

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing May 2018

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#### Algeria Summary 15 May 2018

*The Front de Liberation National (FLN) party begins to rally a support base for President Abdelaziz Bouteflika's (1999-present) candidacy in the 2019 presidential elections. Finance minister Abderrahmane Raouya presents the Loi de Finances Complémentaire (LFC), proposing increased funding for five ministries, against World Bank and International Monetary Fund (IMF) recommendations to cut public expenditure. IMF and World Bank reports show improved positive economic prospects for Algeria, but continue to warn against the government's non-conventional financing policy. Centre National de l'Informatique et des statistiques des Douanes (CNIS) (national centre of customs information and statistics) figures offer a positive outlook on Algeria's trade figures but the dispute between the European Union and Algeria over Algeria's protective trade policy continues. State-owned oil company Sonatrach's CEO, Abdelmoumen Ould Kaddour, announces the acquisition of the Augusta refinery from Esso Italiana, the Italian subsidiary of United States-based ExxonMobil, as well as three oil terminals in Italy.*

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#### Pre-electoral campaigning for Bouteflika's fifth mandate starts...

President **Abdelaziz Bouteflika** (1999-present) has yet to announce his participation in the 2019 presidential election race but his party, the **Front de Liberation National (FLN)**, has begun to campaign on his behalf. FLN secretary general **Djamel Ould Abbas**, during an appearance in the *wilaya* of **Djelfa** on 21 April, announced the postponement of the FLN central committee meeting, in a show of strength against his opponents within the party.<sup>1</sup> Ould Abbas reconfirmed his support for Bouteflika, underlining the housing projects that the president had launched during his twenty years in power.<sup>2</sup>

Grassroots campaigning is gaining momentum with the spread of support committees for a fifth mandate. Various student organisations are also involved in the campaign for Bouteflika.<sup>3</sup> Ould Abbas gathered six student organisations in the city of **Hydra**, the FLN's headquarters, on 28 April to convince them to rally around the party and the president.<sup>4</sup> Higher education minister **Tahar Hadjar** attended the gathering, despite previous support for separating academic life from political debates.<sup>5</sup> Hadjar paid tribute to Bouteflika's mandate since 1999, underlining the efforts under his administration to open new universities and improve the quality of education.<sup>6</sup> The mobilised student organisations represent a key electoral group of around 1.7 million student voters, and have been instrumental during previous mandates in fomenting support.<sup>7</sup> The **Organisation Nationale**

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<sup>1</sup> Observ'Algerie, 21 Apr 2018.

<sup>2</sup> Observ'Algerie, 21 Apr 2018.

<sup>3</sup> TSA, 28 Apr 2018.

<sup>4</sup> TSA, 28 Apr 2018.

<sup>5</sup> TSA, 28 Apr 2018.

<sup>6</sup> TSA, 28 Apr 2018.

<sup>7</sup> TSA, 28 Apr 2018

**des Zaouias** (national organisation of religious leaders), the **Union Générale des travailleurs algériens (UGTA)** (general union of Algerian workers), and the **Forum des chefs d'entreprise (FCE)** (business leaders forum) have also voiced their unconditional support for the president.<sup>8</sup>

Campaigning is also taking shape abroad. Housing minister **Abdelwahid Temmar** and employment and social security minister **Mourad Zemali** held a meeting on 27 April with the Algerian diaspora in **France**.<sup>9</sup> Temmar and Zemali promoted the purchase of real estate in Algeria and investment in small Algerian businesses.<sup>10</sup> The meeting was also used as a platform to foster support abroad for a fifth mandate. Temmar presented the construction project of 2,247 publicly supported residences in 24 *wilayas*, showcasing an active government strategy for diversifying investments, which represents a crucial component of Algeria's economic recovery strategy. Zemali presented various forms of government assistance for investors and business developers in Algeria, including legal support and lower taxes during the first years of activity.<sup>11</sup>

The campaign aims to promote the idea that Boutfelika's new mandate will offer investment opportunities and, to a certain extent, counter the common perception of Algeria as a closed economy, hostile to foreign investors. However, proponents of a fifth mandate might struggle to portray an attractive investment market to investors as all economic policies under Bouteflika, up until the decision to resort to non-conventional financing, have consistently been criticised.

