

# ALGERIA

## The Forecast, 2018

### Contents

#### DOMESTIC POLITICS AND POLICY

- Balance of power
- Constitutional matters
- Political progress

#### SECURITY

#### INTERNATIONAL AFFAIRS

- Regional players
- The international community

#### ECONOMY

#### ENERGY

#### OTHER INDUSTRIES

#### DOMESTIC POLITICS AND POLICY

Two issues are likely to dominate the political scene during 2018:

- **The presidential succession:** Assuming that the ailing President **Abdelaziz Bouteflika** is still alive at the time of the May 2019 presidential election, the big question is whether he will run for a fifth term, or step down for his younger brother, **Saïd Bouteflika**, to stand in his place.
- **The economy:** How it and the Algerian people will react to Prime Minister **Ahmed Ouyahia's** policy of 'unconventional finance' – that is, printing money – which was put into effect at the end of 2017. The strategy's success or failure will have a major bearing on the 2019 elections.

#### Balance of power

Following the demise of the Département du Renseignement et de la Sécurité (DRS) in late 2013 – and the dismissal of its head, General **Mohammed 'Toufik' Mediène** in December 2015 – the DRS's

challenge to the Presidency has given way to a consolidation of power around the Bouteflika presidency.

In spite of Bouteflika's ill-health, his candidacy for a fifth term as a 'proxy' president is being promoted with increasing confidence by the ruling **Front de Libération Nationale (FLN)** and his entourage, which also sees Saïd Bouteflika as the next best alternative.

The main opposition to this comes from Ouyahia. He has support from his former links to the DRS and his leadership of the **Rassemblement National Démocratique (RND)**. If his strategy of 'printing money' is a success the Presidency could be his for the asking. If it fails and leads to spiralling inflation there is a high risk of social unrest. If that happens, the army – which has always denied that it would intervene in politics – could step in.

Other likely candidates are a former prime minister, **Ali Benflis**, who was the defeated 2014 presidential candidate; police chief General **Abdelghani Hamel**, and possibly an 'unknown' promoted from within the army. Other long-shot names still being mentioned are **Mouloud Hamrouche**, who might be put forward by the army as a 'reformist' candidate should there be unrest; army chief General **Ahmed Gaïd Salah**, and former prime ministers **Ahmed Benbitour** and **Abdelmalek Sellal**. Tayeb Belaïz's ill-health probably now discounts him.

The transition scenario, when it comes, is likely to be peaceful. The Algerian people are now mostly disengaged from politics with few now participating in elections and most feel shamed by the possible prolongation of a Bouteflika 'proxy' presidency.

The army could step in to end any serious regime infighting between the Ouyahia and Bouteflika camps or to prevent escalating social unrest. A more extreme

situation would involve unrest from 'the street' plus growing discontent in the lower ranks of the army and possibly the police and gendarmerie, many of whom are known to be sympathetic to the plight of the average citizen. This, more revolutionary, scenario is both unlikely and unpredictable but could lead to the return of a leader such as **Ali Belhadj**.

The transition scenario is, however, unlikely to have major negative consequences for foreign investors and especially in the hydrocarbons sector. All incoming regimes will be dependent on hydrocarbon revenues and will not want to harm them. Even a more revolutionary transition would only cause temporary inconveniences and disruptions.

#### Constitutional matters

Having amended the constitution in early 2016, no further constitutional reforms are expected in 2018 other than the possible implementation of Article 102. This allows for the president's replacement for reasons of ill health or incapacity. Other clauses in the constitution – designed to protect the Bouteflika presidency – make it almost impossible, however, to implement Article 102.

#### Political progress

We expect the political status quo – the vacuum at the centre of power – to continue until the 2019 elections. There will be little or no political progress. The regime will instead further marginalise and discredit the opposition parties while tightening its repressive apparatus and keeping a tight lid on social and political unrest. As Algerians increasingly disengage from the formal political process, social media will assume ever-greater importance.

#### SECURITY

We do not expect any significant upturn in domestic militancy in Algeria – which has been relatively calm during 2017 – although social unrest could increase and

become serious if Ouyahia's experiment leads to spiralling inflation.

While the security threat from Libya is low, there are potential problems on Algeria's Sahelian borders. Algiers has been supporting and giving refuge to jihadists including notably **Iyad ag Ghali's Ansar al Dine**, which operates in Mali and Niger. France and/or the US might decide to launch a covert operation into southern Algeria if Algiers continues to offer sanctuary to these terrorists.

## INTERNATIONAL AFFAIRS

### Regional players

Algeria will maintain its neutrality in the Libyan conflict to bring peace, but Algeria and Morocco will continue to spar diplomatically, with little likelihood of either side endangering their own security. The situation vis-à-vis the Sahel is more serious in that Western forces may decide they are no longer prepared to countenance Algerian support for the local jihadists operating there.

### The international community

Although the EU is exasperated with Algeria's lack of political reform, it will continue to strive for political stability, for fear of destabilisation and a surge of Algerian migrants. The EU, and especially France, will continue to push for a greater opening up and diversification of Algeria's economy. Paris wants to regain its position as Algerian's pre-eminent trading partner. Other Western countries, such as the UK, will continue to support the regime but this could quickly wane should Algeria's support for jihadism in the Sahel lead to the death of any more American troops.

