

# Algeria



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## **Basic Information (CIA):**

After more than a century of rule by France, Algerians fought through much of the 1950s to achieve independence in 1962. Algeria's primary political party, the National Liberation Front (FLN), has dominated politics ever since. Many Algerians in the subsequent generation were not satisfied, however, and moved to counter the FLN's centrality in Algerian politics. The surprising first round success of the Islamic Salvation Front (FIS) in the December 1991 balloting spurred the Algerian army to intervene and postpone the second round of elections to prevent what the secular elite feared would be an extremist-led government from assuming power. The army began a crackdown on the FIS that spurred FIS supporters to begin attacking government targets. The government later allowed elections featuring pro-government and moderate religious-based parties, but did not appease the activists who progressively widened their attacks. The fighting escalated into an insurgency, which was intensified from 1992-98 resulting in over 100,000 deaths - many attributed to indiscriminate massacres of villagers by extremists. The government gained the upper hand by the late-1990s and FIS's armed wing, the Islamic Salvation Army, disbanded in January 2000. However, small numbers of armed militants persist in confronting government forces and conducting ambushes and occasional attacks on villages.

The army placed Abdelaziz BOUTEFLIKA in the presidency in 1999 in a fraudulent election but claimed neutrality in his 2004 landslide reelection victory. Longstanding problems continue to face BOUTEFLIKA in his second term, including large-scale unemployment, a shortage of housing, unreliable electrical and water supplies, government inefficiencies and corruption, and the continuing activities of extremist militants. The Salafist Group for Preaching and Combat (GSPC) in 2006 merged with al-Qaida to form al-Qaida in the Lands of the Islamic Maghreb, which has since launched an ongoing series of kidnappings and bombings - including high-profile, mass-casualty suicide attacks targeted against the Algerian government and Western interests. Algeria must also diversify its petroleum-based economy, which has yielded a large cash reserve but which has not been used to redress Algeria's many social and infrastructure problems.

## **Demographic Data:**

Population:  
33,769,668 (July 2008 est.)

Age structure:  
0-14 years: 26.3% (male 4,528,919/female 4,349,746)  
15-64 years: 68.7% (male 11,699,701/female 11,509,619)  
65 years and over: 5% (male 779,467/female 902,217) (2008 est.)

Median Age:  
Total: 26 years  
Male: 25.8 years

Female: 26.2 years (2008 est.)

Ethnic groups:

Arab-Berber 99%, European less than 1%

**Note:** almost all Algerians are Berber in origin, not Arab; the minority who identify themselves as Berber live mostly in the mountainous region of Kabylie east of Algiers; the Berbers are also Muslim but identify with their Berber rather than Arab cultural heritage; Berbers have long agitated, sometimes violently, for autonomy; the government is unlikely to grant autonomy but has offered to begin sponsoring teaching Berber language in schools.

Religion:

Sunni Muslim (state religion) 99%, Christian and Jewish 1%

### **Economic Statistics:**

GDP and GDP per head:

GDP (purchasing power parity): \$240.2 billion (2008 est.)

GDP (official exchange rate): \$171.3 billion (2008 est.)

GDP - real growth rate: 3.4% (2008 est.)

GDP - per capita (PPP): \$7,100 (2008 est.)

GDP by sector:

Agriculture: 8.1%

Industry: 62.5%

Services: 29.4% (2008 est.)

Hydrocarbons industry represents 60% of budget revenues, 30% of GDP, and over 95% of export earnings.

Unemployment rate: 12.9% (2008 est.)

Inflation rate (consumer price): 3.6% (2008 est.)

GDP real growth: 3.4% (2008 est.)

### **Banking system**

There are 20 banks in Algeria today, with six public-sector banks and fourteen private-sector banks, all of which are subsidiaries of large international banking groups.

Six public banks are:

- Banque Extérieure d'Algérie (BEA)
- Banque Nationale d'Algérie (BNA)
- Banque de l'Agriculture et du Développement Rural (BADR)
- Caisse Nationale d'Épargne et de Prévoyance (CNEP)

- Credit Populaire d'Algerie (CPA)
- Banque de Développement Local (BDL)
- Caisse Nationale de Mutualite Agricole (CNMA)

BEA and BNA are the two largest banks in the country, holding half of the banking sector's total assets.

