

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing November 2018

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#### Algeria Summary 10 November 2018

*The Assemblée Populaire Nationale (APN) (national assembly, lower house) appoints ruling Front de Liberation National (FLN) party member Mouad Bouchareb as APN president to replace Saïd Bouhadja. Several prominent FLN members as well as opposition parties boycott the vote. FLN secretary general Djamel Ould Abbas announces that President Abdelaziz Bouteflika (1999-present) will be the FLN's candidate for the April 2019 presidential election. The International Monetary Fund (IMF) highlights Algeria's soaring public debt but remains cautiously optimistic for 2019. The Direction Générale des Douanes (customs authority) publishes external trade figures that show a reduced trade deficit although imports have not decreased significantly.*

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#### National assembly appoints Mouad Bouchareb as its president ...

A majority of the **Assemblée Populaire Nationale (APN)** (national assembly) elected ruling **Front de Liberation National (FLN)** party member **Mouad Bouchareb** as the APN's new president on 24 October.<sup>1</sup> Bouchareb is in his third mandate as a member of parliament and is president of the FLN's parliamentary group.<sup>2</sup> His appointment ends weeks of political gridlock in **Algeria** (see *ARC Briefing Algeria October 2018*), but has highlighted Algeria's political dysfunction.

The crisis began on 28 September when the FLN and other political parties called for the dismissal of former APN president **Saïd Bouhadja** on the grounds of mismanagement. Bouhadja obtained the support of the powerful **Organisation des Moujahidines (ONM)** (Mujahideen organisation) and also had the 2016 constitution on his side, according to which he was entitled to remain at the head of the APN until 2022.<sup>3</sup> When Bouhadja refused to vacate his position, the FLN and other political parties retaliated by blocking APN activities until he agreed to leave.

The APN, despite criticism from opposition parties and prominent political figures, voted to declare Bouhadja's position vacant in order to end the deadlock, which could have led to dissolution of the assembly.<sup>4</sup> Dissolution of the APN would have had significant impact on the functioning of the state. Parliament is examining the **2019 Finance Law**, and its delayed implementation could have far-reaching consequences.<sup>5</sup> Dissolution also had the potential to threaten the April 2019 presidential elections, as the assembly has to be filled for the elections to occur.<sup>6</sup> The constitution allows the APN to declare a position vacant in case of physical and mental incapacity, confirmed by a qualified doctor.<sup>7</sup>

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<sup>1</sup> TSA, 24 Oct 2018.

<sup>2</sup> TSA, 24 Oct 2018.

<sup>3</sup> TSA, 10 Oct 2018; Huff Post Maghreb, 1 Oct 2018.

<sup>4</sup> Jeune Afrique, 28 Oct 2018.

<sup>5</sup> Jeune Afrique, 28 Oct 2018.

<sup>6</sup> Jeune Afrique, 28 Oct 2018.

<sup>7</sup> Jeune Afrique, 28 Oct 2018.

Bouchareb gathered the support of four parties – the FLN, the **Rassemblement National Democratique (RND)**, **Mouvement Populaire Algerien (MPA)** and **Tajamou Amal Al-Jazair (Rassemblement de l'Espoir de l'Algerie, TAJ)** – from the majority coalition, and support of independent parties.<sup>8</sup> However, opposition parties, including the **Rassemblement pour la Culture et la Democratie (RCD)**, **Front des Forces Socialistes (FFS)**, **Mouvement de la Société pour la Paix (MSP)**, and the **Parti Travailleur (PT)**, boycotted the vote to protest Bouhadja's dismissal.<sup>9</sup> Bouhadja announced that he did not recognise the legality of the procedure and still considered himself president of the APN, saying he had been ready to resign before his public humiliation.<sup>10</sup> The opposition FFS announced on 28 October its decision to suspend its activity within parliament to protest Bouhadja's dismissal.<sup>11</sup>