## ECONOMY

The economy is precariously balanced. Oil should trade above US\$50 a barrel, which is the base price set for the 2018 budget, but the high risk strategy of printing money to resolve the financial crisis could lead to rising inflation, consumer prices and social unrest. If serious, unrest could bring down the regime. It has not released information on how much money will be printed or on what it will be spent, so it is impossible to make predictions. However, the IMF and most experts believe Algeria will suffer the same inflationary outcomes as other countries that have chosen this route.

The government will continue with its policy of economic diversification to reduce Algeria's dependency on hydrocarbons. This is likely to be slowed down by a shortage of investment funds and lack of confidence from foreign investors in the unconventional finance strategy. The government will be unable to achieve its planned drastic cut in imports in 2018, which will exacerbate the trade deficit although this could be ameliorated by any unexpected rise in the oil price.

## ENERGY

Production increases in 2018, especially of gas, will be largely offset by rising domestic energy demand, which will pressure the government to accelerate the underdeveloped renewables sector. Prime minister Ouyahia's recent call for the renewal of the shale gas E&P programme is unlikely to materialise, at least for a long time. Not only are the economic fundamentals against it, but it would almost certainly generate potentially

widespread political unrest in a politically very sensitive year.

2018 will also see: the renewal of many of **Sonatrach's** long-term gas contracts; and positive changes to the hydrocarbons law to encourage foreign investment.

## OTHER INDUSTRIES

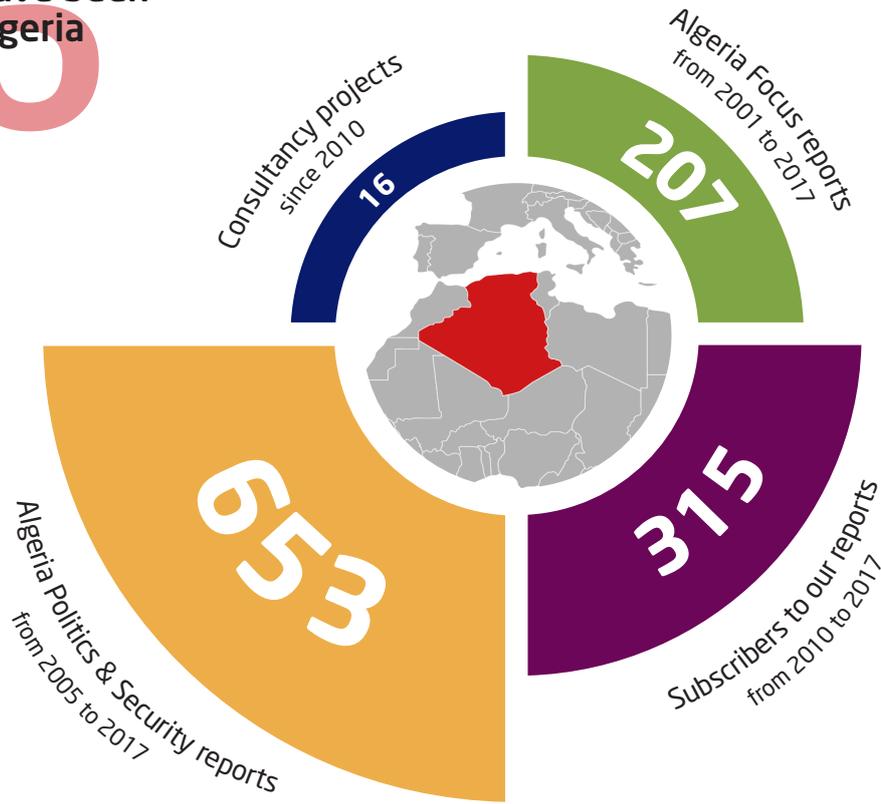
Industrial development has suffered from Algeria's over-reliance on the hydrocarbons sector (about 95-97% of exports) and has lost much of its competitive advantage in recent years. Algeria's Economic Complexity Index has decreased since 2008 reflecting the country's diminished industrial product mix.

Industrial diversification and import substitution policies are, however, encouraging investment in sectors – including agro-industry and food processing, chemicals and allied industries; and mineral products – where Algeria has potential sectoral advantages.

New investments in the agro-industrial and food sectors will focus on high-tech and finished goods for both the domestic and export markets. There may be significant investment and diversification in the chemicals and allied industries sectors, as well as mineral products, which, until now, have suffered long-term underdevelopment because of the dominance of the hydrocarbons sector and the remoteness of many locations. New rail connections will lead to a significant expansion in iron ore, phosphates and zinc mining and processing for both export and the production of raw materials for a range of emergent industries.

For more information on Algeria, or the region, please contact Roger Cabrera, [roger.cabrera@menas.co.uk](mailto:roger.cabrera@menas.co.uk) | +44 (0)20 3878 5217

Years we have been covering Algeria  
**16**



Since 2010 we have executed over 200 consultancy projects across emerging markets



We currently produce 16 off-the-shelf analytical publications across 20 countries

### Our consultancy solutions include

#### TRANSACTION SUPPORT

- 1 COUNTRY RISK & OPPORTUNITIES
- 2 DUE DILIGENCE
- 3 MARKET & SECTOR INTELLIGENCE

#### PLANNING

- 4 OFF-THE-SHELF PUBLICATIONS
- 5 BESPOKE MONITORING
- 5 SCENARIO ANALYSIS
- 6 STAKEHOLDER MAPPING

#### ENGAGEMENT

- 7 PARTNER SELECTION & MATCHMAKING
- 8 ARBITRATION & LITIGATION SUPPORT