

## AFRICA RISK CONSULTING

### Algeria Monthly Briefing January 2019

#### Algeria Summary 14 January 2019

***The ruling Front de Libération Nationale (FLN) party obtains a majority in the 29 December senate elections, confirming the FLN's advantage ahead of the April presidential elections. An increase in crude oil prices following the decision of Organization of Petroleum Exporting Countries (OPEC) members to curb oil production ushers in short-term positive consequences for the Algerian economy. Lack of economic diversification presents a risk against the backdrop of an economic crisis and in the run-up to the presidential elections but potential for diversifying the economy is emerging.***

#### Landslide victory for FLN in senate elections ...

Elections took place on 29 December for the 48 elected representatives of the **Conseil de la nation** (upper chamber of parliament). The final results of the senatorial elections handed the **Front de Libération Nationale (FLN)** a landslide victory with 31 of the 48 seats.<sup>1</sup> The result confirms the FLN's political advantage ahead of the presidential elections scheduled to take place in April. The **Rassemblement National Démocratique (RND)** came second in the elections, winning 10 seats.<sup>2</sup> The opposition **Front des Forces Socialistes (FFS)** won three seats and the **Front al-Moustakbel** one seat, while independent candidates won the rest.<sup>3</sup> The constitutional council registered 47 *wilayas* (Algerian territorial collectivities) in the vote while 25,492 members out of a total of 26,018 reportedly voted, bringing the turnout to 97.98%.<sup>4</sup>

The election result confirms the FLN's prime position in the national political landscape, despite months of internal crisis within the party. The resignation of FLN secretary general **Djamel Ould Abbès** as president of the **Assemblée Populaire Nationale (APN)** (lower house) on 14 November appeared to signal a deepening of the leadership crisis in the FLN (see *ARC Algeria Briefing December 2018*). However, interim secretary general of the FLN and recently appointed president of the APN **Mouad Bouchareb** attributed the FLN's success in the senatorial elections to the efforts of the party and President **Abdelaziz Bouteflika** (1999-present):

*"This is the first time that the FLN has scored in the election for the renewal of the Council of the nation, thanks to the historical position of the party, to the ambitious programme of the leader of the party and to President Abdelaziz Bouteflika."<sup>5</sup>*

The senatorial elections, in which elected representatives of municipal and county assemblies of the 48 *wilayas* vote, sparked little interest among the population, confirming the political apathy in Algerian civic life.<sup>6</sup> Some analysts noted the absence in the streets of **Algiers** of any sign of elections on 29 December, and alleged that the elections were corrupt:<sup>7</sup>

<sup>1</sup> L'Expression, 6 Jan 2019.

<sup>2</sup> Algeria Online, 4 Jan 2019.

<sup>3</sup> L'Expression, 6 Jan 2019.

<sup>4</sup> Huffpost Maghreb, 5 Jan 2019.

<sup>5</sup> Jeune Afrique, 2 Jan 2019.

<sup>6</sup> Jeune Afrique, 7 Dec 2018.

<sup>7</sup> Jeune Afrique, 7 Dec 2018.

*"Some candidates can pour up to 30 million Algerian dinars (DZD) (\$251,463) into electoral vote buying."<sup>8</sup>*

The senatorial elections saw almost no female participation, reflecting the gap that still exists between Algeria's legislation and reality. The revised 2008 constitution enshrines the obligation to have an equal number of women and men represented on the electoral lists. The FFS was one of the few parties that included women on its electoral list for the senatorial elections, but limited it to two female candidates.<sup>9</sup> The leaders of various political parties attribute the gender gap to both the system of a single application per constituency for the senatorial elections and the lack of female representation in local assemblies.<sup>10</sup> RND spokesperson **Seddi Chihab** claimed political parties are not willing to risk losing votes on female candidates:

*"A very tight race plays out in these elections, whereby all the different parties want to win. When there is only one seat at stake, the woman is not ready yet to cope with such an election...we cannot impose a female-based list to a political party in a limited ballot, where only one position is made available."<sup>11</sup>*