The 14 private-sector banks are smaller entities and are subsidiaries of major international banks:

- Calyon-Algeria-SPA
- Société Générale
- BNP Paribas El Djazair
- Natixis
- Algeria Gulf Bank
- Arab Banking Corporation
- Citibank
- HSBC
- Arab Bank PLC Algeria
- Fransabank El Djazair

Islamic banks:

- Islamic bank Al Baraka Bank (ABB)
- Al Salam Bank

There are currently requests (around 10) for banking licenses pending but the government decided in 2008 to freeze new authorizations.

Foreign versus domestic ownership:

The private sector banks are subsidiaries of international banks and therefore are fully owned by foreign capital. However these banks represent a small share of the banking sector (around 10% of the assets and deposits):

- Calyon-Algeria-SPA (fully owned by Group Credit Agricole from France)
- Société Générale (fully owned by SocGen)
- BNP Paribas El Djazair
- Natixis (subsidiary of Banque Populaire d'Algérie et Caisse d'Epargne)
- Algeria Gulf Bank
- Arab Banking Corporation
- Citibank
- HSBC
- Arab Bank PLC Algeria
- Islamic bank Al Baraka Bank (BADR (50%) and Saudi group Dallah (50%))
- Fransabank El Djazair (subsidiary of Lebanon's Fransabank)

#### Source of funds:

Holdings of deposits banks in June 2008 (AD m) (approximate exchange rate used in this section 1 USD = 65 AD):

- Reserves: 488,509 or \$7,515 million (6.43%)
- Foreign Assets: 129,221 or \$1,988 million (1.70%)
- Loans to the State: 862,940 or \$13,276 million (13.35%)
- Loan to the public sector: 1,043,005 or \$16,046 million (13.71%)
- Loan to the private sector: 1,279,246 or \$19,680 million (16.82%)
- Sight deposits: 2,933,771 or \$45,135 (38.57%)
- Term deposits: 1,869,333 or \$28,759 million (24.58%)
- Advance import deposits: 278,160 or \$4,279 million (3.66%)
- Short term bonds: 96,813 or \$1,489 million (1.27%)
- Medium and long-term bonds: 12,870 or \$198 million (0.17%)
- State deposits: 311,484 or \$4,792 million (4.10%)
- Ready funds deposited by the state: 27,315 or \$420 million (0.36%)
- Bank of Algeria credit: 0 (0%)
- Misc.: -1,726,822 or \$26,566 million (-22.70%)

#### Investment of funds:

- Public-sector banks: finance large government projects (mainly infrastructure projects)
- Private-sector banks focus on:
  - private-sector companies
  - large and small and medium-sized enterprises (SMEs)
  - international companies operating in Algeria

#### Privatizations: partial versus full

The sector remains dominated by public-sector banks, which together control over 90% of total banking deposits and assets. The government has entered a long term privatization strategy to but the cancellation of the privatization of Crédit Populaire d'Algérie (CPA) due to the global subprime crisis will likely postpone any privatization move after the presidential elections are held in 2009. The CPA privatization alone should push the market share of private-sector banks up to 25% overall. The first bank privatization has yet to happen.

#### Interest spread (Bank)

Interest rate spread as the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits is 6.25% (2006, most up to date data available at the World Bank). The historic data is as follows:

|      |             |
|------|-------------|
| 2006 | 6.25        |
| 2005 | 6.25        |
| 2004 | 5.5         |
| 2003 | 2.875       |
| 2002 | 3.333333333 |
| 2001 | 3.25        |
| 2000 | 2.5         |
| 1999 | 3.25        |
| 1998 | 3           |
| 1997 | 5.958333333 |
| 1996 | 4.5         |
| 1995 | 2.416666667 |
| 1994 | 4           |

**Bank credit to the private sector:**

In 2007, of the total credits (totaling AD2.18trn or \$33.1bn), AD1.2trn (\$18.2bn) went to private-sector financing.