### ... as government increases public expenditure

Finance minister **Abderrahmane Raouya** presented the **Loi de Finances Complémentaire (LFC)** (pre-law project) on complementary finances on 3 May.<sup>12</sup> The proposed budget increases funding for five ministries to \$4.3 billion, going against **World Bank** and **International Monetary Fund (IMF)** recommendations to cut public expenditure (see below), but reflects the government's growing concern about the current social crisis.<sup>13</sup> The government has allocated an additional \$27m to the health ministry where resident doctors are in the sixth month of a strike (see *ARC Briefing Algeria January 2018*).<sup>14</sup> The government also plans to provide an additional \$32m to the youth and sports ministry, a sector it deems politically sensitive.<sup>15</sup> National education received an additional \$800m and the foreign ministry an additional \$13m.<sup>16</sup> The defence ministry's budget will increase to \$9.6 billion.<sup>17</sup>

The other main feature of the LFC is the introduction of a supplementary tax on imported finished goods.<sup>18</sup> The temporary tax from 60-200% will be implemented in June or July, and is likely to increase further **European Union (EU)** discontent about asymmetrical trade relations with Algeria (see below).<sup>19</sup> The LFC also focuses on attracting investment in the

<sup>8</sup> TSA, 28 Apr 2018.

<sup>9</sup> El Watan, 29 Apr 2018.

<sup>10</sup> El Watan, 29 Apr 2018.

<sup>11</sup> El Watan, 29 Apr 2018.

<sup>12</sup> Jeune Afrique, 4 May 2018.

<sup>13</sup> Jeune Afrique, 4 May 2018.

<sup>14</sup> Jeune Afrique, 4 May 2018.

<sup>15</sup> Jeune Afrique, 4 May 2018.

<sup>16</sup> Jeune Afrique, 4 May 2018.

<sup>17</sup> Jeune Afrique, 4 May 2018.

<sup>18</sup> TSA, 8 May 2018.

<sup>19</sup> TSA, 8 May 2018.

agricultural sector by opening concessions to foreigners through privatisation and cession of agricultural lands.<sup>20</sup> The government will give franchise contracts to national or international investors through public private partnerships (PPPs) to exploit the land.<sup>21</sup>

The council of ministers was scheduled to adopt the LFC on 9 May. However, the meeting was postponed as President Bouteflika requested a second reading of the proposal.<sup>22</sup>

### ... and IMF and World Bank publish first semester results for Algeria

The government's increasing public expenditure and financing policies are raising concerns for international organisations and investors. The IMF expressed its strong opposition to the government's economic policies at the end of a two-week consultation visit on 12 March (see *ARC Briefing Algeria March 2018*).<sup>23</sup> **Banque d'Algérie** (central bank) governor **Mohamed Loukal** defended Algeria's economic policies on 21 April before representatives of the IMF and World Bank.<sup>24</sup> Finance minister Abderrahmane Raouya met with the director of the **Middle East and Central Asia** department of the IMF as well as representatives of the department in charge of public expenses and fiscal matters.<sup>25</sup> Raouya underlined that non-conventional financing is oriented towards the productive sector, in order to stimulate growth and employment, while Loukal indicated that structural reforms are key for growth but must be adapted to the needs of each country.<sup>26</sup>

The IMF indicated improved prospects for Algeria in its report on global economic perspectives for the first semester of 2018, published on 17 April in **Washington (United States)**.<sup>27</sup> The IMF now predicts 3% GDP growth in 2018, against the 0.8% it expected in October 2017, and forecasts that GDP growth will be sustained at 2.7% in 2019.<sup>28</sup> The IMF said that Algeria's non-oil GDP growth should be higher in 2018 and 2019 thanks to increasing investment expenditures.<sup>29</sup> GDP growth reached 2% in 2017 against 1.5% estimated in October.<sup>30</sup> The IMF projects inflation to reach 7.4% in 2018, against an initial prediction of 4.4%, and 7.6% for 2019.<sup>31</sup> The IMF also reduced its unemployment projections to 11.2% in 2018 after forecasting a 13.2% rate last October, which is set to grow to 11.8% in 2019.<sup>32</sup> The IMF still sees an opportunity for Algeria to reconcile its economic adjustments and growth, since public debt is relatively low.<sup>33</sup> The IMF recommended new economic policies and structural reforms to promote an economy pushed by the private sector and reduced dependence on oil and gas.<sup>34</sup> The IMF reported that Algeria's accumulation of arrears has led to an increase in unproductive loans, but it expects a decrease if the government makes repayments in due time.<sup>35</sup>

<sup>20</sup> TSA, 8 May 2018.

<sup>21</sup> TSA, 8 May 2018.

