

AFRICA RISK CONSULTING

Algeria Monthly Briefing November 2022

Algeria Summary 15 November 2022

Algeria plans to take advantage of its oil and gas boon to more than double its spending in 2023, with the military, civil service and jobless among the largest expected beneficiaries. Businesses in Algeria say they are finally benefitting from new rules implemented by the government to promote investment and exports but are concerned that a petrodollar windfall could push the government to revert to its state-heavy model. Algeria hosts the 31st Arab League summit on 1-2 November, which affirmed the centrality of the Palestinian cause. However, the absence of several important heads of state and governments reflects deep divisions in the Arab world. Algeria is the latest developing country to apply to join the BRICS group, made up of Brazil, Russia, India, China and South Africa, following submission of its official application on 7 November. Turkey's energy and natural resources minister, Fatih Donmez, announces that Algeria and Turkey have agreed to establish a joint oil and natural exploration company that will operate in countries across the region.

2023 budget set to increase military and social spending

The **Algerian** government plans to leverage its oil and gas boon to more than double its spending in 2023, with the military, civil service and unemployed among the largest expected beneficiaries.¹ Skyrocketing energy prices, a consequence of **Russia's** war in **Ukraine**, have shored up the country's reserves, giving the government more scope to cushion citizens against increasing living costs and ward off social unrest.²

A draft finance law presented to parliament's finance committee reflects a large budget deficit. Government expenditure is expected to rise substantially to 13,786 trillion dinars (\$96.9 billion) in 2023 from 6,311 trillion dinars (\$45.5 billion) in 2022 while state revenues are projected to rise by 39% to 7,901 trillion dinars (\$56.9 billion).³ It is not clear how the government will fund the deficit given its historic reluctance to take on foreign debt.

The finance bill forecast Algeria's economy to grow by 4.1% in 2023, up from 3.7% this year, with inflation easing to 5.1% from 7.7%.⁴ Foreign reserves are expected to reach \$54.6 billion by the end of 2023, enough to cover 14.3 months of imports. The finance bill is based on a reference oil price of \$60 a barrel and a market price of \$70 a barrel. Algeria's oil and gas exports are projected to reach \$38.8 billion in 2023, from \$49.5 billion expected this year.

Algeria's defence budget is projected to rise to 3,186 trillion dinars (\$23 billion) in 2023 from 1,300 trillion dinars (\$9.3 billion) this year.⁵ The proposed defence hike comes amid jihadist violence in the broader **Sahel** region, unrest in **Libya** and rising tensions with neighbouring **Morocco** over the disputed **Western Sahara**.

The draft law also allocates 1,021 trillion dinars (\$7.3 billion) to the labour and employment ministry, representing an almost six-fold increase from this year.⁶ The increase will allow the

¹ Morocco World News, 18 Nov 2022; Bloomberg, 20 Oct 2022

² Bloomberg, 20 Oct 2023

³ Bloomberg, 20 Oct 2023

⁴ Bloomberg, 20 Oct 2023

⁵ Morocco World News, 18 Nov 2022; Bloomberg, 20 Oct 2022

⁶ Bloomberg, 20 Oct 2023

ministry to finance raises for state workers, increase pensions, and expand unemployment benefits. In March, Algeria became one of the first **African** countries to implement a permanent unemployment-benefits programme for youth, an initiative that is expected to be extended.⁷ The programme enabled approximately 580,000 jobseekers between 19 and 40 years of age to claim a monthly payment of 13,000 dinars (\$93.7) (see *ARC Briefing Algeria Feb 2022*).⁸

Algeria businesses hope government maintains reforms...

Algerian businesses say they are finally benefitting from new rules implemented by the government to promote investment and exports.⁹ Recent legislation targeted at diversifying the local economy to reduce dependence on energy revenues includes cash incentives to non-oil exporters, a new investment code that came into effect in October, free zones, and changes to the customs code in an attempt to make Algeria more attractive for foreign investment.¹⁰ The government has also offered significant tax exemptions and help with transport costs to boost exports.¹¹

However, local businesses are concerned that a petrodollar windfall could push the government to revert to its state-heavy model. Algeria has historically used its high oil and gas revenues to run a top-down economy in which private or foreign investment was difficult, entrepreneurs were stifled by bureaucracy and large sectors of the economy were reserved for the state.¹² Cash reserves plummeted after oil prices fell in 2014, impacting state finances and putting pressure on social spending, adding to public anger and resulting in mass protests in 2019 and 2020.¹³ Foreign reserves declined by two-thirds in six years and the long-term risk of social unrest grew, pushing President **Abdelmadjid Tebboune's** (2019-present) government to enforce reforms to boost local businesses and strengthen the private sector.¹⁴

