EDC

ALGERIA

Economics

Economy

Nominal GDP (2008)
155.8 bil USD
Population (2008)
34.6 million
Total Trade/GDP (2008)
75.3 %
Currency
Algerian dinar (DZD)
Exchange regime
Managed float
Merchandise imports from Canada (2008)
485.1 million
Main sources of foreign exchange (excl. FDI)
Oil and gas exports

Largest merchandise export destination (2008)
US (27.9 %)
Main imports
Capital goods
Food
Consumer goods

Sovereign Ratings
MLT external debt
Fitch n.a.
S&P n.a.
Moody's
Risks to the outlook
Strong oil prices; improvements to business climate; economic diversification

Prolonged recession in Europe

November/09
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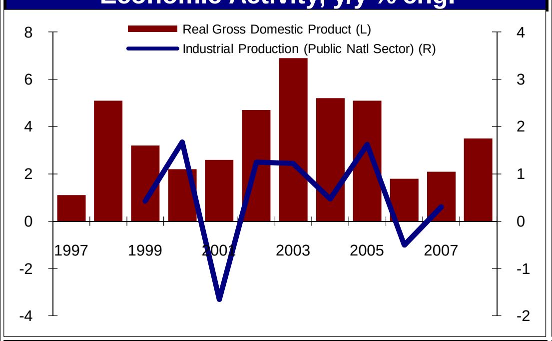
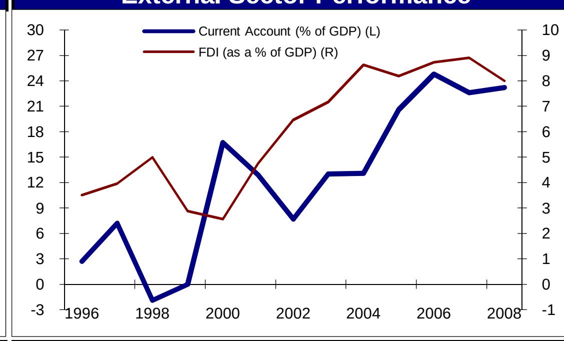
The economy remains highly dependent on hydrocarbon exports, and thus has been sensitive to recent downward pressures on oil prices and output. Hydrocarbon exports – which account for 97.2% of merchandise exports, 40% of nominal GDP and 72% of government revenues – dropped 42% year-on-year (y/y) in Q1-09. This was met with only a 10.1% y/y jump in total merchandise imports. However, the short-term outlook remains encouraging. The country is seeing strong non-hydrocarbon (NHC) growth as well as strong domestic demand on the back of government efforts to develop the NHC sectors (power, water and construction sectors), which continue to attract foreign inputs; however, recent changes to the laws governing foreign investment, combined with high constraints on international credit, will make it difficult for foreign inputs to play an active role in the economy. Still, the government reaped significant savings from the high oil prices of 2008, which should cushion a downturn and afford engagement in strong expansionary policy. Infrastructure developments are part of a new programme, which has a USD 150bn budget for the period 2009-13. This comes after the 2005-2009 Growth Consolidation Plan, which saw USD 140bn spent mainly on housing, road construction, utilities and social spending.

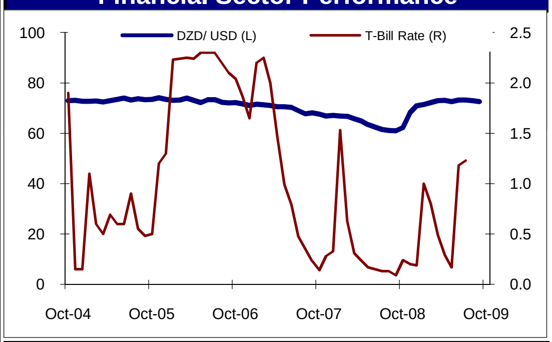
Economic Activity, y/y % chg.