The crisis reflects the deeper problem of the political system and the respect of the law, impacting credibility of parties and leaders.<sup>12</sup> The choice of Bouchareb as APN president was perceived as replacing one head of the APN with another who will apply the agenda of the same interest group.<sup>13</sup>

### ... as tensions increase around Bouteflika's fifth mandate

FLN secretary general **Djamel Ould Abbes** announced on 28 October that President **Abdelaziz Bouteflika** (1999-present) will be the FLN's presidential candidate for the elections in April 2019.<sup>14</sup> The announcement does not come as a surprise as Ould Abbes had expressed his support for a fifth mandate on 7 April, asking the president to continue his duties (see *ARC Briefing Algeria April 2018*). Since then, the RND – prime minister **Ahmed Ouhayia's** party – as well as the Islamist TAJ and other members of the presidential majority including the **Union Générale des Travailleurs Algeriens (UGTA)** (general union of Algerian workers) and the **Forum des chefs d'Entreprises (FCE)** (business leaders' forum), have joined the FLN in support of Bouteflika.

The idea of a fifth mandate is, however, facing growing opposition. **Mudjahida** and senator **Louissette Ighilahriz** announced her resignation from the upper chamber of the parliament on 20 October, denouncing a “*toxic political climate with a silent president manipulated by a political group*”.<sup>15</sup> In her resignation letter she noted her opposition to President Bouteflika's fifth mandate.<sup>16</sup> Her resignation represents a significant blow to supporters of a fifth mandate, especially Ould Abbes.<sup>17</sup> Ighilahriz said the “*putsch*” against Bouhadja (see above) had prompted her decision, describing his dismissal as “*unconstitutional and illegal*”.<sup>18</sup>

Bouteflika has yet to make a public announcement regarding his participation in the election. The opposition remains weak, making Bouteflika's re-election the most probable outcome.<sup>19</sup> However, the ruling FLN is also preparing the succession as it is increasingly confronted with

<sup>8</sup> TSA, 24 Oct 2018.

<sup>9</sup> TSA, 24 Oct 2018.

<sup>10</sup> TSA, 24 Oct 2018.

<sup>11</sup> Jeune Afrique, 28 Oct 2018.

<sup>12</sup> El Watan, 24 Oct 2018.

<sup>13</sup> El Watan, 24 Oct 2018.

<sup>14</sup> Jeune Afrique, 28 Oct 2018.

<sup>15</sup> El Watan, 22 Oct 2018.

<sup>16</sup> El Watan, 22 Oct 2018.

<sup>17</sup> El Watan, 22 Oct 2018.

<sup>18</sup> El Watan, 21 Oct 2018.

<sup>19</sup> Jeune Afrique, 28 Oct 2018.

the unsustainable situation of Bouteflika's presidency. His appearance in **Algiers** on 1 November to inaugurate the celebration of the independence war renewed general concerns about his weak health.<sup>20</sup> The lack of consensus within the party around an FLN successor will trigger a deep political crisis if the decision is delayed too long.

### IMF shares its prediction for Algeria...

The **International Monetary Fund (IMF)** published its half-year report on 11 October, expressing concern over the evolution and nature of Algeria's internal debt, which includes all debts and loans contracted by the state from financial institutions, households and companies.<sup>21</sup> Despite its low external debt, at 3% of GDP, Algeria is witnessing worrying evolution of the internal, or public, debt. Public debt decreased to 8.8% of GDP in 2015, enabling Algeria to be counted among the world's less indebted countries.<sup>22</sup> However, since the end of 2016, public debt has jumped to 21% due to debts owed by two public companies, the national gas company, **Société nationale de l'électricité et du gaz (Sonelgaz)**, and national oil company **Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures (Sonatrach)**.<sup>23</sup>

Public debt grew by 27% in 2017, as the state continued to purchase bank debts from public companies and started financing its budget deficit.<sup>24</sup> The government aggravated the situation by forcing national public banks to offer guaranteed credit to state companies.<sup>25</sup> This led public debt to reach 48% of GDP in 2017.<sup>26</sup>

