

Algeria: End of an era, but not of the “Pouvoir”

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- The Algerian opposition appears unwilling to accept a compromise that allows any member of the existing National Liberation Front (FLN)-dominated political establishment to retain power.
- A number of oil and gas deals could be impacted as companies hold off on commitments to new investment. The new energy law expected in 1H 2019 could also be delayed.
- Following the political transition and elections, the new Algerian president will inherit another crisis-in-the-making: the economy.

Army holds the keys for now

On 2 April 2019, President Abdelaziz Bouteflika stepped down, having been in power since April 1999. The ruling elite, known throughout the country as “Le Pouvoir” (meaning the establishment) now needs to find a replacement and keep a restless public from boiling over.

- We expect the army to hold on to power for now. It was the call from General Ahmed Gaid Salah, chief of the army, for Bouteflika to step down that tipped the scales.
 - Indeed, the army seems to be tightening its grip. After urging the resignation of Bouteflika, the army moved to remove Intelligence Chief Bachir Tartag and shift his position to the Defence Ministry.
 - Tartag had served the post for over a decade and is said to have a history of rivalry with Salah.
- Public demonstrations, which prompted the crisis, are unlikely to go away, making any transition complex.
 - Opposition was focused not just on the ailing president but also on his entire political infrastructure.
- One of Bouteflika’s appointments is now interim president. Under Article 102 of the Constitution, the president of the Council of the Nation (the upper house of Parliament), Abdelkader Bensalah, was sworn in as interim head of state on 9 April for up to 90 days, during which a presidential election must be organised,
 - Bensalah is one of a group the demonstrators have dubbed “the three Bs”. The others are Nouredine Bedoui, appointed last month as head of government, and Tayeb Belaiz, the head of the Constitutional Council.
- The most logical way forward in our view is having an interim president who could rule for a year while people prepare genuinely to build political platforms to govern the country.
 - One possibility is Lakhdar Brahimi, a former foreign minister and one of Algeria’s most respected veteran diplomats with international experience.

	2015	2016	2017	2018	2019f
Real GDP Growth (%)	3.7	3.2	1.4	2.1	2.3
Crude Oil Production (M bpd)	1.0	1.0	1.0	1.0	1.0
Oil GDP Growth (%)	0.2	7.7	-2.4	-1.3	2.0
Non-oil GDP Growth (%)	5.0	2.2	2.2	3.4	2.9
CPI Inflation (%)	4.8	6.4	5.6	2.7	4.2
Fiscal Balance (% of GDP)	-15.7	-13.5	-8.8	-9.0	-5.6
C/A Balance (% of GDP)	-16.4	-16.5	-13.2	-9.1	-12.5
Total Gov’t. Gross Debt (% of GDP)	8.7	20.4	27.5	32.9	38.8
Total Gross External Debt (% of GDP)	1.8	2.4	2.5	2.1	1.9
Gross Official Reserves (Mos. of Imports)	28.4	22.5	18.7	16.0	13.8
Nominal GDP (USD B)	166.0	160.1	167.6	188.3	200.2
Population (Millions)	39.1	39.8	40.6	41.3	42.0

- The political transition, meanwhile, could impact a number of oil and gas deals.
 - In recent weeks, Exxon Mobil has held off on signing a preliminary deal with Algeria’s state-run Sonatrach.
 - BP and Equinor have also expressed concern about how Algeria’s political turmoil might affect oil and gas production.
 - Others like Exxon Mobil, Anadarko Petroleum and Italy’s Eni are in talks to sign shale gas agreements, and we are keeping an eye on potential impact.

The economy braces for bumpy ride

In its April 2019 World Economic Outlook, the IMF revised Algerian economic growth at 2.3% this year from 2.7% predicted in October 2018 and 2.1% in 2018. However, a prolonged power struggle could cause this figure to plummet further.

- Pending elections had already weakened planned fiscal austerity.
 - The budget for 2019 included a 7% increase in subsidies, accounting for 21% of the total. There were no tax increases, as had been planned.
 - A new energy law expected to be implemented in H1 2019 designed to attract FDI inflows with tax incentives and lighter administrative procedures could be delayed.
- Inflation is also expected to rise to 5.6% this year and then to continue up to 14% five years from now. This is primarily due to expansionary fiscal policy.
- Slowing growth alongside rising inflation add to growing worries, posing a “double-whammy” of downside risks to the economy, coupled by high youth unemployment (around 30%).
 - During the Arab Spring, Algeria’s GDP growth slowed by an average of 2.2 percentage points in the subsequent years relative to the previous decade.

¹ Arabia Monitor; IMF.

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