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ALGERIA BUFFETED BY FALLING OIL PRICES AND GROWING SOCIAL UNREST

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Statistics do not necessarilylie. Where Algeria is concerned, the economic consequences of oil prices falling by 20% from their peak in May after falling by nearly 50% since last autumn will be dire. The predicament the country will face is similar to that of the mid 1980s which resulted in a sharp fall in living standards, widespread popular revolt and a failed attempt to democratise the political system. Earlier this year, the prime minister, Abdelmalek Sellal said that Algeria was "facing a crisis". He left the impression he was suddenly waking up to the real dimension of the global oil market collapse.

Meanwhile the government seems quite incapable of brokering the peace between Arab and Berber communities in the oasis town of Ghardaïa, which claimed more than twenty dead last week in the worst violence the area has known in two years of unrest. The clashes are the result of competing claims on land, housing and jobs between the Mozabite Berber community which built Ghardaïa and its four sister towns (know as the pentapole and classified as a Unesco world heritage site on account of its fascinating architecture which inspire the modern French architect Le Corbusier) a thousand years ago, the Chamba Arabs who settled there before the French arrived in the mid-19th century and the many other Algerians who have flocked to the region which is close to the giant gas field of Hassi R'Mel. North Africa's most famous jihadi fighter, Moktar Benmoktar is a Chamba whose members succeeded in taking command after independence of the then single ruling *Front de Libération National* (FLN) party in the region to further their interests.

The government in Algiers for its part has given the impression of playing one group off against the other rather than striving for social and political peace. Last week's violence needs to be set in the context of the complex factional infighting which has characterised Algerian politics since the ailing president, Abdelaziz Bouteflika was elected to a fourth presidential mandate in April 2014. This infighting pits different security forces against one another and paralyses any attempt at much needed economic reform. Another factor needs to be factored in – the growing influence of arms trafficking across the Saharan belt of Algeria which the state seems unable to control and which is delivering into the hands of different mafias far more dangerous weapons than ever before.

The economic red lights have been flashing for two years. Respected former state officials such as Ahmed Benbitour (former prime minister and minister of finance) and Abderrahmane Hadj Nacer (former governor of the central bank and key actor of the economic reforms of 1989-1991) have been insisting on the need for the government to enact deep reforms in the management of Algeria's economy. A collective of former state officials and actors of the private sector, NABNI, has published reports which go in the same direction, so has the IMF which is more worried in private than even its pessimistic reports suggest. Until recently, however, the government chose to bury its head in the sand, an attitude which reminds seasoned observers of its predecessor in the mid-1980s which was led by Abdelhamid Brahimi. He was famously nicknamed *Brahimi la science* because of his total lack of understanding of how his country's economy functioned.

Last autumn, both chambers of parliament approved a budget in which total outlays amount to $110.8bn and revenues to $58.6bn. The deficit of $52.2bn is equivalent to 22.1% of GDP in 2015. Hydrocarbon fiscal contribution to the budget is determined on the basis of a constant oil price of $37 per barrel, so any surplus is transferred to a stabilisation fund, whose net assets accumulated to $66.1bn by the end of 2014. These assets are sufficient to cover the actual budget deficit for 2015 and still leave a balance of $27.3bn at the end of this year. However, the longer oil prices stay depressed, the sooner the government will find itself unable to sustain future investment plans. Hard currency reserves have dropped by $19bn to $159 in the three months to the end of March. The government thus has room for manoeuvre over the next two years. Resorting to foreign borrowing is not necessary. Endlessly putting off economic reforms is not an option however and senior officials are mindful of the crisis which engulfed Algeria in the late 1980s when the combination of infighting at the top and social crisis lit the fuse of a firestorm – a civil war which inflicted untold damage on the country's social and political fabric.

Six reasons suggest the price of oil is unlikely to revive any time soon. A nuclear deal with Iran could bring up to 800,000 barrels a day to the market within a year. Additionally, Iran is holding 40m barrels of crude oil and condensate in floating storage that they have been unable to sell because of the sanctions regime. Second, the Chinese economy is wobbling which matters since China has risen, over the past decade from a bit-part player to overtake the US as the largest importer of crude and refined products in the world. A third factor is the strengthening of the US dollar as a result of the Greek crisis –commodities like oil priced in dollars tend to move inversely to the US currency. Another factor is the greater than expected resilience of US shale oil production, which had added 5m barrels a day (b/d) to world supply over the past five years – equivalent to 5% of total consumption and 17% of Opec output. Opec's production itself is on the rise, the cartel's output being more than 1.5m b/d above its 30m b/d target as members compete for market share. Inventory levels in north-western Europe are thus at a two year high. The sixth reason is that hedge funds are cutting long positions.

Algeria remains, as it has been for the past fifty years, overwhelmingly dependant on the hydrocarbon sector – a symbol of the oil curse. The sector accounts for 97% of total exports, 63% of government fiscal revenues and 37% of GDP. In such circumstances it seems unlikely the government can continue with expansionary budgets. Will it choose to improve conditions for foreign direct investment (FDI) in the oil and gas sector? The mounting dissent it has faced last winter triggered by early shale gas ventures as the state company Sonatrach drilled pilot wells in the Saharan belt of the country has added to its woes, the reflection of a wider popular opposition to government policies. Algeria may well have four and a half times the country's reserves in conventional oil and gas lying beneath the ground in the form of shale oil and gas resources but if the population of the south is minded to stop exploration, the authorities will be in a bind. Its citizens are con-

vinced the authorities hold them in deep contempt. It will be difficult to convince them of the contrary unless younger, more competent and skilled Algerians are appointed to senior government posts.

For fifteen years now, the budgeted social transfers and off-budget implicit subsidies have spiralled up, not least because the country's rulers were desperate to avoid popular revolt. Both types of subsidies amounted to $61.8bn in 2013. This represents a staggering 29% of GDP. Energy subsidies represent nearly two thirds of total implicit subsidies which can only encourage wasteful consumption and smuggling into Morocco and Tunisia. Smuggling of oil products is estimated to cost over $1bn annually. These figures have been analysed in great detail by the economist Ali Aissaoui, a former senior Sonatrach official, in his latest report from Apicord Research.

Between 2003 and 2013, total energy demand grew at an annual rate of 4.1% while supply declined by 0.8%. Exports took the brunt, contracting by 2.6% every year which led to growing concerns over depletion of oil and gas reserves. Yet the revision of the rules of engagement offered to international oil companies (IOC) in 2013 yielded a meagre response. Out of 31 licences auctioned in September 2014, only five were submitted and four auctioned. IOCs are not prepared to play the game by the rules set by the Algerian government. The bear market further weakens its hand. In the context of heightened international concerns about broader security in the region following the unprecedented attack on the gas field of Tingentourine by Islamist terrorists in early 2013, the country offers less attraction than it has for years as a place to explore.

The preconditions to recasting Algeria's economic policy are simple. They include daring to have an informed public debate, casting aside rigid and traditions mindsets, allowing the private sector both domestic and foreign, a much freer rein and offering investors stable long term conditions which encourage rational investment strategies and, last but not least, fighting corruption. If the prime minister chooses to let matters drift, as his predecessor did, the consequences for Algeria could be dire.