**Bank credit to the public sector:**

In 2007, of the total credits (totaling AD2.18trn or \$33.1bn), AD950bn (\$14.3bn) went to public-sector financing.

**Deposit insurance: partial versus full: (Demirguc-Kunt, 2005)**

The deposit insurance system in Algeria was established in 1997 in response of the rapid growth of the banking sector both with national and international banks. The system covers up to 600,000 AD (or Approx. \$9,230) per depositor institution. As of 2004, the system has remained unchanged.

**Insurance companies and other financial institutions: (The Report:Emerging Algeria, 2008)**

The insurance industry is still in its early stage in Algeria, with automobile, property and casualty representing almost 80% of the premiums. The total premiums amount to AD53.4bn

(\$811m). Insurance companies account for less than 3 percent of total financial system assets. The insurance density stands well below the neighboring countries (Tunisia and Morocco) with \$21 per capita.

There are 16 insurance companies in total in Algeria but the industry remains highly concentrated since the three public companies hold approximately 80% of the market. There is no current plan to privatize the industry.

The three public insurance companies are:

- Société Nationale d'Assurance (SAA)
- Compagnie Algérienne d'Assurance et de Réassurance (CAAR)
- Compagnie Algérienne d'Assurance Transport (CAAT)

There is a public-private company:

- Compagnie d'Assurances des Hydrocarbures

And a State-owned reinsurance company:

- Compagnie Centrale de Réassurance (CCR)

There is seven private insurance companies:

- Compagnie Internationale d'Assurance et de Réassurance
- Algérienne des Assurances
- Alliance Assurances
- Générale Assurance Méditerranéenne (subsidiary of foreign company)
- Cardif El Djazair (subsidiary of foreign company)
- Trust Insurance and Salama (subsidiary of foreign company)

Insurance companies are allowed to distribute their products through commercial banks, and therefore new alliances between insurance companies and banks have emerged. However, banks are not allowed to offer insurance products and their ownership in insurance companies is limited by law at 20%.

Life and property and casualty:

Break out of the premiums (AD bn):

- Automobile: 23.96 (45.4%)
- Fire and various other risks: 19.10 (36.2)
- Transport: 5.03 (9.5%)
- Agricultural: 0.54 (1%)
- Personal: 3.4 (6.4%). The personal branch includes life insurance and all other types of coverage concerning individuals (travel, credit, liability insurance)
- Credit guarantee: 0.71 (1.3%)

The advantageous pension system for salaried employees and the high level of benefits of the health system explain the underdevelopment of the complementary personal insurance segment (life and health insurance).

### **Central bank and its role in the economy (Algeria, 2009)**

sources: 1) Annual report on exchange arrangements and exchange restrictions 2006, by International Monetary Fund and 2) Algeria by Legal Media Group, 2005)

The value of the Algerian Dinar is determined in the interbank foreign exchange market where the central bank (Bank of Algeria) is the main buyer and seller. The Bank of Algeria regulates the foreign exchange market according to the foreign exchange policy decided by the Council and in compliance with Algeria's international commitments. The dinar cannot be subject to multiple exchange rates.

Data on the rates it sets and on the exchange rate:  
Granularity of the date: Monthly from January 1900 - April 1974 and daily from April 1974 - April 2009

See document: DINAR\_USD\_Xrate1900\_2009.xls

The Bank of Algeria is responsible for regulating the money supply, directing and supervising the distribution of credit, supervising the proper management of financial commitments with regards to foreign countries and regulating the foreign exchange market. The Bank establishes the norms that each and every bank must conform to such as the liquidity ratios, the authorized use of banks' funds or risk management.

### **Government bond market:**

Treasury bonds issued with maturity dates greater than five years have been listed on the Algiers bourse since the beginning of 2008. There are 14 listed Treasury bond issues in total, with an outstanding value of around AD145bn (\$2.2bn). Treasury bonds are listed on the exchange due to the Ministry of Finance's goals of giving more depth to government bond issues and to encourage the private sector to use the capital markets as a channel to raise funds.