Despite inheriting political turmoil and economic decline even before the **Covid-19** pandemic began, Tebboune's government now enjoys high demand for its energy and surging revenues. However, a former minister who still advises the government on economic matters, told news publication **Reuters** on 23 October that authorities understand the need to press ahead with reforms despite the increase in energy revenues this year:

*"Algeria is in a real race against time. It has to secure revenues away from oil and gas before prices are crushed again... [It] is our top priority. We are running short of time because oil prices are so volatile, and a global recession is a likely scenario."*¹⁵

Algerian Business Confederation chairman **Sami Agli** said that although government's new regulations aim to make the country a "*more friendly and open economy*", he acknowledges that it will be a long process.¹⁶ Agli acknowledged that the first steps are evident, but that any long-term increase in exports would require further investment in non-oil industries.¹⁷ Algeria has historically made strides towards reform in periods when energy revenues were low but returned to a state-heavy approach when prices rose again.¹⁸ Although the government has not given any indication of its intentions, its history of falling back to a state-heavy approach and a possible looming recession have spooked local businesses into thinking that this is a likely

⁷ Bloomberg, 20 Oct 2023

⁸ Africa News, 16 Feb 2022

⁹ Reuters, 23 Oct 2022

¹⁰ Arab Weekly, 24 Oct 2022

¹¹ Reuters, 23 Oct 2022

¹² Arab Weekly, 24 Oct 2022

¹³ Reuters, 23 Oct 2022

¹⁴ Reuters, 23 Oct 2022

¹⁵ Reuters, 23 Oct 2022

¹⁶ Reuters, 23 Oct 2022

¹⁷ Arab Weekly, 24 Oct 2022

¹⁸ Arab Weekly, 24 Oct 2022

outcome. If the government follows the **World Bank's** recommendations to open up the economy, the local private sector will be one of the largest beneficiaries.¹⁹ Less government interference will also make the country more appealing to foreign investors.

Palestinian cause dominates Arab Summit...

Algeria hosted the 31st **Arab League** summit in **Algiers** on 1 and 2 November. Arab summits set the parameters for public debate in the Arab world. While the Algiers summit largely restated established norms and avoided contentious issues, it did affirm the **Palestinian** cause:

*"Calling for an independent Palestinian state, full membership for the **Palestinian Authority** in the **United Nations**, and an international conference to resolve the **Arab-Israeli** conflict. Protecting the Muslim sites in **Jerusalem** is a priority."²⁰*

The summit communiqué, the **Algerian Declaration**, focused on supporting the Palestinian cause.²¹ The declaration reiterated past Arab Summit positions of supporting the Palestinian cause. Before the summit, President Tebboune negotiated a unity meeting between Palestinian Authority leader, President **Mahmoud Abbas** (2008-present), and the leadership of Palestinian militant movement **Hamas**.

The summit was the first to be held since the Arab League's 22 member states endorsed the **Abraham Accords** in 2020. The **Saudi Arabia**-led peace initiative allowed for the normalisation of relations between the Arab world and **Israel** in return for Israel's full withdrawal from the territories it occupied during the June 1967 **Six Day War**.²² The accords called for a "just settlement" of the Palestinian refugee problem and the establishment of a Palestinian state with **East Jerusalem** as its capital.

The accords caused a rapture in the Arab position, previously unified over the **Beirut 2002 Initiative**. Algeria is an outspoken opponent of the Abraham Accords, which normalised diplomatic relations among **Israel**, the **United Arab Emirates (UAE)**, **Bahrain**, **Morocco**, and, potentially, **Sudan**.²³ Algeria has no official diplomatic relations with Israel, does not recognise it as a state, and accuses its government of conspiring against Algerian interests and committing human rights violations against the Palestinians.

Analysts claim the turnout of heads of state reflected the Abraham Accords signatory states' preference to avoid confrontation with Algeria.²⁴ The absence of several heads of state and government highlighted the deep divisions in the Arab world.²⁵ **Oman's** Sultan **Haitham bin Tariq Al Said** (2020-present) sent a senior minister while Saudi Arabia's King **Salman bin Abdulaziz Al Saud** (2015-present) and crown prince **Mohammed bin Salman** did not attend.²⁶ Also absent were Morocco's King **Mohammed VI** (1999-present), Bahrain's King **Hamad bin Isa bin Salman Al Khalifa** (2002-present) and the Emir of **Kuwait**, Sheikh **Nawaf Al-Ahmad Al-Jaber Al-Sabah** (2020-present).