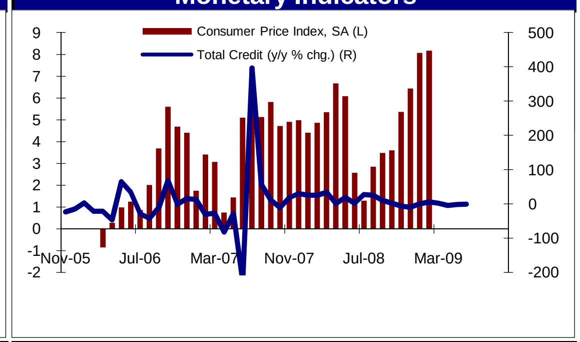
External Sector Performance



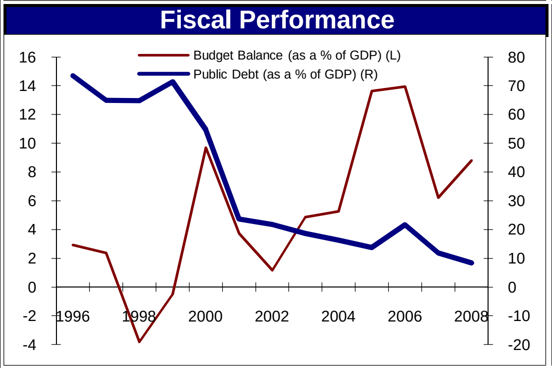
Financial Sector Performance



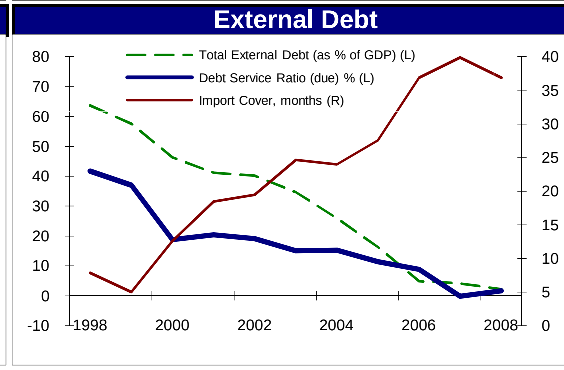
Monetary Indicators



Fiscal Performance



External Debt

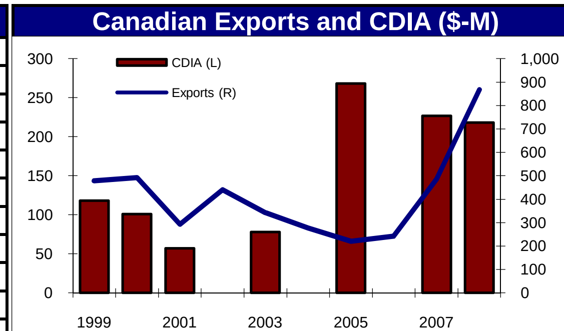


Economic Indicators

	04-08 avg.	2008	2009	2010
GDP (% growth, real)	3.6	3.5	2.5	3.0
Inflation (%chg, pa avg.)	3.0	5.8	0.9	3.5
Fiscal Balance (% of GDP)	9.8	8.8	-3.2	-1.1
Exports (%, comp. annual growth)	25.9	29.1	-33.5	17.5
Imports (%, comp. annual growth)	20.5	48.3	0.9	8.5
Current Account (% of GDP)	-21.2	-39.2	-39.5	-42.9
Reserves (months of curr. debits)				
External Debt (% of GDP)	12.8	2.2	2.1	1.7
Debt Service Ratio (due)	8.9	1.7	2.2	1.2
Exchange Rate (to USD; eoy)	71.0	71.2	73.3	73.8

Sources: EIU, EDC Economics

Canadian Exports and CDIA ($-M)



Sources: Haver Analytics, Statistics Canada, EIU, Bloomberg

Political

Political Structure
Republic

President
Abdelaziz Bouteflika (FLN)

Prime Minister
Ahmed Ouyahia (RND)

Legislative Body (seats)
- Lower House – National People's Assembly (Al-Majlis al-Chaabi al-Watani) – 389 seats
- Upper House – National Council (Majlis al-Oumma) – 144 seats

Major Parties (seats in National Assembly)
- National Liberation Front (FLN) – 136
- National Rally for Democracy (RND) – 61
- Movement of the Society for Peace (MSP) – 52
- Worker's Party (PT) – 26

