

AFRICA RISK CONSULTING

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President Abdelaziz Bouteflika (1999-present) reshuffles the armed forces after targeting the police and the gendarmerie. Bouteflika gathers increasing support for a fifth mandate, making anti-corruption a pillar of his campaign. A cholera epidemic in the Blida region leads Bouteflika to dismiss the region's head and adds pressure on the government. The Banque d'Algérie (central bank) justifies the dinar's devaluation to defend its resort to non-conventional financing. The proposed 2019 budget shows limited cuts on government expenditure and a high budget deficit. United Kingdom (UK)-based oil company Petrofac receives a \$600m contract from state-owned oil company Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures (Sonatrach) for the development of the Tinhert oil field construction and Centre de Separation Entrée et Compression (oil separation entry and compression centre) in Ohanet. South Africa announces plans to import oil from Algeria.

Bouteflika dismisses army and police officials...

President **Abdelaziz Bouteflika** (1999-present) dismissed two high-ranking military officials on 22 August, with further reshuffling in the **Armée Nationale Populaire (ANP)** (armed forces) expected.¹ The wave of changes began with national security director general **Abdelghani Hamel** in June and extended to the police and gendarmerie.² Bouteflika has now set his sights on the army with the removal of **Direction Centrale de la Sécurité de l'Armée (DCSA)** (central direction of army security) head **Mohamed Tireche** and the replacement of **Boumediene Benattou**, general controller of the army, by the former central director of supply corps, **Hadji Zerhouni**.³ The DCSA is a key department in the defence ministry in charge of staff and army infrastructure protection. The defence ministry and Bouteflika have yet to issue a statement, but local TV channel **Ennahar TV** claims the need to professionalise and renew military structures justifies the reshuffling.⁴

Bouteflika appears to be cleaning up the security services to ensure a smooth election year ahead of the 2019 presidential elections. Bouteflika dismissed majors general **Labbib Chentouf** and **Said Bey**, respectively commandants of the 1st and 2nd military regions, on 17 August, replacing them with **Ali Sidane** and **Meftah Souab**. Chentouf's dismissal was a recurring theme in the media in the preceding weeks, as his son's involvement with **Kamel Chikhi**, a central figure in the cocaine scandal in the city of **Oran** (see *ARC Briefing Algeria June 2018*) became public.⁵

¹ Jeune Afrique, 23 Aug 2018.

² Jeune Afrique, 23 Aug 2018.

³ Jeune Afrique, 23 Aug 2018.

⁴ Jeune Afrique, 23 Aug 2018.

⁵ Le Soir d'Algérie, 18 Aug 2018.

The security leadership changes also suggest that Bouteflika will make an official announcement of his candidacy in the elections soon.⁶ Bouteflika called on Algerians on 20 August to tackle the corruption and drugs plaguing the country.⁷ He also called on the people of Algeria to “*follow the example of the elite, the elements of the ANP, proud heir of the **Armée de Liberation Nationale** (national liberation army)*”, showing the necessity for scandal-free high-ranking officials.⁸

Senate president **Abdelkader Bensalah** called on 3 September for President Bouteflika to continue his mission as head of state, citing national interest, during the opening of an ordinary session of the **Conseil de la Nation** (national council).⁹ He also called on the institutions with influence in the public sector, such as the media and civil society figures, to show responsibility in their role of sensitising public opinion.¹⁰ Bensalah indirectly criticised opposition parties **Front des Forces Socialistes (FFS)** and the **Mouvement de la société pour la paix (MSP)**, pointing to their calls for demonstrations and underlining the necessity to remain in the political dialogue.¹¹ **Ali Haddad**, the president of the main employers’ organisation, the **Forum des Chefs d’Entreprise (FCE)**, also voiced his support for a fifth mandate for President Bouteflika on 5 September.¹² Bensalah and Haddad are joining the swelling number of the political spectrum in calling for a fifth mandate, further diminishing potential opposition to Bouteflika during the 2019 presidential elections.

The wave of dismissals will help the current government distance itself from the recent corruption scandals in the police and military, positioning Bouteflika in a favourable light ahead of the elections. The replacement of high ranking officials with considerable influence and network represents an attempt to erase any potential creation of substantial opposition, further securing a homogeneous support for a fifth mandate.

Cholera epidemic adds pressure on the government...