All Arab countries were represented at the summit, except for **Syria**, which was expelled from the Arab League a decade ago due to its ongoing crisis. The following heads of state and government were:

- **Egypt's** President **Abdul Fattah Sisi** (2014-present);

¹⁹ World Bank, 3 Aug 2022

²⁰ Brookings Institute, 4 Nov 2022; Middle East Monitor, 3 No 2022

²¹ Middle East Monitor, 3 No 2022

²² Middle East Monitor, 28 Mar 2022

²³ Middle East Institute, 22 Sep 2022

²⁴ Brookings Institute, 4 Nov 2022

²⁵ Middle East Monitor, 3 Nov 2022

²⁶ Morocco World News, 30 Oct 2022; Brookings Institute, 4 Nov 2022

- **Tunisia's** President **Kais Saied** (2019-present);
- **Iraq's** President **Abdul Latif Rashid** (2022-present);
- **Somalia's** President **Hassan Sheikh Mohamud** (2022-present);
- Palestine's President Mahmoud Abbas (2008-present);
- **Qatar's** Emir, Sheikh **Tamim bin Hamad Al Thani** (2013-present);
- **Jordan's** crown prince, **Hussein bin Abdallah**;
- **Dubai's** Emir, Sheikh **Mohammed ibn Rashid Al Maktoum** (2006-present) represented the UAE.

The summit also vaguely called for the resolution of the conflicts in **Libya** and Syria and endorsed the **Yemeni** council fighting against the **Houthis**.²⁷ A neutral stance was taken on the Russia-Ukraine conflict, with no members pressing for a tilt toward Ukraine. Algeria has longstanding close ties with Russia, from which it buys most of its arms. **German** data website **Statista** states that **Moscow's** arms sales to Algiers accounted for 80% of trade between the two countries in 2017-2021, totalling \$7 billion in 2021 alone.²⁸

... as Algeria officially applies to join BRICS

Algeria became the latest developing country to apply to join the **BRICS** club, made up of **Brazil**, Russia, **India**, **China** and **South Africa**, when its foreign ministry officially submitted its membership application on 7 November.²⁹ Foreign ministry official **Leyla Zarruki** said Algeria had finalised all necessary measures for membership, without providing any further details.³⁰

Algeria joins a growing list of developing countries, including **Iran**, **Argentina** and Saudi Arabia, who all seek to join the Chinese-initiated group.³¹ BRICS, founded in 2009, accounts for 25% of global gross domestic product (GDP) and is home to 40% of the world's population. The bloc is increasingly seen by many developing countries as a rival to the **G7** and other **Western-led** blocs, as well as an ideological and economic counterweight to the **United States (US)** and its allies.³²

Tebboune first suggested in July that Algeria, Africa's largest natural gas exporter and fifth largest economy, could join the BRICS economic group, which interests the government as an alternative power centre and "*constitutes an economic and political force*".³³ (see *ARC Briefing Algeria Aug 2022*).³⁴ Tebboune also said that joining the group would bolster Algeria's commitment to the principle of non-alignment while highlighting that Algeria meets several of the economic criteria for joining BRICS but that it should not "*get ahead of things*".³⁵

Tebboune's comments came after Russia's President **Vladimir Putin** (1999-2008 & 2012-present), whose country is heavily sanctioned for its invasion of Ukraine, said on 23 June at the 14th BRICS summit hosted virtually by **Beijing**, that BRICS leaders would move "*towards the formation of a truly multipolar system of inter-government relations*".³⁶ Tebboune was one of the international leaders invited to participate in the virtual summit by the group, whereby Putin

²⁷ Brookings Institute, 4 Nov 2022

²⁸ Morocco World News, 18 Nov 2022

²⁹ China Global South Project, 9 Nov 2022

³⁰ Middle East Monitor, 7 Nov 2022

³¹ China Global South Project, 9 Nov 2022

³² Morocco World News, 1 Aug 2022

³³ Morocco World News, 1 Aug 2022

³⁴ China Global South Project, 9 Nov 2022

³⁵ NDTV, 1 Aug 2022

³⁶ ENCA, 23 Jun 2022

also called on the economic bloc to cooperate in the face of “*selfish actions*” from the West and launch an alternative global reserve currency to compete with the US dollar.