Maturity dates: seven years, 10 years and 15 years.

Volume: Treasury bonds are traded during three sessions per week. Government Treasury bonds are traded through authorized intermediaries. There are six intermediaries made up of representatives of the six public banks. (The Report:Emerging Algeria, 2008)

Treasury Bill Yields

Monthly from June 1998 - November 2008 (Data)

| Date       | Close |
|------------|-------|
| 1/31/2007  | 2.20  |
| 2/28/2007  | 2.25  |
| 3/31/2007  | 2.00  |
| 4/30/2007  | 1.46  |
| 5/31/2007  | 0.99  |
| 6/30/2007  | 0.79  |
| 7/31/2007  | 0.48  |
| 8/31/2007  | 0.48  |
| 9/30/2007  | 0.23  |
| 10/31/2007 | 0.14  |
| 11/30/2007 | 0.28  |
| 12/31/2007 | 0.33  |
| 1/31/2008  | 1.53  |
| 2/29/2008  | 0.63  |
| 3/31/2008  | 0.31  |
| 4/30/2008  | 0.24  |
| 5/31/2008  | 0.17  |
| 6/30/2008  | 0.15  |
| 7/31/2008  | 0.13  |
| 8/31/2008  | 0.13  |
| 9/30/2008  | 0.09  |
| 10/31/2008 | 0.24  |
| 11/30/2008 | 0.20  |

Source: (Data)

### **Stock market:**

The Algerian Stock Exchange was officially opened in 1999. To this day, the exchange is still in its infancy and plays a very minor role in the financing of the country's economy. There are currently two companies traded on the ASE: Saidal (a local pharmaceutical firm) and EHG El Aurassi (a hotel management firm which operates a five-star hotel located in Algiers). Only 20% of each firm's share capital is publically listed. The past eight years have seen no additional listings.

The total market capitalization of the Algerian exchange was [US\$97mm at the end of 2007]. This represents [0.1%] of the country's GDP.

Following the adoption by the Bank of Algeria of Regulation No. 2000-04, foreigners have the same rights as local investors pertaining to trading of local securities and repatriation of dividends, interest and profits. Despite the liberalization, foreign capital has been slow to enter Algeria due to security concerns and lack of liquidity and investment opportunities. In addition, Tunisia and Morocco both of which have significantly better developed equity capital markets (with market capitalizations of US\$5bn and US\$75bn, respectively), compete with Algeria for foreign investment dollars.

Currently the Algerian Stock Exchange conducts two trading sessions per week, and trading volumes are very small. Over the course of 2007 (full year), US\$200m was traded on the exchange, resulting in annual turnover of ~2x. This represents 0.2% of Algeria's GDP. Trading is conducted manually, through a price-fixing system.

Market analysts attribute the current state of the equity market to several factors: a lack of privatizations of state-owned companies via the stock market, an absence of stock market culture among local investors, and lack of foreign investment. With regard to privatizations, the government had plans to float several state-owned entities, including CPA, on the stock exchange in the course of 2008, but poor market conditions as a result of the global financial crisis have resulted in a cancellation or postponement of the float.

The Commission for Organization and Surveillance of Bourse Operations, which oversees the function and operations of the stock exchange, has formed a task force which plans to modernize the exchange and develop a market for equity capital in Algeria. There are plans to move to an electronic trading platform which will be accessible remotely by market participants and to introduce television reporting of stock market activity. A new law requiring Algerian companies (both publically traded and closely held) to maintain their accounts according to International Financial Reporting Standards (IFRS) beginning in 2010 was recently introduced. While all of these reforms should facilitate a move toward public equity markets for individual companies, the development of a stock market culture will take much longer, and will require development and education of an increased number of finance professionals who will support and drive the stock exchange system.