A cholera epidemic that caused two deaths in the wilaya (region) of **Blida** has triggered a political crisis for the ruling **Front de Libération National (FLN)**. The epidemic highlighted bad management of the crisis and poor governance of Blida, where garbage remains uncollected in the street.¹³ The outbreak began in August and contaminated at least 59 people.¹⁴ Local authorities waited until 23 August to officially report an epidemic. On 26 August, health minister **Mokhtar Hasbellaoui** announced that the crisis would be contained in three days, a statement his own ministry quickly denied.¹⁵ The opposition FFS party demanded on 3 September that a committee investigate the emergence of the epidemic.¹⁶ President Bouteflika dismissed the wali (head) of Blida, **Mustapha Layadhi**, on 3 September.¹⁷ The outbreak was officially contained on 4 September.¹⁸

⁶ Le Soir d’Algerie, 18 Aug 2018.

⁷ TSA, 20 Aug 2018.

⁸ TSA, 20 Aug 2018.

⁹ TSA, 20 Aug 2018.

¹⁰ TSA, 20 Aug 2018.

¹¹ TSA, 3 Sept 2018.

¹² Jeune Afrique, 5 Sept 2018.

¹³ TSA, 3 Sept 2018.

¹⁴ Le Monde Afrique, 3 Sept 2018.

¹⁵ Le Monde Afrique, 3 Sept 2018.

¹⁶ TSA, 3 Sept 2018

¹⁷ TSA, 3 Sept 2018.

¹⁸ Jeune Afrique, 6 Sept 2018.

The cholera outbreak attracted criticism of the health system and the entire political system, from local to national authorities, education and water management departments as well as the pharmaceutical sectors.¹⁹ It also damaged Algeria's reputation abroad and placed additional stress on the issue of government public spending.²⁰ FFS members of parliament had already decided to boycott the opening of the parliamentary session to criticise the influence of the executive power on parliament which it described as *"a support committee for failing policies that inhibit Algeria's transition towards a democratic nation"*.²¹

The political crisis is not likely to jeopardise the high probability of Bouteflika's re-election. However, public outrage over the reasons behind the emergence of the epidemic will pressure the government to increase public spending, at a time where it should be adopting austerity measures.

Central bank addresses growing concern around currency depreciation...

The **Banque d'Algérie (BA)** (central bank) offered an explanation on 18 August of the worsening currency depreciation.²² The Algerian dinar has lost 50% of its value to the **United States (US)** dollar in four years following the economic crisis triggered by plunging oil prices.²³ Depreciation of the dinar has picked up during the past few weeks after a two-year break.

The central bank referred to the buffer role of the dinar exchange rate in light of external shocks and in the absence of budget consolidation.²⁴ The BA justified the recent depreciation of the dinar by referring to changes in the value of the euro against the dollar between December 2017 and July 2018.²⁵ The dinar appreciated slightly against the dollar between December and March and depreciated against the euro by 3% during the same period.²⁶ However, from March to July, the dinar appreciated against the dollar by 3% and 1% to the euro, showing limited adjustment of the dinar exchange rate to the euro and the dollar in light of better oil prices.²⁷ The limited adjustments allowed Algeria to avoid potential inflationary pressure in a context of the high quantity of cash triggered by the resort to non-conventional financing to meet the treasury financing needs and the public debt.²⁸ The central bank offered reassurance regarding the resort to non-conventional financing that led to a liquidity expansion of 57% during the first semester of 2018. The BA said that tools for monetary policies to sterilise and manage excessive monetary liquidity enabled the bank to contain inflation at 4.6% in June.²⁹

...as continued public expenditures deplete foreign currency reserves

The proposed 2019 budget was published on 28 August.³⁰ Government expenditure will reach DA 8,502 billion (\$71.6 billion), reflecting a 1.5% decrease on the DA 8.650 billion

¹⁹ Le Monde Afrique, 3 Sept 2018.

²⁰ Jeune Afrique, 6 Sept 2018.

²¹ TSA, 3 Sept 2018.

²² Maghreb Emergent, 20 Aug 2018.

²³ Maghreb Emergent, 20 Aug 2018.

²⁴ Maghreb Emergent, 20 Aug 2018.

²⁵ Maghreb Emergent, 20 Aug 2018.

²⁶ Maghreb Emergent, 20 Aug 2018.

²⁷ Maghreb Emergent, 20 Aug 2018.

²⁸ Maghreb Emergent, 20 Aug 2018.

²⁹ TSA, 18 Aug 2018.

³⁰ TSA, 29 Aug 2018.

