



Summary

Growth slowed in Algeria on account of reduced energy production and weaker demand from Europe. Still, due to an expected increase in oil production and further economic diversification, we expect growth rates to average 5% in the coming years. However, large downside risks remain. The presidential elections planned for 2014 could stir up tensions within the elite, which could spill over to society at large. In addition to the risk of social and political tensions, a global slowdown would put downward pressure on energy prices and thereby on Algeria's growth rate.

Things to watch:

- International energy price fluctuations
- Political tensions surrounding upcoming presidential elections
- Social tensions in light of Arab spring

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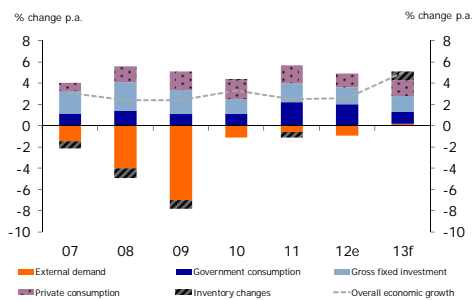
Algeria				
National facts			Social and governance indicators rank / total	
Type of government	Democratic Republic		Human Development Index (rank)	96 / 187
Capital	Algiers		Ease of doing business (rank)	148 / 183
Surface area (thousand sq km)	2,381		Economic freedom index (rank)	140 / 179
Population (millions)	37.4		Corruption perceptions index (rank)	112 / 183
Main languages	Arabic		Press freedom index (rank)	122 / 178
	French		Gini index (income distribution)	35.33
Main religions	Sunni Muslim (99%)		Population below \$1.25 per day (PPP)	7%
	Other (1%)		Foreign trade 2011	
			<i>Main export partners (%)</i> <i>Main import partners (%)</i>	
Head of State (president)	Abdelaziz Bouteflika		US	19
Head of Government (prime-minister)	Ahmed Ouyahia		Italy	10
Monetary unit	Algerian dinar (DZD)		Canada	8
			France	8
			Spain	8
Economy 2011			<i>Main export products (%)</i>	
<i>Economic size</i> <i>bn USD</i> <i>% world total</i>			Hydrocarbons	
Nominal GDP	206	0.30	Semi-finished goods	
Nominal GDP at PPP	307	0.39		
Export value of goods and services	77	0.35	<i>Main import products (%)</i>	
IMF quatum (in mln SDR)	1255	0.58	Capital goods	
<i>Economic structure</i> 2011 5-year av.			Semi-finished goods	
Real GDP growth	2.5	2.6	Foods	
Agriculture (% of GDP)	7	7	Consumer goods	
Industry (% of GDP)	64	62		
Services (% of GDP)	30	31	<i>Openness of the economy</i>	
<i>Standards of living</i> <i>USD</i> <i>% world av.</i>			Export value of G&S (% of GDP)	
Nominal GDP per head	5675	52	Import value of G&S (% of GDP)	
Nominal GDP per head at PPP	8444	68	Inward FDI (% of GDP)	
Real GDP per head	3314	41		

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economic structure and growth

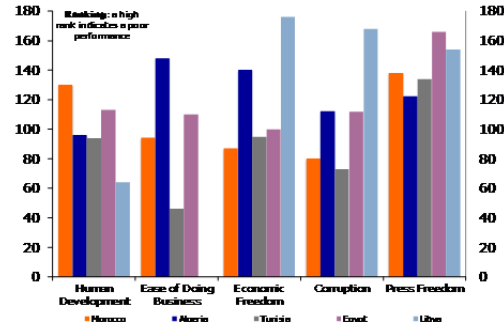
Algeria’s economic performance depends heavily on the performance of its energy sector, as hydrocarbon production accounts for roughly 40% of GDP and is the main earner of foreign currency. In fact, Algeria, an OPEC member, holds the world’s 15th largest oil reserve and supplies 20% of European gas imports.