Last Elections
- Presidential: April 9, 2009.
- Legislative: May 17, 2007

Next Elections
- Presidential: April 2014
- Legislative: 2012

Press Freedom Survey:
- 2009 Score: 62 (Not Free)

freedomhouse.org

Control of Corruption Index:
- 2008 Score: -0.44

(-2.5: Worst; +2.5: Best)
worldbank.org

November 2009
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General Political Environment:
President Abdelaziz Bouteflika is currently serving his third term, after winning a commanding victory in the April 2009 presidential elections. With power concentrated in the office of the President, neither Algeria's opposition parties nor other state institutions, such as the parliament and judiciary, are in a position to effectively challenge Bouteflika. The opposition's weakness was especially evident during the short 2009 election campaign, when Bouteflika used state institutions and media to effectively prevent them from getting any exposure. Bouteflika and the ruling FLN party easily won the elections, which were generally peaceful.

At the onset of Bouteflika's reign in 1999, the Algerian military and security establishment, which has a long history of interfering in Algerian politics, exercised considerable political sway in the country. In the past decade, however, the role of the security forces in politics has declined, in part because of Bouteflika's success in restoring security to the country after a long civil war that lasted throughout the 1990s.

One key uncertainty in Algerian politics is the question of regime continuity. Bouteflika is believed to be in good health, but his untimely passing would probably result in a political crisis as different interest groups, including the military and security services, battle over who should replace him.

Other challenges facing Algeria include domestic violent Islamist movement with links to international terrorist groups, socio-economic concerns, such as housing shortages and falling living standards, as well as limited but increasing crime levels. In his third term, Bouteflika will continue to carry out robust security operations against terrorist groups and to maintain relatively high social spending to bolster public support and ensure a positive legacy for the President.

Investment Environment:
An updated version of Algeria's investment law enacted in 2001 afforded equal treatment to foreign and local investors and streamlined investment approval processes. It was followed up with a new hydrocarbons law in 2004, which fostered significant investment in Algeria's oil and gas sectors by guaranteeing greater transparency and efficiency. The new law also ended the problematic dual "partner-regulator" role of the state-owned oil company, Sonatrach, which saw its regulatory function transferred to an independent agency.

While the Algerian government introduced significant reforms in 2001 and 2004, amendments made in November 2006 to the hydrocarbons law established a windfall tax on oil-generated profits and solidified Sonatrach's control over the sector. Beginning in 2008, officials have also become increasingly critical of foreign investors seen as not channeling enough of their profits into the local economy. A policy measure announced in mid-2008 and re-affirmed in the 2009 Complementary Finance law will allegedly require foreign investors who receive tax exemptions to reinvest earnings equivalent to the benefits they received in the Algerian economy. The 2009 law also sets out new foreign ownership rules that will limit new foreign companies to 49% stakes in local investments. Other clauses in the new law impose restrictions on the import of foreign goods and services by foreign companies as well as Algerians, all in a bid to encourage local industry.

Political Violence:
From 2006 to mid-2008, there was an upswing of terrorist violence carried out by newly established group calling itself al-Qaida in the Islamic Maghreb (AQIM). AQIM staged several high-profile suicide and car bombings in Algiers. Since August 2008, however, the group has not carried out any major bombings in Algeria. The majority of operations now claimed by the terrorist group involve attacks on government security forces, including, in some cases, those engaged in protecting foreign companies. Most of the clashes occur in the historically unstable Northeast. Strong counter-terrorism efforts taken by the authorities have, however, succeeded in greatly reducing the threat posed by terrorists.

Political Outlook

Algeria's political stability and security environment has greatly improved over the past several years. Bouteflika will probably remain in solid control as long as his health is good, but a succession crisis could erupt once he retires from office.

Terrorist violence is on a downward trend in Algeria. AQIM will continue to try to mount attacks against the government and its security forces, but its capabilities have declined considerably.

Pressing socio-economic concerns (housing shortages, falling living standards and high unemployment) continue to be a challenge to political stability and fuel popular discontent and occasional urban riots, especially among Algeria's youth.