(\$72.9 billion) for 2018.³¹ The government had pledged in its 2018 finance law that it would return to a balanced budget in 2019 with a reduction of public finance to DA 7,500 billion (\$63.2 billion).³² Expenditure on equipment will be at the crux of the new austerity measures, with a 30% reduction in 2019 and a 7% reduction in 2020.³³ However, operational spending is estimated to increase by 7.5% to reach DA 5,000 billion (\$42 billion) in 2019.³⁴ The government has postponed promised cuts to overall public spending until 2020 and 2021.³⁵ This supports the scepticism that the **World Bank** expressed in its April 2018 report regarding the government's ability to cut spending.³⁶

Government revenue is expected to reach DA 6,507 billion (\$54.9 billion) in 2019, posting a 0.2% growth compared to 2018.³⁷ However, the slight improvement is largely due to a 15% increase in oil revenue, DA3,200 billion (\$27 billion), on the back of oil prices established at \$60 per barrel.³⁸

The state budget and treasury deficit will remain high. The budget proposal document provides a budget deficit above 10% of GDP in 2019, against 10.8% in 2018.³⁹ Treasury will need financing up to DA1,800 billion (\$15.2 billion) for 2019, far above the predictions of finance minister **Abderrahmane Raouya**, set to DA580 billion (\$4.9 billion) during the adoption of the non-conventional financing law.⁴⁰ In the absence of budget savings, the government will need to print more money in 2019 to finance the budget deficit.⁴¹ In 2019 it will exceed the Banque d'Algérie's initial estimates of a total amount of DA 3,000 billion (\$25.3 billion) over five years.⁴²

The external deficit will remain large, forcing further erosion of the foreign currency reserve.⁴³ The proposal predicts a balance of payment of approximately -\$17.2 billion in 2019, -\$14.2 billion in 2020 and -\$14 billion in 2021.⁴⁴ The direct consequence will be a contraction of foreign currency reserve to \$62 billion, \$47.8 billion and finally \$33.8 billion respectively for 2019, 2020 and 2021.⁴⁵

Prime minister **Ahmed Ouyahia's** strategy seems to confirm a short-sighted vision. It consists of quick fixes without offering economic diversification in light of the new oil context, showing an over-reliance on the maintenance of oil price equilibrium.⁴⁶ According to the finance ministry, the equilibrium price to eliminate the current account deficit would be \$92 per barrel in 2019, which seems highly unlikely.⁴⁷

³¹ TSA, 29 Aug 2018.

³² TSA, 18 Aug 2018

³³ TSA, 18 Aug 2018

³⁴ TSA, 29 Aug 2018.

³⁵ TSA, 29 Aug 2018.

³⁶ TSA, 18 Aug 2018

³⁷ TSA, 29 Aug 2018.

³⁸ El Watan, 29 Aug 2018.

³⁹ El Watan, 29 Aug 2018.

⁴⁰ TSA, 29 Aug 2018.

⁴¹ TSA, 29 Aug 2018.

⁴² TSA, 29 Aug 2018.

⁴³ TSA, 29 Aug 2018.

⁴⁴ TSA, 29 Aug 2018.

⁴⁵ TSA, 29 Aug 2018.

⁴⁶ TSA, 29 Aug 2018.

⁴⁷ TSA, 29 Aug 2018.

Another controversial point in the 2019 budget proposal is the introduction of a clause limiting advertising budgets for economic firms, interpreted as an attempt to restrict income for the press.⁴⁸ The independent press has accused the government of financially stifling the sector. The budget law provides that allowable expenses for the promotion of goods and services can reach only 2.5% of annual revenue.⁴⁹ Advertising and marketing expenses are subject to the value added tax and the profits generated are taxed under the **Impôt sur les Bénéfices des Sociétés (IBS)** (tax on companies' profit).⁵⁰ Those expenses are deductible from companies' annual revenue, but intermediary players such as press agents do not benefit from the same exemptions.⁵¹ The limitation of companies' advertising budgets will not create extra revenue for the government, but instead may cause media outlets to either close or reduce their activities.⁵² In addition, the new provision will negatively affect a range of companies that depend heavily on advertising, such as in the telecommunication sector.⁵³ Many newspapers, television stations and online information websites rely exclusively on revenue from advertising.⁵⁴

The postponement of austerity measures and continuing government expenditure will contribute to decreasing investors' confidence as the budget deficit remains high.