Turkey and Algeria to form joint oil and gas exploration company

Turkey’s energy and natural resources minister, **Fatih Donmez**, announced on 10 November that Algeria and Turkey have agreed to establish a joint oil and natural exploration company through state-owned energy company **Sonatrach** and **Turkish Petroleum**, which will operate in countries across the region.³⁷ Donmez, who was a guest of honour at the 2nd **Algerian Investment Conference**, also discussed new bilateral steps in the fields of mining and energy with his Algerian counterpart, **Mohamed Arkab**.³⁸ The two ministers agreed to encourage and support the joint work and existing joint ventures between their countries and the formation of the new company.³⁹ Donmez also met with Tebboune to discuss increasing trade relations:

*“Joint works are being carried out not only in economic areas, but also in cultural and political areas, and especially in the defence industry. We will continue our work uninterruptedly in line with this vision put forward by both leaders [President **Recep Tayyip Erdogan** (2014-present) and Tebboune].”⁴⁰*

Donmez’s announcement is the latest development in the growing relationship between Algeria and Turkey. Tebboune arrived in Turkey on 15 May for a three-day state visit to discuss bilateral ties with President Erdogan (see *ARC Briefing Algeria Jun 2022*).⁴¹ Tebboune’s visit was reportedly at Erdogan’s invitation and saw the two presidents preside over the first session of the **High-Level Cooperation Council** to discuss ways to promote bilateral relations, as well as international developments.⁴² Tebboune’s visit to **Ankara** came only days after Turkey’s foreign minister, **Mevlut Cavusoglu**, reiterated his country’s support for Morocco’s territorial integrity during a press conference in **Marrakech** (Morocco) on 11 May with his Moroccan counterpart, **Nasser Bourita**.⁴³

Tebboune’s visit follows an agreement signed in March between the parliaments of both countries to establish a parliamentary friendship committee (see *ARC Briefing Algeria Apr 2022*). Algeria’s energy minister, **Mohamed Arkab**, and the president of Turkey-headquartered **Kalyon Enerji** also held talks in March to discuss strengthening cooperation in the sector of energy and investment opportunities.⁴⁴

Observers believe Algeria’s increased engagement with Turkey comes amid a growing feeling of isolation. Algeria’s main arms supplier, Russia, is stalled in Ukraine and is unable to maintain its regular flow of arms to Algeria.⁴⁵ Countries reliant on Russian arms could also be denied access to the Western arms market, causing speculation by analysts that Algeria is keen to step up defence cooperation with Turkey although no agreements have been signed in this sector.⁴⁶

Trade between the two countries, which reached approximately \$4 billion in 2021, will expand to \$5 billion in 2022.⁴⁷ Donmez also announced that based on a presidential decree issued in May during Tebboune’s visit to Turkey, bilateral trade will expand to \$10 billion as soon as

³⁷ Anadolu News Agency, 10 Nov 2022;

³⁸ Middle East Monitor, 10 Nov 2022

³⁹ Middle East Monitor, 10 Nov 2022

⁴⁰ Anadolu Agency, 11 Nov 2022

⁴¹ Middle East Monitor, 16 May 2022

⁴² Middle East Monitor, 16 May 2022

⁴³ Morocco World News, 11 May 2022

⁴⁴ Middle East Monitor, 16 May 2022

⁴⁵ North Africa Post, 20 May 2022

⁴⁶ North Africa Post, 20 May 2022

⁴⁷ Middle East Monitor, 10 Nov 2022; Anadolu Agency, 11 Nov 2022

possible.⁴⁸ About 90% of Algerian exports to Turkey comprise of energy materials, including liquefied natural gas (LNG), liquefied petroleum gas (LPG), crude oil and natural gas.⁴⁹ Approximately 1,500 Turkish companies operate in Algeria, and Donmez said that there is potential for growth.

