Euler Hermes Economic Research

Country Risk Analysis

Algeria

Gas and oil

General Information

GDP	USD188.7bn (World ranking 48, World Bank 2011)
Population	35.98 millions (World ranking 34, World Bank 2011)
Form of state	Republic
Head of government	Abdelaziz BOUTEFLIKA
Next elections	2014, presidential

Strengths

- Strong hydrocarbon resources, with gas reserves estimated to last a further 57 years at current rates of extraction.
- Strong liquidity indicators, supported by a period of sustained high oil prices.
- Foreign debt management is much improved following repayment concerns in the 1990s and debt ratios and obligations are now low.

Weaknesses

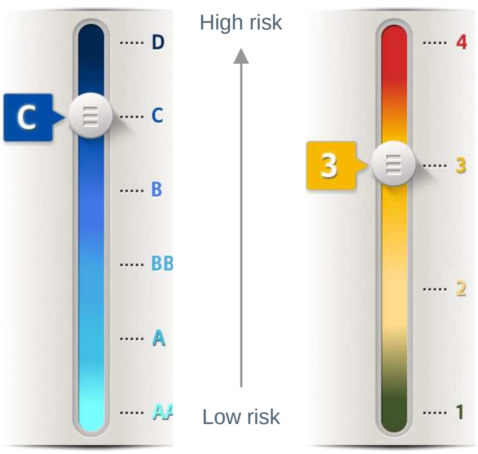
- A track record of relatively poor political and social stability. The military elite continues to wield political influence.
- High unemployment and underemployment that fuel social unrest.
- Lack of economic diversification. Over-dependence on oil and gas (98% of export earnings).
- Banking sector remains dominated by state enterprises that have to absorb losses from public sector companies.
- Limited private sector opportunities and perceptions that the business environment (including regulations) is restrictive.
- Regional dynamics are affected by continuing friction between Algeria and Morocco relating to the Western Sahara. Oil and gas installations are vulnerable to periodic (but localised) attacks by terrorist groups moving across porous borders.

Country Rating

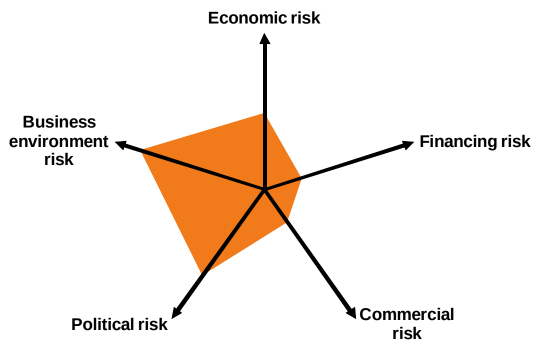
C3

Country Grade

Country Risk Level



Risk Dimensions



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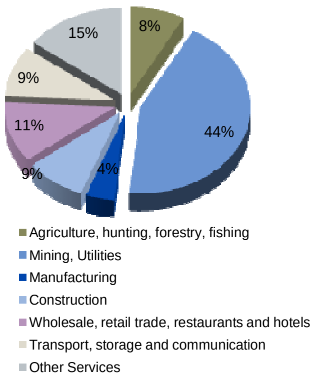
Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
United States	21%	1	18%	France
Italy	14%	2	10%	China
Spain	10%	3	9%	Italy
France	9%	4	8%	Spain
Netherlands	7%	5	5%	Germany

By product

Exports (% of total)		Rank		Imports (% of total)
Petroleum, petroleum products and related materials	64%	1	11%	Road vehicles
Gas, natural and manufactured	34%	2	10%	Other industrial machinery and parts
Inorganic chemicals	1%	3	9%	Iron and steel
Sugar, sugar preparations and honey	0%	4	9%	Cereals and cereal preparations
Crude fertilizers other than division 56, and crude				Electrical machinery, apparatus and appliances,