<sup>22</sup> TSA, 8 May 2018.

<sup>23</sup> Maghreb Emergent, 12 Mar 2018.

<sup>24</sup> L'Expression, 22 Apr 2018.

<sup>25</sup> L'Expression, 22 Apr 2018.

<sup>26</sup> L'Expression, 22 Apr 2018.

<sup>27</sup> APS, 17 Apr 2018.

<sup>28</sup> APS, 17 Apr 2018.

<sup>29</sup> TSA, 2 May 2018.

<sup>30</sup> APS, 17 Apr 2018.

<sup>31</sup> APS, 17 Apr 2018.

<sup>32</sup> APS, 17 Apr 2018.

<sup>33</sup> APS, 17 Apr 2018.

<sup>34</sup> APS, 17 Apr 2018.

<sup>35</sup> TSA, 2 May 2018.

The World Bank published a short report on Algeria's economic prospects on 17 April, showing that real GDP growth should reach 3.5% in 2018, against 2.1% in 2017. However, the World Bank reports that the growth is not reassuring in the context of Algeria's resort in 2017 to non-conventional financing, claiming that this type of financing could lead the country to financial crisis.<sup>36</sup> The World Bank repeated its recommendations for external financing in light of the persisting budget deficit.<sup>37</sup>

### Trade balance shows a fragile recovery...

The **Centre National de l'Informatique et des statistiques des Douanes (CNIS)** (national centre of customs information and statistics) published Algeria's external trade figures on 23 April, which offered a positive outlook.<sup>38</sup> However, as expected the impressive recovery of the trade balance seen in January and February did not last (see *ARC Briefing Algeria April 2018*).<sup>39</sup> The trade deficit reached \$490m during the first trimester of 2018 against \$3 billion during the same time in 2017.<sup>40</sup> The reduction of the trade deficit was largely attributed to recovering oil prices, rather than to the government policy regarding imports.<sup>41</sup> Hydrocarbons represented the majority of Algerian sales during the first months of the year, reaching 93.6% of global exports and representing \$10 billion against \$8.4 from January to March 2017.<sup>42</sup> While the oil price reached \$54 per barrel in 2017, the price registered during the first three months of 2018 increased to about \$70.<sup>43</sup>

Non-hydrocarbon exports reached \$686m from January to March 2018, representing 6.44% of global exports.<sup>44</sup> They grew by 25% compared to the same period in 2017, and are likely to exceed \$2 billion in 2018, a symbolic goal set by the authorities for two decades.<sup>45</sup> Non-hydrocarbon exports include mainly semi-finished oil products that are essentially derived from hydrocarbons, such as fertilisers and other petrochemical products.<sup>46</sup> These exports were valued at \$533m.<sup>47</sup>

Imports decreased slightly to reach \$11.2 billion during the first trimester of 2018, against \$11.9 billion at the same time last year, representing a 6% decrease.<sup>48</sup> Trade minister **Said Djellab** announced on 16 April a temporary freeze on import restrictions of some raw materials used in the food industry.<sup>49</sup> Imports of flavouring used in juices, drinks and other food products will be allowed for at least six months, following pressure from producers in the food sector, and more specifically from the **Association des producteurs algériens de boissons (APAB)** (Algerian beverage production lobby).<sup>50</sup>

<sup>36</sup> Jeune Afrique, 18 Apr 2018.

<sup>37</sup> Jeune Afrique, 18 Apr 2018.

<sup>38</sup> TSA, 23 Apr 2018.

<sup>39</sup> TSA, 23 Apr 2018.

<sup>40</sup> TSA, 23 Apr 2018.

<sup>41</sup> TSA, 23 Apr 2018.

<sup>42</sup> TSA, 23 Apr 2018.

<sup>43</sup> TSA, 23 Apr 2018.

<sup>44</sup> TSA, 23 Apr 2018.

<sup>45</sup> TSA, 23 Apr 2018.

<sup>46</sup> TSA, 23 Apr 2018.

<sup>47</sup> TSA, 23 Apr 2018.

<sup>48</sup> TSA, 23 Apr 2018.

<sup>49</sup> Jeune Afrique, 20 Apr 2018.

<sup>50</sup> Jeune Afrique, 20 Apr 2018.

