People's Democratic Republic of Algeria

February 2011

CREDIT GUARANTEE COUNTRY PROFILE: IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
3C	↑	→/↓	The use of a collection agent is recommended.

Country rating key - political risks: 1=low, 2=medium, 3=high
Commercial risks: A=low, B=medium, C=high

Credit Guarantee Experience

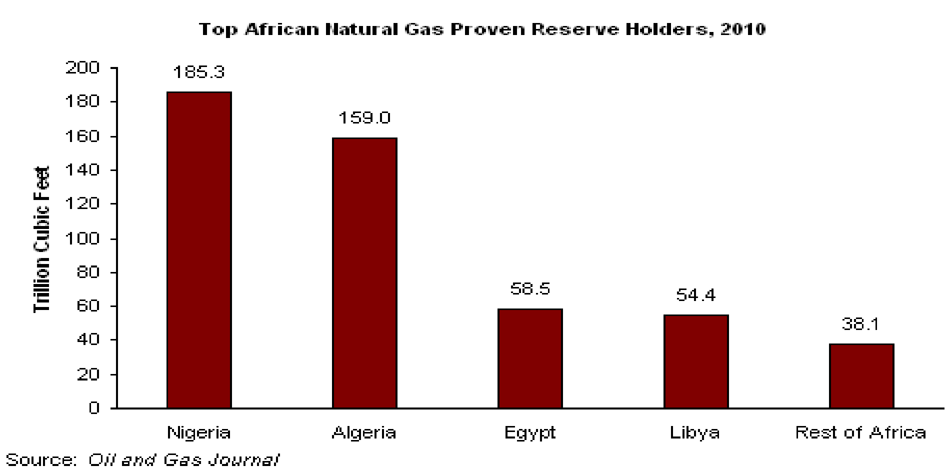
Cover is restricted to L/C cover. We have limited underwriting experience and no claims experience.

Political Highlights:

- President Abdelaziz Bouteflika first took to power in April 1999 and was re-elected for a third term in April 2009. The president takes the role of both the chief of state and head of government and is elected by a popular vote for a five-year term. There are no limits on presidential terms following the November 2008 constitutional amendment. Some analysts see this as a way for the president to ensure he maintains his position as head of state which represents a setback for democratic reform in the country.
- The next election is to be held in April 2014.
- Poor social conditions, an increase in corruption and the government's protectionist policies are negatively affecting Algeria's political outlook.

Economic Developments:

- Algeria is the second largest country in Africa and strategically positioned with easy access to Europe and the Arab countries, creating great export opportunities. The country has a large domestic market with the total population estimated at 34.5m. This combined with the country's abundance of natural resources that include oil and gas, makes it an attractive investment destination.
- In 2009, Algeria was rated the fourth-largest crude-oil producer in Africa after Nigeria, Angola and Libya. As an OPEC member (Organisation of Petroleum Exporting Countries) Algeria's crude oil production is limited according to the group's crude oil production quotas. In January 2010 Algeria had the second largest proven gas reserves in Africa.