Critics also claim the election process of the upper house is opaque. Of the 144 members of the upper house, 96 are elected by indirect and secret ballot – including the 48 elected on 29 December – while 48 are directly appointed by the president.<sup>12</sup> The senate was created in 1996 to play a “checks and balance role” over the APN. The president of the senate also assumes power in the event that Algeria's president is unable to perform his or her duties.<sup>13</sup> The former secretary general of the RND and current president of the senate, **Abdelkader Bensalah**, would thus play an important role in the event of President Bouteflika's death. Article 88 of the Constitution stipulates:

*"In case of the President's death, resignation or vacancy from power because of serious illness, the president of the senate ensures interim for a maximum 60-day period."<sup>14</sup>*

Considering Bouteflika's critical state of health, the choice of the president of the senate is all the more significant. It is uncertain whether the 76-year-old Bensalah will remain president of the senate after the 29 December senatorial elections and it will be up to Bouteflika to decide. The senators have only an endorsement role to play once the president has appointed the president of the senate.<sup>15</sup> However, Bensalah's close relatives claim that he is likely to remain in office despite noticeable signs of weak health. An RND senator said that:

*"He is fine where he is now, and there are no reasons for him to vacate his position as president of the senate."<sup>16</sup>*

### **... as uncertainty surrounds April presidential elections**

The current national debate centres around the feasibility of presidential elections taking place as scheduled in April, in the light of President Bouteflika's declining health. The debate is paralysing Algerian political and economic life as the election date draws nearer, with political uncertainty causing entrepreneurs to delay investment decisions.<sup>17</sup> Bouteflika's inability to meet with **Saudi Arabia's** crown prince, **Mohamed Ben Salman** (2017-present), while he was visiting Algiers on 3 December is a striking example of Bouteflika's declining health. While the pro-government newspaper

<sup>8</sup> Anonymous leader of a democratic movement quoted in Jeune Afrique, 7 Dec 2018.

<sup>9</sup> Sud Horizons, 2 Dec 2018.

<sup>10</sup> Sud Horizons, 2 Dec 2018.

<sup>11</sup> Sud Horizons, 2 Dec 2018.

<sup>12</sup> Jeune Afrique, 2 Jan 2019.

<sup>13</sup> Jeune Afrique, 16 Dec 2018.

<sup>14</sup> Jeune Afrique, 16 Dec 2018.

<sup>15</sup> Jeune Afrique, 16 Dec 2018.

<sup>16</sup> Jeune Afrique, 16 Dec 2018.

<sup>17</sup> El Watan, 31 Dec 2018.

*El Moudjahid* confirmed that the presidential elections would indeed take place in April,<sup>18</sup> political parties in the opposition are voicing concerns.

The leader of the Islamic **Mouvement de la Société pour la Paix (MSP)** party, **Abderrazak Makri**, met with Bouteflika's brother and special adviser, **Saïd Bouteflika**, in November to suggest postponing the presidential elections in order to allow for a negotiated transition between the ruling party and the opposition.<sup>19</sup> Army chief of staff and deputy defence minister **General Ahmed Gaïd Salah** had already rejected Makri's first proposal in July 2018 to set a five-year political transition spearheaded by the army in order to have "*a neutral power in charge before finding a consensus*".<sup>20</sup> After meeting with Saïd Bouteflika in November, Makri reiterated his idea of finding a consensual transition and this time suggested they should postpone the elections in order to find a solution to the current divide within the ruling majority over Bouteflika's potential fifth term and to the national economic crisis.<sup>21</sup> Reacting to Makri's suggestion to involve the **Armée Nationale Populaire (ANP)** (people's national army) in a transition, Salah said, "*the army should not interfere in politics and should abide by its constitutional prerogatives.*"<sup>22</sup>

