker, Port Said

### ....as economic situation remains poor

Loukal has his work cut out for him, as the economic situation in Algeria remains poor. The BA released statistics showing that the dinar fell to d110.52/\$, its lowest level since independence in 1962.<sup>24</sup> The currency fell 1.6% across the month from d108.77/\$ on 1 May.<sup>25</sup> The BA announced the drop in prices the day before Bouteflika fired Laksaci, and the currency's fall may have been the trigger for the president's actions. Laksaci reportedly developed a plan to refinance the country's \$13.7 billion trade deficit prior to the president relieving him of his position.<sup>26</sup> Economic observers expect the value of the dinar to keep falling across 2016.<sup>27</sup> This will have a negative impact on Algeria's purchasing power, a damaging trend for an import dependent economy.<sup>28</sup> However, it may serve to attract greater investment as it becomes a cheaper destination for businesses.<sup>29</sup> It may also help to ease the burden on the government's foreign exchange reserves as it will reduce demand for imported goods, as well as placing pressure on Algeria's large-scale illegal foreign exchange markets.<sup>30</sup>

The drop in the value of the currency will hit government finances, which are already draining the country's foreign currency reserves. Prime minister Sellal announced on 5 June that the country's foreign exchange reserves had fallen by a further \$6.1 billion in 2016.<sup>31</sup> Algeria's total reserves now stand at \$137 billion, down from \$195 billion in January 2014, a decline of 29.7% over the past two years.<sup>32</sup> The price of oil has recovered slightly across the first half of 2016, however Sellal warned that this was not sufficient to solve the government's budget shortfall without spending its foreign currency reserves.<sup>33</sup> Hydrocarbons still make up for 95% of export revenues and roughly two-thirds of government revenues.<sup>34</sup> The decline in the price of oil has forced the government to examine and revise its economic policy in an unprecedented way. Foreign exchange reserves increased across the first half of the last decade.<sup>35</sup> They rose from \$77.8 billion in 2006, to \$110 billion in 2008 and \$190 billion in 2010.<sup>36</sup>

However, Algeria's current economic plan has the backing of key international actors. The **International Monetary Fund (IMF)** published its annual review of Algeria's economy on 19 May in which it calls on the treasury to diversify the economy away from hydrocarbons.<sup>37</sup> The IMF is broadly positive about Algeria's prospects of doing so, and gives a vote of confidence in the current financial plan. IMF mission chief **Jean-François Dauphin** told the IMF's internal magazine that, while the response to the low oil price in 2015 was "*insufficient*", the 2016 budget was a precursor to authorities initiating some useful economic reforms.<sup>38</sup> Dauphin pointed to Algeria's low levels of debt, largely due to operating at a budget surplus in an oil-based economy, which gave it the flexibility to change its current model and diversify the economic balance.<sup>39</sup> However, he warned that the government needed to go further to reform the current subsidy system, which accounts for roughly

<sup>24</sup> Algerie Presse Service, 30 May 2016.

<sup>25</sup> [www.xe.com](http://www.xe.com)

<sup>26</sup> L'Opinion, 1 Jun 2016.

<sup>27</sup> Liberté, 31 May 2016.

<sup>28</sup> Liberté, 31 May 2016.

<sup>29</sup> Liberté, 31 May 2016.

<sup>30</sup> Liberté, 31 May 2016.

<sup>31</sup> Africa Report, 5 Jun 2016.

<sup>32</sup> Africa Report, 5 Jun 2016.

<sup>33</sup> Africa Report, 5 Jun 2016.

<sup>34</sup> International Monetary Fund Report, May 2016.

<sup>35</sup> Africa Report, 5 Jun 2016.

<sup>36</sup> Africa Report, 5 Jun 2016.

<sup>37</sup> IMF survey magazine, 19 May 2016.

<sup>38</sup> IMF survey magazine, 19 May 2016.

<sup>39</sup> IMF survey magazine, 19 May 2016.