Petrofac wins \$600m Sonatrach contract, South Africa to import Algerian oil...

United Kingdom (UK)-based oil company **Petrofac** announced on 28 August that it had received a temporary attribution letter for an engineering, supplying and construction contract of \$600m from the state-owned oil company, **Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures (Sonatrach)**.⁵⁵ The project concerns the development of the **Tinhert** oil field and will see the construction of a **Centre de Separation Entrée et Compression** (oil separation entry and compression center) in **Ohanet**.⁵⁶ The three-year contract includes a pipeline network of 400 kilometres linking 36 wells. Petrofac has been in Algeria for two decades and is involved in the **Alrar** and **Reggane** projects.⁵⁷

Petrofac has been under an investigation led by the UK's **Serious Fraud Office** since 2017.⁵⁸ The investigation concerns the activities of the company and its subsidiaries.⁵⁹ Petrofac's directors are accused of bribes and money laundering.⁶⁰ The investigation mainly focuses on contracts obtained between 2002 and 2009 in **Kazakhstan**.⁶¹

⁴⁸ TSA, 29 Aug 2018.

⁴⁹ SA, 30 Aug 2018.

⁵⁰ SA, 30 Aug 2018.

⁵¹ TSA, 30 Aug 2018.

⁵² TSA, 30 Aug 2018.

⁵³ TSA, 30 Aug 2018.

⁵⁴ TSA, 30 Aug 2018.

⁵⁵ Maghreb Emergent, 23 Aug 2018.

⁵⁶ Maghreb Emergent, 23 Aug 2018.

⁵⁷ Maghreb Emergent, 23 Aug 2018.

⁵⁸ TSA, 29 Aug 2018.

⁵⁹ TSA, 29 Aug 2018.

⁶⁰ TSA, 29 Aug 2018.

⁶¹ TSA, 29 Aug 2018.

In a boost to Algeria's oil sector, **South Africa's** energy minister, **Jeff Radebe**, announced in parliament on 23 August that plans to import oil from Algeria, **Equatorial Guinea** and **South Sudan** are underway.⁶² In light of increasing oil prices, Radebe mentioned the countries' competitive oil prices and their geographic proximity as competitive advantages since 49% of Africa's oil supplies come from **Saudi Arabia**.⁶³

Planner

January 2019 **(Algeria)** Expected new law on hydrocarbons to increase investments
 January 2019 **(Algeria)** Budget consolidation programme and decrease in public expenditure to begin
 April 2019: **(Algeria)** Scheduled presidential elections;

Chronology

5 Sep 2018 **Algiers (Algeria)** *TSA* **Ali Haddad**, head of employers' association **Forum des Chefs d'Entreprise (FCE)**, announces support for a fifth mandate for President **Abdelaziz Bouteflika**

3 Sep 2018 **Algiers (Algeria)** *TSA*: Senate president **Abdelkader Bensalah** joins support for a fifth mandate for President **Abdelaziz Bouteflika**;

3 Sep 2018 **Blida (Algeria)** *Le Monde Afrique* President **Bouteflika** dismisses Blida regional head **Mustapha Layadhi** over mismanagement of the cholera crisis;

28 Aug 2018 **Algiers (Algeria)** *TSA*: The 2019 finance law proposal is published showing postponement of austerity measures and continuing government expenditure;

23 Aug 2018 **Blida (Algeria)** *Le Monde Afrique*: Health minister **Mokhtar Hasbellaoui** officially reports the cholera epidemic in the region of **Blida**;

23 Aug 2018 **Cape Town (South Africa)** *Maghreb Emergent*: South African energy minister **Jeff Radebe** announces plans to import oil from new countries, including Algeria, to diversify from existing suppliers such as **Saudi Arabia**;

22 Aug 2018 **Algiers (Algeria)** *Jeune Afrique*: President **Abdelaziz Bouteflika** dismisses **Mohamed Tireche**, head of **Direction Centrale de la Sécurité de l'Armée (DCSA)** (central direction of army security) and **Boumedienne Benattou**, general controller of the army;

18 Aug 2018 **Algiers (Algeria)** *Maghreb Emergent*: The **Banque d'Algérie** (central bank) publicly addresses the on-going currency depreciation in order to justify the continued resort to non-conventional financing;

⁶² *Maghreb Emergent*, 23 Aug 2018.

⁶³ *Maghreb Emergent*, 23 Aug 2018.

About Africa Risk Consulting:

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