Some analysts suggest that the reluctance of the defence ministry to support a transition without President Bouteflika exemplifies the ANP's political stance supporting Bouteflika. Salah published a strongly worded communiqué in the ANP's newspaper, *El Djeïch*, on 30 December in reaction to retired army general **Ali Ghediri**, who had recently made a statement against Bouteflika's remaining in power.<sup>23</sup> In its communiqué, the ANP directly threatened any former military officers who expressed a political opinion in favour of a democratic change.<sup>24</sup> The army is clearly stating that it will not support the opposition by safeguarding the constitution should Bouteflika cling to power.<sup>25</sup>

**Rassemblement pour la Culture et la Démocratie (RCD)** secularist opposition leader **Mohcine Belabbas** also warned against the risk of the army meddling in the political landscape and insisted on the need for Bouteflika to meet the electoral deadlines:

*"Since his election in 1999, Bouteflika has always respected the deadlines for the elections. The non-respect of the constitutional deadline of the vote this time means thrusting the country in a climate of instability."*<sup>26</sup>

Opposition movement **Mouwatana** spokesperson and president of the **Union pour le Changement et le Progrès (UCP)** **Zoubida Assoul** declared that:

*"It would be irresponsible to assume that Bouteflika can lead a fifth term as president."*<sup>27</sup>

Postponing the elections would require an amendment to the constitution in parliament.<sup>28</sup> There is currently no consensus between the supporters of a presidential electoral delay and the defenders of the constitution. The uncertainty surrounding the presidential election risks further division in the ruling majority (FLN, RND, **Tajamou Amal Al-Jazair (TAJ)** and the **Mouvement Populaire Algérien (MPA)**)<sup>29</sup> over the choice of a consensual candidate as well as antagonising the opposition.

<sup>18</sup> Huffpost Maghreb, 14 Dec 2018.

<sup>19</sup> Jeune Afrique, 12 Dec 2018.

<sup>20</sup> Jeune Afrique, 26 Jul 2018.

<sup>21</sup> Jeune Afrique, 12 Dec 2018.

<sup>22</sup> Jeune Afrique, 26 Jul 2018.

<sup>23</sup> Huffpost Maghreb, 20 Dec 2018.

<sup>24</sup> Huffpost Maghreb, 1 Jan 2019.

<sup>25</sup> Huffpost Maghreb, 1 Jan 2019.

<sup>26</sup> Middle East Online, 20 Dec 2018.

<sup>27</sup> France 24, 13 Dec 2018.

<sup>28</sup> France 24, 13 Dec 2018.

<sup>29</sup> Middle East Eye, 11 Dec 2018.

## Oil prices recover slightly in wake of OPEC meeting ...

The **Brent** oil price reached just over \$60 a barrel in the first week of January, improving the economic outlook for Algeria, whose economy depends heavily on oil production and sales.<sup>30</sup> In October, Brent crude oil prices registered \$81.03 a barrel, while in November they slumped to \$64.75 per barrel and fell further to \$56.55 a barrel in December.<sup>31</sup> The recovery observed in January follows a meeting of the **Organization of Petroleum Exporting Countries (OPEC)** in **Vienna (Austria)** on 6 December that aimed to settle the issue over lower oil prices in the midst of an overproduction crisis.<sup>32</sup> OPEC members, including Algeria, agreed to reduce oil production in order to stabilise demand. Energy minister **Mustapha Guitouni** declared in a press conference on 30 December that:

*"Algeria – along with other OPEC members – will lower its production up to 3%, while non-OPEC members will lower their production up to 2.2%...this will allow an oil price stabilisation at around \$65 to \$70 a barrel in the first quarter of 2019."*<sup>33</sup>

Improved global economic conditions in December also appear to have had a positive impact on oil prices.<sup>34</sup> This slight recovery of the oil price will have short-term positive consequences for Algeria whose economy is over-reliant on its hydrocarbons (see below). The **World Bank** reports that Algerian government revenues and exports depend heavily on hydrocarbons – at 95% and 75% respectively.<sup>35</sup> An oil price recovery is likely to boost the Algerian economy in the short run. As economist **Ferhat Aït Ali** notes,