14% of gross domestic product (GDP).<sup>40</sup> The government has yet to address the rising issue of youth unemployment, which is at 30% in the 15-25 age bracket.<sup>41</sup>

### Telecoms regulator awards three 4G licences

Telecoms regulator **Autorité de Régulation de la Poste et des Télécommunications (ARPT)** awarded 4G/LTE licences to three mobile telecoms operators in Algeria on 25 May.<sup>42</sup> Increased access to high-speed data services will increase the ease of doing business in Algeria. The ministry awarded the first licence to state-owned **Algérie Télécom Mobile** which operates as the **Mobilis** brand.<sup>43</sup> It awarded the second to primary rival **Djezzy**, a subsidiary of **Russia-based VimpelCom** and **Egypt-based Global Telecom Holding SAE**.<sup>44</sup> The ministry awarded the third licence to **Qatar-based Wataniya Télécom Algérie**, which operates in the mobile space as **Ooredoo**.<sup>45</sup> The ARPT will divide the licences across the different provinces, with the first licence winner getting the most lucrative provincial areas.<sup>46</sup> The ARPT will make the announcement of the provincial split on 29 May.<sup>47</sup>

The ARPT came late to 3G data services in the country, only awarding licences in late 2013. Since then the major players in the market have competed for data services.<sup>48</sup> The market is saturated with 115% mobile phone ownership.<sup>49</sup> Djezzy has the largest mobile network in Algeria with 18 million customers or 49.8% of the market, and claims to have the widest coverage.<sup>50</sup> Mobilis has 13 million customers or 26.46% of the market, and Ooredoo has 11.6 million customers and 23.64% of the market.<sup>51</sup> However, Mobilis leads the 3G market with 3.8 million customers (44.85%), followed by Ooredoo with 3.44 million (40.41%) and then Djezzy with 1.25 million customers (14.74%).<sup>52</sup>

### Implications

Replacing the two most important positions in the cabinet after the president shows the discontent among the ruling elite with the current pace and efficacy of economic reform. Algeria's response to its economic situation has evolved since the price of oil fell in 2013; Benkhalfa oversaw an increasingly reformist response in his year in office, which brought down barriers to trade. However, shifting the economy away from total reliance on the hydrocarbons sector is taking time and has opened the government up to criticism. It may be that political concerns, more than the ministers' performance, lie behind the dismissal of Benkhalfa and Khebri. There is a further, separate question, over whether the president – who remains in poor health – was truly behind the dismissal. It may be the manifestation of manoeuvres within the ruling elite as they jostle for position after the presidents' resignation or death in office.

Replacing the BA governor is more directly linked with poor performance. A number of senior government officials have criticised Laksaci's performance during the crisis. The BA's fiscal policy has remained static while the economic situation has changed drastically. Loukal remains an unknown quantity, however his competent overseeing of the BEA is likely to herald an improvement in the BA over the coming months. The shift of the dinar against the dollar may prompt the BA to take fiscal action to slow deflation. However, the central bank could let the currency slide a little bit to continue to encourage foreign investment into the country. It will be crucial for Algeria to become a more

<sup>40</sup> IMF survey magazine, 19 May 2016.

<sup>41</sup> IMF survey magazine, 19 May 2016.

<sup>42</sup> IT News Africa, 25 May 2016.

<sup>43</sup> Total Telecom, 24 May 2016.

<sup>44</sup> IT News Africa, 25 May 2016.

<sup>45</sup> Total Telecom, 24 May 2016.

<sup>46</sup> APS, 25 May 2016.

<sup>47</sup> APS, 25 May 2016.

<sup>48</sup> BuddeCom analysis, Dec 2015.

<sup>49</sup> BuddeCom analysis, Dec 2015.

<sup>50</sup> IT News Africa, 25 May 2016.

<sup>51</sup> Agence Ecofin, 15 Sep 2015.

<sup>52</sup> Agence Ecofin, 15 Sep 2015.

investor friendly destination if it is to satisfy the demands internally from the government and externally from the IMF for a more diversified economy.

The awarding and implementation of new high-speed data services will increase the ease of doing business in Algeria. The country has lagged behind its neighbours in terms of 4G/LTE provision, but will now catch up with major economic players in North and West Africa that offer the service. The new market will also increase the major telecoms companies' fight for subscribers by opening up a new market. Djezzy has managed to beat its state-owned rival in conventional subscriptions; however, recent tenders have awarded Mobilis prime 3G and now prime 4G operation areas, which perhaps hints at a desire by the state to retain a greater stake in the sector.

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