Planner

Nov 2022 **Algiers (Algeria) Desert Shield 2022 Russia-Algeria** anti-terrorism exercises.
2022 **Moscow (Russia)** President **Abdelmadjid Tebboune** to visit Moscow;

Chronology

14 Nov 2022 **Algiers (Algeria) Atalayar. Algeria** consolidates its role as **Spain's** main energy exporter ahead of the **United States (US)** for the second consecutive month;

13 Nov 2022 **Algiers (Algeria) China Daily. Algeria** condemns the deadly bomb attack in **Istanbul (Turkey)** that killed at least six people and injured 81;

12 Nov 2022 **Geneva (Switzerland) Algeria Press Service.** Justice minister **Abderrachid Tabi** stresses in **Geneva** the strong commitment of the government to strengthening and protecting human rights in **Algeria** and worldwide;

12 Nov 2022 **Algiers (Algeria) Middle East Monitor.** The **Popular Front for the Liberation of Palestine (PFLP)** hails **Algerian** President **Abdelmadjid Tebboune** for withdrawing from **COP27**;

10 Nov 2022 **Algiers (Algeria) Middle East Monitor.** Defence ministry announces that army chief of staff **Said Chengriha** received director of **Russia's Federal Service of Military-Technical Cooperation, Shugayev Dmitriy Evgenievich**;

10 Nov 2022 **Algiers (Algeria) North Africa Post.** **United States (US)** delegation to the **United Nations Human Rights Council (UNHRC)** calls on Algeria to revoke amendments it brought to its penal code in 2021 under which many peaceful dissidents are in jail on what it calls phony terrorism charges;

8 Nov 2022 **Algiers (Algeria) Middle East Monitor.** **Russia's** special envoy for the **Middle East and Africa** and deputy foreign minister, **Mikhail Bogdanov**, welcomes **Algeria's** intention to join the **BRICS** group;

8 Nov 2022 **Algiers (Algeria) Anadolu Agency.** **Algeria** signs a second five-year strategic cooperation pact with **China**, aiming to strengthen bilateral cooperation in several fields;

7 Nov 2022 **Algiers (Algeria) Reuters.** State-owned energy company **Sonatrach** and **Italy's** energy giant **Eni** start production at the **HDLE/HDLS** oil field in the **Berkine Basin** at 10,000 barrels of oil equivalent per day;

4 Nov 2022 **Algiers (Algeria) Morocco World news.** National assembly member **Abdelouahab Yagoubi** expresses concerns over the closure of airspace between **Morocco** and **Algeria**, as well as flights connecting his country with **Spain**;

2 Nov 2022 **Algiers (Algeria) AFP.** **Morocco's** King **Mohammed VI** invites **Algeria's** President **Abdelmadjid Tebboune** to visit the kingdom for "*dialogue*";

1 Nov 2022 **Algiers (Algeria) Al Quds Al Arabi.** President **Abdelmadjid Tebboune** condemns alleged suspicious campaigns against **FIFA World Cup** host **Qatar** in the run-up to the event;

⁴⁸ Middle East Monitor, 10 Nov 2022; Anadolu Agency, 11 Nov 2022

⁴⁹ Anadolu Agency, 11 Nov 2022

1 Nov 2022 **Algiers (Algeria)** *Atalayar*. Several Algerian army officers have reportedly been arrested for allegedly plotting against chief of staff **Said Chengriha**;

31 Oct 2022 **Algiers (Algeria)** *Jeune Afrique*. Morocco's foreign affairs minister, **Nasser Bourita**, informs the **Arab League** secretary-general that King **Mohammed VI** will not attend the Arab League summit;

28 Oct 2022 **Algiers (Algeria)** *Jeune Afrique*. The permanent representative of Algeria to the **United Nations (UN)**, **Nadir Larbaoui**, refutes rumours about **Polisario Front** separatists' potential participation in the coming **Arab League** summit;

25 Oct 2022 **Algiers (Algeria)** *Morocco World News*. Several members of the **European Parliament** express concern over the joint military manoeuvres conducted by **Russia** and Algeria in the **Mediterranean**;

20 Oct 2022 **Algiers (Algeria)** *Middle East Monitor*. **Algeria** and **Russia** hold a four-day joint naval exercise in the **Mediterranean**, ahead of joint anti-terrorist exercises scheduled in November;

19 Oct 2022 **Algiers (Algeria)** *Middle East Eye*. **Algeria** nears a deal with **Turkey** to buy its **Anka** military drones;

16 Oct 2022 **Algiers (Algeria)** *Middle East Monitor*. **Palestinian** businessman **Moneeb Al-Masri** reveals that a committee headed by **Algeria** has been formed to follow up the implementation of Palestinian reconciliation and will meet after the **Arab League** meeting in Algeria next month.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)