*"Algerians' purchasing power corresponds to the oil barrel's price."*<sup>36</sup>

## ... amid tentative diversification of the economy

Trade minister **Saïd Djellab** announced in Algiers on 26 December his intention to launch a "roadmap" for 2019 to focus on diversifying the Algerian economy.<sup>37</sup> Djellab said his ministry would take measures to encourage exports from the non-hydrocarbon industry, such as logistical platforms that the government will provide to exporting companies.<sup>38</sup> Djellab also assured entrepreneurs that the trade ministry was working on a strategy to diversify exports for the 2019-2023 period.

The fifth forum on **Algerian-South Korean** business relations that took place in Algiers on 17 December underlines the Algerian government's bid to diversify its economy and boost foreign investment. Prime minister **Ahmed Ouhayia** and his South Korean counterpart, **Lee Nak-Yon**, focused their efforts on the aerospace domain as a way to address Algeria's over-reliance on hydrocarbons.<sup>39</sup> Should they materialise, several projects in the non-hydrocarbon industry could present a glimmer of hope for the Algerian economy to avoid being fully dependent on oil price markets. The steel industry represents an important field in which Algeria has potential to diversify its economy. Industry and mining minister **Youcef Yousfi** noted during the leaders of the *wilayas'* meeting in **Boumerdes** on 20 December that the steel industry is "on the right track".<sup>40</sup> Yousfi mentioned the **Bellara** steel complex in **Djijel** and the production complex of the **Tosyali** steel plant in **Oran** as contributing to the boosting of the steel industry.<sup>41</sup> The **Tebessa** project signed between state-owned petroleum exploration and development company **Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des**

<sup>30</sup> TSA, 7 Jan 2019.

<sup>31</sup> www.countryeconomy.com

<sup>32</sup> TSA, 7 Jan 2019.

<sup>33</sup> Maghreb Emergent, 30 Dec 2018.

<sup>34</sup> TSA, 7 Jan 2019.

<sup>35</sup> www.worldbank.org

<sup>36</sup> El Watan, 4 Jan 2019.

<sup>37</sup> El Watan, 27 Dec 2018.

<sup>38</sup> El Watan, 27 Dec 2018.

<sup>39</sup> El Moudjahid, 18 Dec 2018.

<sup>40</sup> All Africa, 20 Dec 2018.

<sup>41</sup> El Watan, 31 Dec 2018.

**hydrocarbures (Sonatrach)** and **China**-based state-owned investment company **Citic Group** over the phosphate transformation also features investments in a strategic field.<sup>42</sup>

International rating institutions hold gloomy prospects for the Algerian economy. Algeria ranks 17th – far from the top 10 **African** economies – according to the annual **Forbes** ranking of African countries in terms of investment and attractiveness.<sup>43</sup> The Forbes ranking mirrors the **World Bank's 2019 Doing Business Report** that ranked Algeria 157<sup>th</sup> among 190 countries.<sup>44</sup> Economist **Belkacem Boukherouf** refutes the claim of **École nationale supérieure de sciences politiques (ENSSP) de l'Université d'Alger** director **Mustapha Saïdj** that "*Algeria will be part of the BRICS<sup>45</sup> by 2030.*"<sup>46</sup> According to Boukherouf, Algeria lags in terms of structural reforms as well as in non-material investment – such as technological, knowledge and human resources – unlike the other BRICS countries:

*"A cultural revolution should precede a material revolution and that Algeria is not there yet."*<sup>47</sup>

However, Yousfi is optimistic about efforts to diversify the Algerian economy.<sup>48</sup> He referred to a "*real dynamic*" within the construction materials industry – in which Algeria has become an exporter – that "*has propelled industrial investment*".<sup>49</sup> Nevertheless, Yousfi conceded an undeniable lack of diversification that remains in the Algerian economy, referring to:

*"... the inadequacy in terms of investments faced with the future challenges of the Algerian economy and with the global evolution of the industry, especially regarding the numeric revolution."*<sup>50</sup>

### Unconventional financing: can Algeria solve its debt crisis by issuing money?

President Abdelaziz Bouteflika signed the 2019 finance law on 27 December.<sup>51</sup> The 2019 budget predicts 2.9% growth for 2019 and a 3.2% non-hydrocarbon growth, and announces an 8.1% rise in operating expenditure for 2019 compared to 2018, which will increase inflation.<sup>52</sup> Prime minister Ahmed Ouyahia announced during the South Korean-Algerian business forum in Algiers on 17 December (see above) that Algeria's domestic debt had risen from 20.6% of its GDP in 2016 to 40% of GDP in 2018.<sup>53</sup> The World Bank estimates that Algeria's trade deficit is 6.9% of its GDP.<sup>54</sup>

As a short-term solution, the **Banque d'Algérie** (central bank) printed 2,185 billion dinars (\$19 billion) up to 30 November 2017 in order to address the government's debt (see *ARC Briefing Algeria November 2017*).<sup>55</sup> Despite the **International Monetary Fund's (IMF)** advice to favour structural reforms, the central bank issued 4,005 billion dinars (\$34 billion) within a year, corresponding to 19% of Algeria's gross domestic product (GDP).<sup>56</sup> The IMF warns that:

*"[Unconventional financing] could contribute to exacerbate the internal and external financial imbalances already afflicting the Algerian economy."*<sup>57</sup>

<sup>42</sup> All Africa, 20 Dec 2018.

<sup>43</sup> El Watan, 6 Jan 2019.

<sup>44</sup> The World Bank 2019 Ease of Doing Business

<sup>45</sup> **Brazil, Russia, India, China and South Africa** emerging powers

<sup>46</sup> Maghreb Emergent, 16 Dec 2018.

<sup>47</sup> Boukherouf quoted in Maghreb Emergent, 16 Dec 2018.

<sup>48</sup> All Africa, 20 Dec 2018.

<sup>49</sup> All Africa, 20 Dec 2018.

<sup>50</sup> All Africa, 20 Dec 2018.

<sup>51</sup> Huffpost Maghreb, 27 Dec 2018

<sup>52</sup> Huffpost Maghreb, 15 Nov 2018.

<sup>53</sup> Jeune Afrique, 21 Dec 2018.

<sup>54</sup> Jeune Afrique, 21 Dec 2018.

<sup>55</sup> TSA, 4 Mar 2018.

<sup>56</sup> Jeune Afrique, 21 Dec 2018.

<sup>57</sup> TSA, 6 Jan 2019.

Economic analysts fear the prolongation of money issuing will trigger a depreciation of the Algerian dinar and an inflation risk. While the Algerian government assures that the inflation rate will remain around 4.5% in 2019, the IMF predicted in October a 6.7% inflation rate for 2019.<sup>58</sup> Financial expert **Ferhat Aït Ali** warns that issuing money is a superficial solution to the debt crisis, creating an unstable economic system, and detrimental to the purchasing power of Algerian citizens:

*"The years 2008-2012 took the wrong path while the years 2014-2018 did nothing to change direction. 2019 will represent the tough moment of an unstable system at the onset and for whomever thought that this system was sustainable."*<sup>59</sup>

Economist and professor **Nouar Meddahi** also expressed concern:

*"The current situation that involves resorting largely to issuing money without any structural reforms and with an overvalued dinar is the worst case scenario."*<sup>60</sup>

**Chambre de commerce et d'industrie (CACI)** (chamber of commerce and industry) president **Mohamed Laid Benamo** shared his disappointment at the provisions of the 2019 finance law during a conference organised by the CACI on 7 January to discuss the 2019 budget. Many expected the budget to resolve the debt crisis by reducing spending, but the publication of the 2019 finance law does not reassure most economists. Benamo expressed his concerns over a steep depreciation of the Algerian dinar and the high cost of social transfers mentioned in the 2019 finance law.<sup>61</sup>