Figure 1: Growth



Source: EIU

Figure 2: Social indicators



Source: EIU

In 2011, the oil sector’s production slowed as a result of a partial shutdown of Algeria’s largest refinery (for repair). Consequently, public spending drove growth last year. For 2012, we expect high oil prices and continued high public spending, but a recession in the euro zone (Algeria’s main export market) will result in a 2.6% growth rate, from 2.5% in 2011. For the medium term, the

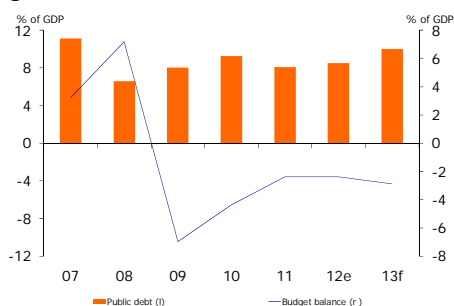
government's efforts to diversify the economy should help realize growth rates of 5% on average. However, much still depends on the movement of international oil prices. In addition, a failure to maintain political and social stability could yield large economic consequences.

Political and social situation

Algeria's political scene is dominated by a small elite. In contrast to Tunisia and Egypt, the Arab spring did not have a pronounced impact on Algeria's political institutions. Although the country did experience some protests, the vivid memory of the bloodshed during Algeria's (failed) revolution in the 1990's appears to have deterred many from voicing their criticism. As a result, the protests only led to relatively minor political changes, including new elections and increased social spending.

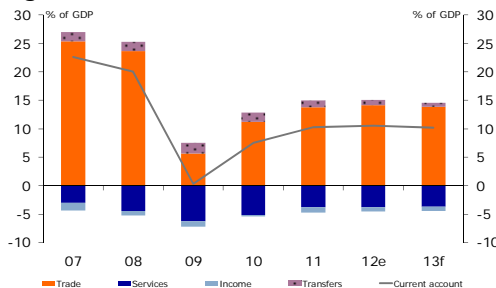
Overall, the 2012 parliamentary election results did not lead to any major changes in the political landscape. The National Liberation Front (NLF), a party that was also part of the previous government, won the parliamentary elections, obtaining 220 of the 462 parliamentary seats. More important than the parliamentary elections are the presidential elections in 2014. As it is not expected that the current president, who is 74 years old, will run for another term, various established figures are already lining up for the job. The resulting power plays already affected the coming about of a new government and are expected to slow down policy decisions. In addition, the elections themselves could create social tensions and raise the likelihood of renewed protests and more widespread social unrest. Creating jobs for the large group of young people that are currently unemployed (21% of all people between 15-24 years) would be a vital element of guaranteeing long-term political and social stability.

Figure 3: Public finances



Source: EIU

Figure 4: Current account balance



Source: EIU

Economic policy

The Algerian government is deeply involved in the country's economy. Given the risk of social instability, the government actively employs revenues from the hydrocarbon sector (which account for 70% of all public revenue) to ease social unrest, by increasing public wages and subsidizing food and energy. As a result, the fiscal deficit increases when food prices rise, as this adds to subsidy expenses. In contrast, the fiscal deficit contracts when oil prices go up, since this increases public revenues. In 2012, we expect the fiscal deficit to come in at 2% of GDP, down from 2.4% of GDP in 2011, resulting in an expected public debt of roughly 8% of GDP in 2012.

Inflation has been on the rise in the past year on account of higher food prices. As Algeria imports a large share of its calories, the country is vulnerable to shifts in global food prices. The central bank's efforts to halt inflationary pressures, by among others increasing reserve requirements for banks, yielded little results. Consequently, inflation is expected to come in at 8.5% in 2012, up from 4.5% in 2011.



The central bank manages the float of the dinar vis-à-vis the dollar to either support its exports, or reduce import demand. For the coming period, we expect the central bank will try to reduce the value of the dinar, only to increase it once the gas sector requires large imports of capital goods.

Balance of payments

Given Algeria's position as a gas and oil exporter it is no surprise that the country generally reports a large surplus on the current account. Further aiding this surplus are inflows of worker remittances, while profit repatriations by large oil companies reduce the surplus. For 2012, we expect a current account surplus of 10% of GDP, which is the same as in 2011. Foreign exchange reserves cover a comfortable nearly 40 months of imports.