### ... but the trade feud between Algeria and the EU continues

Trade minister **Said Djellab** has responded to recent EU concerns about trade relations between Algeria and the EU saying dialogue is ongoing but underlining that Algeria is no longer “an export market for finished European goods”.<sup>51</sup> EU trade commissioner **Cecilia Malmström** had accused Algeria on 11 April of favouring trade and economic relations with **China** and dismissing its association agreement with **Europe** (see *ARC Briefing Algeria April 2018*).<sup>52</sup> Malmström claimed that Algeria’s import limits did not conform to free trade agreements between the EU and Algeria.<sup>53</sup> During a conference at the **Palais des Expositions (Safex)** in **Algiers** on 2 May, Djellab called on Algeria’s economic partners to not only export to Algeria, but also produce in the country, in order to help Algeria diversify its economy.<sup>54</sup>

Various organisations, including the UGTA, the FCE, the **Conseil national de concertation pour le développement de la Petite et moyenne entreprise (CNCD-PME)** (national council for the development of SMEs), as well as some industrial players, rejected Malmström’s accusations and supported the government’s position.<sup>55</sup> CNCD-PME president **Salah Eddine Abdessamad** said the government’s decision was sovereign and that it had never failed in its engagements towards the union.<sup>56</sup> He added that Algeria reserved the right to create the conditions of its economic transition, claiming that the EU’s discontent was largely linked to the economic difficulties facing Europe, with the high public debt of member states, as well as high youth unemployment.<sup>57</sup> **Club des Entrepreneurs & Industriels de la Mitija (CEIMI)** (Mitija entrepreneurs and industrialists club) president **Kamle Moula** added on 22 April that European partners prioritise sales while Algeria is looking to produce.<sup>58</sup> According to CNIS figures, the balance of trade is in the EU’s favour. Between 2005 and 2015, non-hydrocarbon exports to the EU reached \$14 billion while Algeria imported \$220 billion from the EU.<sup>59</sup>

The US has also entered the trade controversy. **US Chamber of Commerce** representative for international affairs **Myron Brilliant** said during a press conference in the US embassy in **Algiers** on 8 May that the US does not support the imposition of import taxes and bans.<sup>60</sup> Brilliant said these are a disincentive for foreign investment, and inhibit innovation and the entry of new technologies.<sup>61</sup> He added that the import ban also represents an obstacle for local companies that import raw materials.<sup>62</sup>

Growing pressure on Algeria to open its economy, in a context in which the country is actively trying to diversify its sources of revenue, are likely to impact the political debate around national economic policy. Economic diversification will be at the heart of the presidential election in 2019 and, amidst some criticisms of Raouya’s non-conventional financing strategy, options to increase access to foreign investments will be voiced. However,

<sup>51</sup> *Algerie Eco*, 3 May 2018.

<sup>52</sup> *El Watan*, 12 Apr 2018.

<sup>53</sup> *TSA*, 22 Apr 2018.

<sup>54</sup> *Algerie Eco*, 3 May 2018.

<sup>55</sup> *TSA*, 22 Apr 2018.

<sup>56</sup> *TSA*, 22 Apr 2018.

<sup>57</sup> *TSA*, 22 Apr 2018.

<sup>58</sup> *TSA*, 22 Apr 2018.

<sup>59</sup> *TSA*, 22 Apr 2018.

<sup>60</sup> *El Watan*, 9 May 2018.

<sup>61</sup> *El Watan*, 9 May 2018.

<sup>62</sup> *El Watan*, 9 May 2018.

the government is more likely to maintain the status quo for political survival, as any previous rumors of privatisation or market opening triggered the anger of the opposition and major unions.

### **Sonatrach invests to increase oil production, create more cost effective supply route**

State oil company **Sonatrach** CEO **Abdelmoumen Ould Kaddour** announced on 9 May the acquisition of the **Augusta** refinery from the **Italian** subsidiary of US-based **ExxonMobil**, **Esso Italiana**, as well as three oil terminals in Italy. The refinery will serve as an outlet for Algerian crude oil while improving fuel supply to Algeria, reducing cost and increasing autonomy.<sup>63</sup> The refinery will have a production capacity of 198,000 barrels per day and will be able to directly process surplus products in Algeria, in order to re-import products that are currently lacking, such as gasoil and fuel. Ould Kaddour said the refinery will be able to cover Algerian deficits in fuel and oil from 2018 until 2022.<sup>64</sup> The three terminals will increase the number of consumption days and create autonomy of diesel and oil in Algeria.<sup>65</sup> Fuel terminals from **Naples**, **Palermo** and **Augusta** offer a storage capacity of 565,000 barrels of gasoil and 309,000 barrels of oil, assuring an additional three days of autonomy for Algeria.<sup>66</sup>

