Euler Hermes Economic Research

Country Report

Algeria

Hydrocarbons, a blessing or a curse?

General Information

GDP	USD166.84bn (World ranking 54, World Bank 2015)
Population	39.67mn (World ranking 34, World Bank 2015)
Form of state	Republic
Head of government	Abdel Aziz BOUTEFLIKA
Next elections	2019, presidential

Strengths

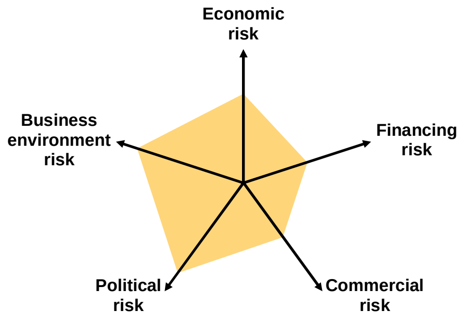
- Strong hydrocarbon resources, with gas reserves estimated to last for another half century at current extraction rates (and crude oil for almost 22 years).
- Strong liquidity indicators, supported by a long period of high oil prices, provide a financial cushion to withstand the impact of current weak commodity prices.
- External debt management is much improved following repayment concerns in the 1990s. Debt ratios and obligations are low, providing scope for increasing debt to cover FX shortfalls resulting from low oil and gas prices.

Weaknesses

- Uncertain political succession, with the health of President Abdel Aziz Bouteflika a major concern.
- High unemployment and underemployment.
- Lack of economic diversification. Over-dependence on oil and gas (99% of export earnings).
- Banking sector remains dominated by state enterprises that have to absorb losses from public sector companies.
- Limited private sector opportunities and perceptions that the business and regulatory environments are restrictive.
- Regional dynamics are affected by continuing friction between Algeria and Morocco.
- Oil and gas installations are vulnerable to periodic (but localised) attacks by terrorist groups.

Country Rating

C2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Spain	18%	1	16%	China
Italy	15%	2	10%	France
France	13%	3	9%	Italy
United Kingdom	7%	4	8%	Spain
United States	6%	5	7%	Germany

By product (% of total)

Exports		Rank		Imports
Petroleum, petroleum products and related materials	53%	1	9%	Road vehicles
Gas, natural and manufactured	42%	2	8%	Iron and steel
Inorganic chemicals	1%	3	7%	Cereals and cereal preparations
Fertilizers other than group 272	1%	4	7%	Other industrial machinery and parts
Sugar, sugar preparations and honey	0%	5	6%	Specialised machinery

Source: UNCTAD (2015)

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Economic Overview

General overview

Hydrocarbons (oil but particularly gas) remain pivotal for economic development as the sector accounts for around 40% of GDP and 99% of exports. Accordingly, current low oil prices curb GDP growth to lower levels than in the past. This assertion holds despite the recent humble recovery.

EH expects GDP will expand by +3% in 2017 and +2.5% in 2018, only one point below the average ten-year growth rate (2006-15). This suggests that other factors have been limiting economic development.

The Algerian economic model, which relies heavily on state-run enterprises is not efficient. Even programs to boost public spending (including increased subsidies and investment in infrastructure), reflected to some extent an initial official response to prevent contagion from the Arab Spring and did not raise growth rates markedly above annual population expansion.

Until a leadership succession process is clarified significant uncertainties will weigh on investment and consumption decisions, with negative effects for trade.

Public finance deteriorated, but public debt is still low

Strong government revenues in periods of high oil prices resulted in fiscal surpluses or low deficits. Strong receipts enabled the state to increase public expenditure in an attempt to limit contagion from the Arab Spring. Since then weak oil prices (see above) have reduced earnings. Yet social needs have not diminished. Large fiscal deficits (-12.9% of GDP in 2016) require careful management.

Public debt is increasing rapidly, but from very low levels. Even as it reaches 24% of GDP in 2018, public debt will not be alarming. The issue can be more related to state-run enterprises debt, related insolvencies, and its potential fiscal cost.

The external sector is under pressure

Foreign exchange reserves have deteriorated but are still very high (above 20 months of import cover). However, liquidity strains can emerge, as the Central Bank aims to sustain this level for self-insurance purposes under a low for longer oil prices hypothesis. The regulator uses shadow capital controls to limit exchange rate volatility during uncertainty periods (e.g. before the OPEC agreement on November 30th, 2016).

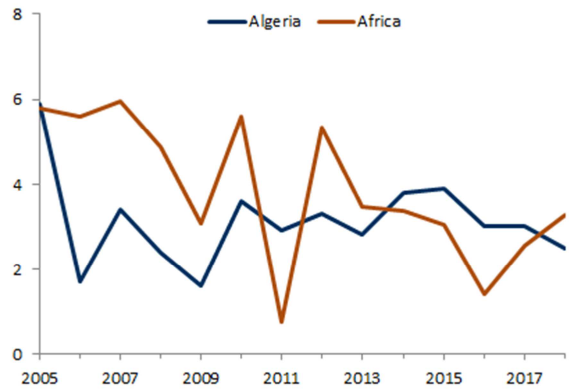
Following significant pressures in relation to debt repayments in the 1990s, a revised external debt policy was adopted. It targeted a marked reduction in the country's dependence on external borrowings. The policy has been successful, with external debt-GDP currently at 3%.

Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	3.9	3	3	2.5
Inflation (%, average)	4.8	6	5	4.5
Fiscal balance (% of GDP)	-16	-12.9	-10	-8
Public debt (% of GDP)	9	13	17	24
Current account (% of GDP)	-16.5	-15	-14	-10
External debt (% of GDP)	3.3	3.5	3	3

Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

Oil Prices (Benchmark Brent, USD/bbl)

Sources : Bloomberg, Euler Hermes

Last review: 2017-03-22
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