### **Other types of financial markets:**

#### **Debt markets:**

Public enterprises currently need significant sources of new financing allowing Algeria the opportunity to develop local capital markets. A modern government debt market was launched in 2002, with maturities now extending to 15 years. The authorities then encouraged large public enterprises to issue corporate bonds. The treasury plans to provide additional tier 2 capital for public banks, which would allow them to increase credit by 25 percent. (Loko, 2008)

**Corporate bond Market:** The total size of corporate bond issued through 15 January 2008 has been approximately AD208bn (\$3.4bn). (The Report:Emerging Algeria, 2008) (The Report:Emerging Algeria, 2008) The Algerian corporate market is significantly larger than in other countries at the periphery of the EU-15. In 2002, debt issuance through auctions on a

regular calendar was introduced and the corporate market took off after the government began issuing debt more predictably. Secondary market activity is limited and a new corporate bond offering may sometimes have to wait until the issuance of a government bond of comparable maturity. The government has encouraged large nonfinancial public enterprises to issue bonds since 2003. Two private entities have followed suit in 2006. Maturities extend to 11 years, with a median of six, partly reflecting the tax advantage given to maturities exceeding five years (Loko, 2008)

36 new bond issues have occurred since July 2003. These issuances occurred in 22 separate originations, 18 of which were targeted to institutional investors and four targeted the public. 10 companies – 7 public sector and 3 private sector – raised funds in these issuances. The bond issues were mostly to finance the investment projects of large public companies, such as Sonelgaz, Air Algérie, Algérie Télécom, Enafor, Société de Refinancement Hypothécaire (SRH), and also some large private groups, such as Cevital, Arab Leasing Corporation and Eepad. Some were issued with specific guarantees, such as mortgages, collateral, or a guarantee from the mother company, and others only had the signature of the issuer as a guarantee. Reimbursement methods vary and include the use of tranches or fines and some are retractable. The four issuances offered to the public and listed on the stock exchange were made by the public companies: Air Algérie, Algérie Télécom and Sonelgaz. (The Report: Emerging Algeria, 2008) The largest bond issuer is Sonelgaz. Half of Sonelgaz's bonds were issued in the seven-eleven year segment. The size of the Algérie Télécom 5-year bond of October 2006 was doubled during the public offering period, due to demand. (Loko, 2008)

Public offerings have grown in comparison to private placements in 2006 and some bonds were oversubscribed. Private placements, limited to institutional investors, represented three quarters of the value of bonds sold in 2003–05, mostly bought by banks. In 2006 public offerings, which are not limited to institutional investors, accounted for more than half of bonds sold. This suggests strong demand of the general public for nonbank saving vehicles. (Loko, 2008)

The stock of corporate bonds has increased slightly in 2007, from DA 150 billion to DA 170 billion, all in private placements. Uncertain timing of budgetary outlays under the public investment program has made government debt issuance difficult to predict in 2007. Large bridge financing requirements were generated by large outlays in the beginning of the year. As a result, the stock of auctioned government securities increased by 45 percent in the first two months of 2007 then dropped 20 percent until September 2007. This pattern has contributed to low yields. Going forward, the authorities plan to increase predictability by stabilizing the debt stock. (Loko, 2008)

### **Other types of finance:**

#### **Private Equity:**

Private equity as an industry does not currently exist in Algeria, despite government efforts at creating a favorable environment for its development.

### Microfinance:

Microfinance and microcredit sectors are not well-developed. The only programs currently available to the bottom of the pyramid are governmental ones, administered through public institutions such as the Social Development Agency, ANSEJ and FNRDA. These were put in place following economic hardships for a large percentage of the populations resulting from structural economic reforms of the 1990s. These programs differ from typical microfinance models in a number of ways:

- government subsidizes interest rates
- lending is focused on new ventures and financing of capital expenditures rather than working capital
- government entities do not maintain monitoring systems that have made microfinance so successful elsewhere
- these initiatives are not supported by specially trained staff that would typically focus on a repayment and new account creation on the ground
- loan portfolios are managed by public banks rather than specialized microfinance providers with specialized risk-management models.

Consequently these programs have enjoyed limited success - they have significantly lower rates of repayment (~56%) than is typical in microfinance, much higher rejection rates (nearly 96% of all applications), and much longer approval periods (1-3 months).<sup>ii</sup>

<sup>[ii]</sup>Financial Sector Assessment Report for Algeria (2004). World Bank/IMF p. 14

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