External position

Algeria's external position is excellent and external debt stands at a very low 2% of GDP, implying the country has a very strong international net-creditor position.



Algeria							
Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	3.1	2.4	2.4	3.3	2.5	2.6	5.0
Consumer prices (average % change pa)	3.5	6.7	5.7	3.9	4.5	8.5	3.4
Current account balance (% of GDP)	22.6	20.1	0.3	7.5	10.2	10.6	10.2
Total foreign exchange reserves (m USD)	110318	143243	149041	162614	182822	201990	210500
<i>Economic growth</i>							
GDP (% real change pa)	3.1	2.4	2.4	3.3	2.5	2.6	5.0
Gross fixed investment (% real change)	9.8	11.8	8.5	5.2	6.5	5.7	5.0
Private consumption (% real change)	2.5	4.9	5.8	5.6	5.1	3.7	4.3
Government consumption (% real change)	7.1	8.7	6.0	6.2	12.0	10.0	5.2
Exports of G&S (% real change)	-0.6	-2.9	-10.7	-1.7	-0.6	-0.6	4.4
Imports of G&S (% real change)	7.6	17.7	15.6	2.4	2.2	3.3	5.4
<i>Economic policy</i>							
Budget balance (% of GDP)	3.2	7.2	-7.0	-4.4	-2.4	-2.4	-2.9
Public debt (% of GDP)	11	7	8	9	8	9	10
Money market interest rate (%)	3.4	3.4	3.8	1.2	1.1	2.0	3.0
M2 growth (% change pa)	20	16	5	14	20	16	11
Consumer prices (average % change pa)	3.5	6.7	5.7	3.9	4.5	8.5	3.4
Exchange rate LCU to USD (average)	69.3	64.6	72.6	74.4	72.9	76.2	73.2
Recorded unemployment (%)	13.8	11.3	10.2	10.0	10.0	10.8	10.0
<i>Balance of payments (m USD)</i>							
Current account balance	30540	34450	410	12160	21080	23210	25730
Trade balance	34240	40600	7780	18200	28470	31080	35040
Export value of goods	60590	78590	45180	57090	72660	77740	85870
Import value of goods	26350	37990	37400	38890	44190	46660	50830
Services balance	-4090	-7590	-8690	-8330	-7800	-8250	-9390
Income balance	-1830	-1340	-1310	-360	-1990	-1680	-1780
Transfer balance	2220	2780	2630	2650	2400	2060	1860
Net direct investment flows	1367	2276	2531	2044	2037	2650	2800
Net portfolio investment flows	0	0	0	0	-750	-500	0
Net debt flows	1172	1076	-496	-257	-694	0	-100
Other capital flows (negative is flight)	-660	-4885	3358	-379	-1466	-6190	-19930
Change in international reserves	32419	32917	5803	13568	20207	19170	8510
<i>External position (m USD)</i>							
Total foreign debt	5908	5935	5424	5276	4708	4510	4390
Short-term debt	750	1304	1493	1778	1137	1250	1450
Total debt service due, incl. short-term debt	386	999	2321	2176	2789	2190	2630
Total foreign exchange reserves	110318	143243	149041	162614	182822	201990	210500
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	25.3	23.6	5.6	11.2	13.8	14.1	13.9
Current account balance (% of GDP)	22.6	20.1	0.3	7.5	10.2	10.6	10.2
Inward FDI (% of GDP)	1.2	1.5	2.0	1.4	1.2	1.3	1.2
Foreign debt (% of GDP)	4	3	4	3	2	2	2
Foreign debt (% of XGSIT)	8	7	10	8	6	5	4
Debt service ratio (% of XGSIT)	1	1	4	3	3	2	3
Interest service ratio incl. arrears (% of XGSIT)	0	0	0	0	0	0	0
FX-reserves import cover (months)	39.8	35.0	36.4	38.4	39.2	41.1	39.1
FX-reserves debt service cover (%)	28550	14340	6421	7472	6556	9228	8001
Liquidity ratio	453	409	353	392	403	423	411

Source: EIU

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