Sources: IEA, EIA

- The hydrocarbon sector is the main source of income for the country. The sector accounted for 32% of GDP in 2009, provided 98% of its foreign exchange receipts and financed 79% of total public spending. The foreign reserves earned from this sector shielded the economy from the affects of the global economic crisis. The economy's dependence on this sector highlights its vulnerability to changes in global oil prices. The decline in oil prices in 2008 and 2009 led to a slowdown in real economic growth from 2.8% in 2008 to 2.2% in 2009.
- The president recently signed the 2011 Finance Bill that aims to encourage investments (mostly in the non-hydrocarbon sector) by introducing new exemptions and reductions in taxes to benefit the economy. The bill includes the exemption of raw milking activities from individual income tax and corporate tax in an attempt to boost growth in this sector. Any operations earning foreign exchange will also be exempt from corporate tax. This is however in contrast with the government's protectionist policies.
- The lack of foreign investment in the country further increases the economy's dependence on the hydrocarbon sector defeating the purpose of the 2011 Finance Bill.
- The state controls many areas of the Algerian economy and has implemented various control measures on foreign investment. The Complementary Finance Law implemented in July 2010 imposed tight restrictions on imports and required that new foreign investment must be in the form of joint ventures with at least 51% ownership by Algerian partners. This is additional to the January 2009 ban on imported pharmaceuticals that are also produced locally. These measures can negatively affect Algeria's business environment with foreign investment expected to remain subdued in 2011. Corruption and traditional resistance also limits structural infrastructure investment in the country.
- This is evident in the government's plan to nationalize Algeria's largest phone network Djezzy, owned by Egyptian company Orascom, in order to gain greater control over the economy. South Africa's MTN also showed interest in buying a minority stake in Djezzy, but was blocked by the Algerian government. Plans by Russia's Vimpelcom to acquire Orascom Telecom assets for an estimated $6.6bn have also been delayed as a result of the uncertainty surrounding the sale of Djezzy. Reuters recently reported that Orascom reluctantly agreed to enter talks of nationalization of Djezzy with the Algerian government. Uncertainty still remains whether the government will buy part or all of Djezzy and at what price. In the event of a government buy-out of a foreign-owned firm in Algeria, the takeover price will not be set by the market, but by expert valuation.
- GDP composition by sector: industrial sector 61%, services sector 31% and the agricultural sector 8%. Algeria's economic growth is expected to come in at 3.9% for 2010 and 4% in 2011, mainly as a result of stronger oil and gas prices and an increase in government spending.
- The IMF identified high unemployment and the lack of qualified job opportunities as one of Algeria's main challenges. Recent reports highlighted social unrest in the main cities as youths showed their dissatisfaction over the sharp increases in food prices and high unemployment. Although Algeria's unemployment rate is on a decreasing trend from 30% in 1999 to ±10% in 2010, unemployment among university graduates is estimated at 21.4%, much higher than the 7.3% unemployment of those without university degrees. Independent organizations estimate Algeria's total unemployment rate closer to 25%.
- The EU is currently financing the construction of the $4.49bn Galsi gas pipeline that will transport ±8bn cubic meters per year of natural gas to Italy via the island of Sardinia. The project is expected to be completed in 2014 and will add to the existing Medgaz submarine natural gas pipeline that transports Algerian gas to Spain. This pipeline is also expected to transport ±8bn cubic meters per year of natural gas to Spain (equivalent to 23% of Spain's gas demand in 2009). These projects will add to Algeria's domestic gas production and export capacity.

- In May 2010 the Algerian government approved a $286bn five-year investment plan aimed to upgrade and strengthen the country's infrastructure, create jobs, improve living standards and deliver 1m housing units by 2014.
- The World Bank expects Algeria's fiscal policies to remain expansionary in 2011 up to 2014 as Algeria holds significant resources to finance its budget deficit.
- BMI expects opportunities in the infrastructure sector to boost growth, while restrictions on foreign ownership and other protectionist policies as well as the country's dependence on demand from the Euro-zone area raises concerns.
- The IMF expects Algeria's economy to grow 4% in 2011 in line with the government's growth forecast with a 5.5% inflation forecast for 2010 and 5.4% for 2011.

Trade Developments:

- Total exports decreased from $78.6bn in 2008 to $43.7bn in 2009. Export commodities include: petroleum, natural gas and petroleum products.
- Total imports increased from $37.9bn in 2008 to $39.1bn in 2009. Import commodities include: capital goods, foodstuffs and consumer goods.
- Main trading partners include: France, China, US, Italy, Spain, Turkey, Germany, Netherlands and Canada. Weak demand for Algerian exports from the EU countries (Algeria's main export destination), could negatively affect Algeria's growth outlook.
- Algeria has agreed to enter a free-trade agreement with the EU in 2017. This will include the cancellation of tariffs and customs duties. Algeria is now requesting an extension of the agreement to 2020 as businesses need more time to prepare. The government also wants to discuss a list of 1 740 industrial products that would be subject to customs duty.
- SA's exports to Algeria equaled R1.8bn in 2008, R1.7bn in 2009 and R922m up to October 2010.
- SA's imports from Algeria equaled R385m in 2008, R4.5m in 2009 and R8.6m up to October 2010.

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