Economic Forecasts

	Average 2000-08	2009	2010	2011	2012f	2013f	2014f
GDP growth (% change)	3.8	2.4	3.3	2.5	4.0	3.5	4.5
Inflation (%, end-year)	3.0	5.8	3.6	5.2	6.5	5.8	7.0
Fiscal balance (% of GDP)	7.5	-5.1	-0.9	-0.2	-4.0	-3.5	-3.0
Public debt (% of GDP)	19.2	9.8	10.5	9.8	6.1	6.0	5.5
Current account (% of GDP)	16.8	0.3	7.5	11.2	8.1	6.0	4.0
External debt (% of GDP)	24.3	5.3	4.5	3.2	2.2	2.3	2.0

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Growth

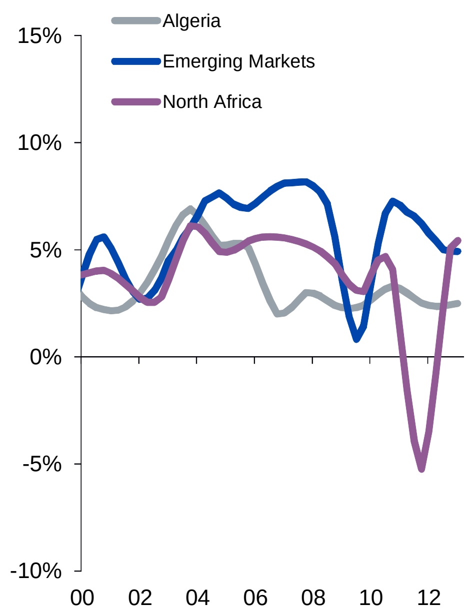
Growth accelerated in 2012

Growth of GDP accelerated to +4% in 2012, following +2.5% in 2011 and a ten-year average of +3.6% up to that point. Growth in 2012 was boosted by public spending (including increased subsidies and investment in infrastructure), partly reflecting an initial official response to the Arab Spring and concern of associated contagion. Hydrocarbons (oil but particularly gas) also remain crucial for economic development as the sector accounts directly for 45% of GDP and 98% of exports. Growth would have been more rapid if some of its key export markets in Europe had not experienced a downturn.

Growth momentum to continue in 2013-14

EH forecasts GDP to register growth of +3.5% and +4.5% in 2013 and 2014, respectively. These forecasts assume that export markets in Europe will remain lacklustre in 2013 and that oil and gas supplies will not be disrupted by terrorist action or widespread and protracted demonstrations.

GDP growth (y/y, 4 qtrs cumulated %)



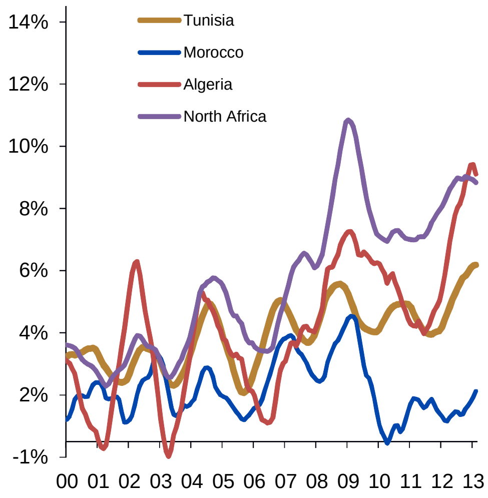
Sources: IHS Global Insight, Euler Hermes

Inflationary pressures

Consumer price inflation ended 2012 at 9%, almost doubling over the course of the year. Inflationary pressures resulted largely from excess liquidity in the economy from high oil receipts and government policies aimed at appeasing potential social discord. In addition, relatively poor weather conditions in the key harvest season reduced crops and caused food prices to increase. Monetary policy is not exercised actively through interest rate changes and the key rate has been unchanged at 4% since 2004.

The outlook is for inflation to moderate but to remain elevated, compared with recent years. The government will be watchful of potential for social discontent and will be willing to increase spending to try and maintain stability. Accordingly, managing inflationary pressures will remain challenging.