In addition, in the last six months of 2017 and throughout 2018, the state has resorted to non-conventional debt through money printing (see previous *ARC Briefing Algeria 2017-2018*). This is owed to the national bank, **Banque d'Algérie (BA)**, adding to the already high public debt.<sup>27</sup> By June 2018, this new debt burden alone represented 20% of GDP, and this debt growth is expected to continue towards the end of 2018.<sup>28</sup>

Sonelgaz is a good example of the extent to which the state budget props up national companies.<sup>29</sup> Sonelgaz CEO **Mohamed Arkab** announced on 4 October that Sonelgaz' debt to Algerian banks reached DA1,400 billion (\$12 billion) at the end of 2017.<sup>30</sup> Arkab said that Sonelgaz benefits from the state's guaranty and support for its long-term credit, with favourable conditions.<sup>31</sup> Sonelgaz received an additional DA300 billion (\$2.5 billion) loan for 2017 only.<sup>32</sup> As Sonelgaz is unable to repay its loan, the state regularly intervenes to repay the company's debts.<sup>33</sup>

The IMF remains relatively optimistic for 2019, stating that debt levels should remain manageable, if the government applies the budget programme and implements fiscal

<sup>20</sup> L'Humanite, 4 Nov 2018

<sup>21</sup> Jeune Afrique, 28 Oct 2018.

<sup>22</sup> Jeune Afrique, 28 Oct 2018.

<sup>23</sup> Jeune Afrique, 28 Oct 2018.

<sup>24</sup> Jeune Afrique, 28 Oct 2018.

<sup>25</sup> Jeune Afrique, 28 Oct 2018.

<sup>26</sup> Jeune Afrique, 28 Oct 2018.

<sup>27</sup> Le 360, 22 Oct 2018.

<sup>28</sup> Le 360, 22 Oct 2018.

<sup>29</sup> Le 360, 22 Oct 2018.

<sup>30</sup> Le 360, 22 Oct 2018.

<sup>31</sup> Le 360, 22 Oct 2018.

<sup>32</sup> Le 360, 22 Oct 2018.

<sup>33</sup> Le 360, 22 Oct 2018.

consolidation measures.<sup>34</sup> However, the government has already postponed the expected expenditure cuts and fiscal consolidation.<sup>35</sup>

### Customs authority reports reduced trade deficit

The **Direction Générale des Douanes** (customs department) published Algeria's external trade figures for the first nine months of 2018 on 28 October.<sup>36</sup> The results show a reduction of the trade deficit, with an increase in oil exports as well as non-hydrocarbon exports.<sup>37</sup> However, the report also revealed that Algeria's imports have not diminished significantly.<sup>38</sup> Over the first nine months of 2018, the trade deficit was reduced by 56% to \$3.7 billion compared to the same period in 2017, setting a trade deficit below \$5 billion for the whole of 2018.<sup>39</sup> This is mainly due to the increase in oil revenues, growing by 15% since the beginning of 2018 and reaching \$28 billion during the first nine months.<sup>40</sup>

Non-hydrocarbon exports also increased by 50%; surpassing \$2 billion at the end of September, they now represent 7% of the total exports and are expected to reach \$3 billion by the end of 2018.<sup>41</sup> However, most of the non-hydrocarbon exports are derived from hydrocarbons such as fertilisers and petrochemicals.<sup>42</sup> Non-food consumer goods exports increased but will still represent only \$26m end of December.<sup>43</sup>

Imports only decreased by 1.5% in nine months despite the establishment of import disincentives.<sup>44</sup> Imports reached \$33.7 billion end of September, meaning that the \$45 billion threshold could be reached by end 2018.<sup>45</sup> Imports reached \$47 billion in 2016 and \$46 billion in 2017, representing a slow decrease.<sup>46</sup>

Of greater concern is the nature of imports. There has been a general increase in consumer goods imports whereas equipment products have been steadily decreasing.<sup>47</sup> Imports of food products increased by only 1%; however imports of raw food products increased by 32% during the first nine months. The global food bill is close to \$8 billion, and likely to reach \$10 billion by year-end.<sup>48</sup>