Founder of consulting company **Humilis Finance Lies Kerrar** concludes:

*"Issuing money helps finance the deficit. But it does not resolve the budget crisis."*<sup>62</sup>

The national newspaper, *El Watan*, highlights that neither the opposition parties nor the government foresee any political reforms ahead of the presidential elections this year to ward off the economic crisis.<sup>63</sup> The newspaper denounces apathy among the political opposition, more focused on knowing whether Bouteflika will run for a fifth term as well as on the likely scenario of a political *status quo* should Bouteflika be re-elected in April.<sup>64</sup>

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<sup>58</sup> TSA, 6 Jan 2019.

<sup>59</sup> Ferhat Aït Ali quoted in *Algerie Eco*, 16 Dec 2018.

<sup>60</sup> TSA, 7 Jan 2019.

<sup>61</sup> TSA, 7 Jan 2019.

<sup>62</sup> *Jeune Afrique*, 21 Dec 2018.

<sup>63</sup> *El Watan*, 7 Jan 2019.

<sup>64</sup> *El Watan*, 7 Jan 2019.

## Planner

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

2019: **(Algeria)** (Trade ministry) Diversification strategy for exports for 2019-2023

## Chronology

3 Jan 2019 **Algiers (Algeria)** *Huffpost Maghreb*: Interior ministry director **Hassan Kacimi** states that the refugees found at the Algerian border were "dihadists" from the **Armée Syrienne Libre (ASL)**;

31 Dec 2018 **Algiers (Algeria)** *Huffpost Maghreb*: **La ligue algérienne des droits de l'Homme (LADDH)** (human rights for refugee defence group) announces that the interior ministry drove back over 50 refugees mostly of **Syrian** origin to **Niger**;

30 Dec 2018 **Algiers (Algeria)** *El Djeïch*: The **Armée Nationale Populaire (ANP)** (people's national army) denounces on its official website former military officials who express their political opinions ahead of the presidential elections;

29 Dec 2018 **Algiers (Algeria)** *Jeune Afrique*: Senatorial elections take place in which elected representatives of municipal and county assemblies of the 48 *wilayas* vote by secret ballot;

29 Dec 2018 **Bouzareah (Algeria)** *Huffpost Maghreb*: Moudjahid and president of the constitutional council under president **Chadli Bendjedid, Abdelmalek Benhabylès** dies at 98;

27 Dec 2018 **Algiers (Algeria)** *Huffpost Maghreb*: President **Abdelaziz Bouteflika** signs the 2019 finance law;

26 Dec 2018 **Algiers (Algeria)** *Radio Algérienne*: Trade minister **Saïd Djellab** launches the first land-based export of 400 tonnes of Algerian products to **Nouakchott (Mauritania)**;

20 Dec 2018 **Boumerdes (Algeria)** *All Africa*: Industry and mining minister **Youcef Yousfi** mentions key strategic investments in the non-hydrocarbon sector during a meeting with the *wilayas*;

17 Dec 2018 **Algiers (Algeria)** *El Moudjahid*: **South Korea's** prime minister, **Lee Nak-Yon**, and Algerian prime minister **Ahmed Ouyahia** meet in Algiers for the 5th edition of the bilateral business affairs forum during Lee Nak-Yon's three-day tour in Algeria;

15 Dec 2018 **Algiers (Algeria)** *Maghreb Emergent*: **Ali Haddad** is re-elected as head of the **Forum des Chefs d'Entreprises (FCE)** for a second term during the general assembly of the forum;

7 Dec 2018 **Vienna (Austria)** *CNBC*: **Organization of Petroleum Exporting Countries (OPEC)** members and allies agree to reduce production by 1.2 million barrels per day;

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