ExxonMobil required that Sonatrach take over the oil production of the refinery through an offtake contract of ten years.<sup>67</sup> This condition allows a guaranteed source of revenue for basic oils and to have ExxonMobil as partner for at least ten years.<sup>68</sup> Ould Kaddour also announced a future project with **France**-based **Total** for a petrochemical factory in **Arzew**, close to the city of **Oran**, which will constitute the first propylene and polypropylene production unit in Algeria.<sup>69</sup> Although Algeria is aiming to decrease dependence on oil revenue, optimising the cost and production of oil will enable the government to count on a source of income to finance its expansionist economic policy without resorting to external help.

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<sup>63</sup> TSA, 8 May 2018.

<sup>64</sup> TSA, 8 May 2018.

<sup>65</sup> TSA, 8 May 2018.

<sup>66</sup> TSA, 9 May 2018.

<sup>67</sup> TSA, 9 May 2018.

<sup>68</sup> TSA, 9 May 2018.

<sup>69</sup> TSA, 9 May 2018.

## Planner

April 2019: Scheduled presidential elections;

## Chronology

14 May 2018 **(Algeria)** *Reuters*. State-owned energy company **Sonatrach** plans to focus on petrochemical deals to reduce fuel imports while increasing revenue;

9 May 2018 **(Algeria)** *TSA*. **Sonatrach** CEO **Abdelmoumen Ould Kaddour** announces acquisition of refinery from **ExxonMobil** and three oil terminals in **Italy**;

3 May 2018 **(Algeria)** *Jeune Afrique*: Government's '*Loi de Finances Complementary (LFC)*' proposes increase in custom duties for a range of products and budget increases for five ministries;

2 May 2018 **(Algiers)** **(Algeria)** *Algerie Eco*: Trade minister **Said Djellab** calls on Algerian economic partners to start producing in the country instead of only exporting;

28 Apr 2018 **(Algeria)** *Reuters*. Agriculture ministry official **Noureddine Amrani** says Algeria plans to drastically reduce its purchase of barley and wheat due to abundant rains and a good domestic harvest;

28 Apr 2018 **(Hydra)****(Algeria)** *TSA*: **Front de Liberation National (FLN)** secretary general **Djamel Ould Abbas** gathers six student organisation under the new so called '**Generation Bouteflika**' to join the pre-electoral campaign for Bouteflika's fifth mandate.

27 Apr 2018: **(France)** *El Watan*: Housing minister **Abdelwahid Temmar** and employment and social security minister **Mourad Zemali** meet with Algerian diaspora in France to promote investments in Algerian real estate and small enterprises;

23 Apr 2018 **(Algeria)** *TSA*: The **Centre National de l'Informatique et des statistiques des Douanes (CNIS)** (national centre of customs information and statistics) publishes external trade figures showing recovering trade balance, mainly driven by increasing oil prices;

21 Apr 2018 **(Djelfa)** **(Algeria)** *Observ'Algerie*: **Front de Liberation National (FLN)** secretary general **Djamel Ould Abbas** announces postponement of the central committee congress;

21 Apr 2018 **(Algeria)** *L'Expression*: **Banque d'Algerie** (central bank) governor **Mohamed Loukal** and finance minister **Abderrahmane Raouya** defend economic policies before representatives of the IMF and World Bank;

21 Apr 2018 **(Algeria)** *TSA*: **Conseil national de concertation pour le développement de la Petite et moyenne entreprise (CNCD-PME)** (the national council for the development of SMEs) president **Salah Eddine Abdessamad** describes EU Trade Commissioner **Cecilia Malmström**'s remarks on Algeria's import limits as disproportionate and says Algeria's decision is sovereign;

19 Apr 2018 **London (United Kingdom)** *Reuters*. The **UK's Serious Fraud Office (SFO)** launches a criminal investigation into UK-based **Ultra Electronics** regarding "*suspected corruption in the conduct of business*" in **Algeria**;

17 April (Algeria) *APS: International Monetary Fund (IMF)* first semester report for 2018 shows improved growth prospects for Algeria with 3% GDP growth in 2018, against 0.8% predicted in 2017;

16 Apr 2018 (Algeria) *Jeune Afrique*: Trade minister **Said Djellab** announces a temporary freeze on restrictions of imports of raw materials of flavouring, beverages and other food products used in the food industry, following pressures from producers;

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