The revelations of the nature of external trade underline some worrying trends, namely the reduced importation of necessary equipment to promote investment, and the enduring overreliance on oil exports. Oil prices are expected to decrease following the assassination of **Saudi** journalist **Jamal Khashoggi** in the Saudi embassy in **Turkey** on 2 October. Saudi crown prince **Mohammad Bin Salman Al Saud** (2017-present) is seen as responsible for the killing and has attracted international condemnation. The Kashoggi affair is likely to give the **United States** and the rest of the international community leverage to force Saudi Arabia to

<sup>34</sup> TSA, 21 Oct 2018.

<sup>35</sup> TSA, 21 Oct 2018.

<sup>36</sup> TSA, 21 Oct 2018.

<sup>37</sup> TSA, 21 Oct 2018.

<sup>38</sup> TSA, 21 Oct 2018.

<sup>39</sup> TSA, 21 Oct 2018.

<sup>40</sup> TSA, 21 Oct 2018.

<sup>41</sup> TSA, 21 Oct 2018.

<sup>42</sup> TSA, 29 Oct 2018.

<sup>43</sup> TSA, 29 Oct 2018.

<sup>44</sup> TSA, 29 Oct 2018.

<sup>45</sup> TSA, 29 Oct 2018.

<sup>46</sup> TSA, 29 Oct 2018.

<sup>47</sup> TSA, 29 Oct 2018.

<sup>48</sup> TSA, 29 Oct 2018.

increase production, leading to lower oil prices.<sup>49</sup> Algeria's reliance on oil revenue makes it vulnerable to lower oil prices, and this will affect its trade deficit.

### Planner

January 2019 **(Algeria)** Expected new law on hydrocarbon to increase investments

January 2019 **(Algeria)** Beginning of programme of budget consolidation and decrease in public expenditure

April 2019: **(Algeria)** Scheduled presidential elections;

### Chronology

7 Nov 2018 **Algiers (Algeria)** *TSA*. Heads of members of the government coalition organise a meeting to create a support coalition for a fifth mandate for President **Abdelaziz Bouteflika**;

1 Nov 2018 **Algiers (Algeria)** *L'Humanité*. President **Abdelaziz Bouteflika** makes a public appearance to participate of the celebration of the anniversary of the independence war;

28 Oct 2018 **Algiers (Algeria)** *TSA*. The **Direction Générale des Douanes** (Algerian customs authority) publishes external trade figures for the first five months of 2018 showing a reduced trade deficit due to increased oil prices rather than lower imports;

28 Oct 2018 **Algiers (Algeria)** *Jeune Afrique*. Opposition party **Front des Forces Socialistes (FFS)** announces its decision to suspend its participation in parliament to protest the illegal dismissal of the national assembly president, **Said Bouhadja**;

28 Oct 2018 **Algiers (Algeria)** *Jeune Afrique*. **Front de Liberation National (FLN)** general secretary **Djamel Ould Abbas** announces that President **Abdelaziz Bouteflika** will be the FLN candidate for the April 2019 presidential elections;

24 Oct 2018 **Algiers (Algeria)** *TSA*. Parties from the majority coalition elect **Front de Liberation National (FLN)** head **Mouad Bouchareb** as president of the national assembly but opposition parties boycott the vote;

20 Oct 2018 **Algiers (Algeria)** *El Watan*. Senator **Louissette Ighilahriz** resigns from the upper chamber of parliament to oppose a fifth mandate for President **Abdelaziz Bouteflika** and the dismissal of national assembly president **Said Bouhadja**;

11 Oct 2018 **Washington (United States)** *Jeune Afrique*. The **International Monetary Fund (IMF)** publishes its half-year report highlighting the significant increase in Algeria's public debt, which reached 27% of GDP in 2017.

<sup>49</sup> TSA, 29 Oct 2018.

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