Inflation (%)



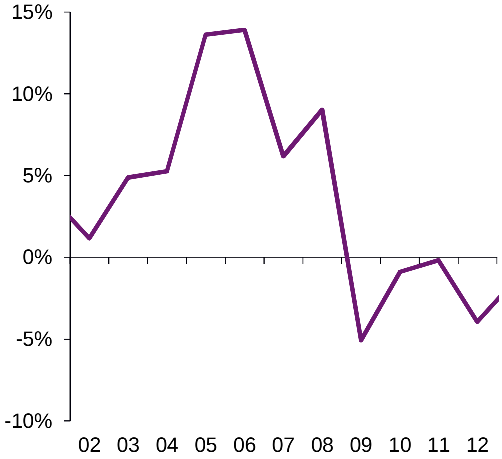
Sources: IHS Global Insight, Euler Hermes

Fiscal deficits reflect increased state spending

Strong government revenues in 2010 and 2011 (high oil prices) resulted in low annual budget deficits in those years. Government receipts remained high in 2012 but by then state expenditures had been increased in attempts to limit any contagion from the Arab Spring. In early 2012, the government increased the national guaranteed minimum wage, increased subsidies for the purchase of consumer goods, introduced tax breaks for SMEs and started new job creation schemes. The fiscal deficit is estimated at -4% of GDP in 2012 and, as state spending will have to remain high, annual deficits are forecast to remain at -3% of GDP, at least, in 2013 and 2014.

In some respects, the basic data on fiscal balances shows only a limited picture of state finances as a proportion of government receipts is regularly moved into the country's state reserve fund.

Fiscal balance (% GDP)



Sources: IHS Global Insight, Euler Hermes

Public debt levels are comfortable

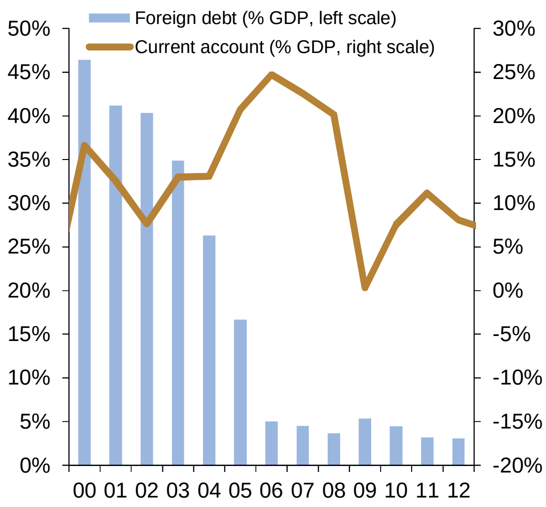
The general government debt-GDP ratio has been reduced significantly since 2000 and at current levels of 6% does not pose problems.

External Sector

Current account surpluses and low foreign debt

Despite continuing large receipts from oil and gas sales, the current account surplus declined to 8.1% of GDP in 2012, partly reflecting high import levels. The latter were boosted by heightened spending to limit social discontent. Such expenditure is likely to continue, with further deterioration in the current account balance, although surpluses will be maintained. In the 1990s, it appeared that Algeria had significant pressures in relation to foreign debt repayments. A revised foreign debt policy was adopted that targeted a marked reduction in the country's dependence on external borrowings. The policy has been noticeably successful, with foreign debt-GDP currently around 2% and servicing of external obligations is very comfortable.

External debt and current account (% of GDP)

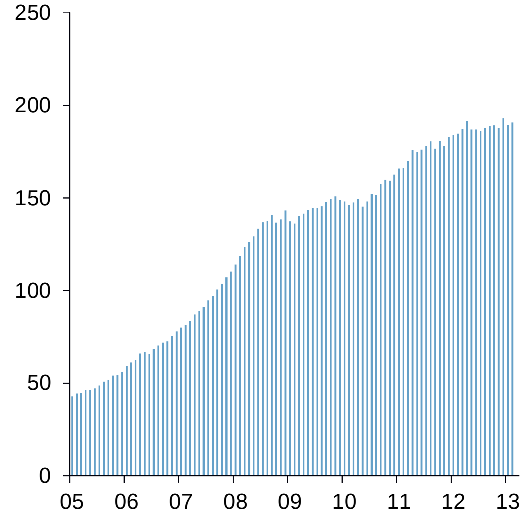


Sources: IHS Global Insight, Euler Hermes

High foreign exchange reserves and import cover

Official foreign exchange reserves (excluding gold) are currently around USD180 billion and cover over 35 months of imports of goods and services, compared with an international benchmark comfort level of three months.

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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