

Algeria economic and business review

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Geographical situation

- Algeria is the largest country in Africa with 2,3M sq. km
- Geographical proximity to the large market of the European Union.
- Linked by a Free Trade Agreement with the European Union and a stakeholder in the Greater Arab Free Trade Area.
- Signing of the agreement on the Continental Free Trade Area (CFTA) March 21, 2018 in Kigali, under the aegis of the African Union
- Algeria has the 9th largest natural gas reserve in the world, holds 2.4% of the world's reserves and ranks 16th in the world's oil reserves



Economy overview

Algeria historic economics fundamentals

- Hydrocarbons have long been the backbone of the economy, accounting for roughly 30% of GDP, 60% of budget revenues, and nearly 95% of exports.
- During the period of 2000-2014, the country benefited from high hydrocarbon prices. This:
 - Fueled imports financing,
 - Provided funding for significant infrastructure spending (Highways, Rail, Electricity, Hospitals, Education, ...),
 - Fueled foreign currency reserves (97 USD billions at the end of 2017)

Lower hydrocarbon prices and reforms

- Lower oil prices urged for diversification of the economy and bolstering the private sector.
- The Algerian government pursued a relatively high level of public spending on infrastructure , implemented incentives and restrictions in order to promote local production and reduce imports

Macroeconomic indicators

In order to avoid too severe drop in economic activity, the government has maintained a level of public capital spending, which helped especially to maintain positive growth rates over the last three years. It also helped to preserve jobs and strongly absorb the unemployment rate.

The external position remains strong, with foreign exchange reserves equivalent to 97.3 billion USD at the end of 2017.

En Mds USD	2013	2014	2015	2016	2017
Growth rate	2,8%	3,8%	3,8%	3,5%	2,2%
Budget expenditure (Md DZD)	6 024	6 996	7 746	7 384	6 883
Inflation rate	4,3%	3,9%	4,4%	5,8%	5,9%
External debt (% of GDP)	1,6%	1,7%	1,8%	2,4%	NA

Source: CNIS & Banque d'Algérie



Imports / Exports

Overall trade exchange	2010	2011	2012	2013	2014	2015	2016	2017
Imports (bn USD)	40,5	47,2	50,3	55	58,5	51,7	47,1	46
Exports (bn USD)	57	73,4	71,9	65	63	34,7	30	34,8
Trade balance	16,5	26,2	21,4	10	4,5	-10	-17,1	-11,2

Source: algerian customs

- The important hydrocarbon exports of the last years has allowed Algeria to accumulate foreign exchange reserves and secure the financial system. Foreign exchange reserves at December 31, 2017 were 97 billion USD

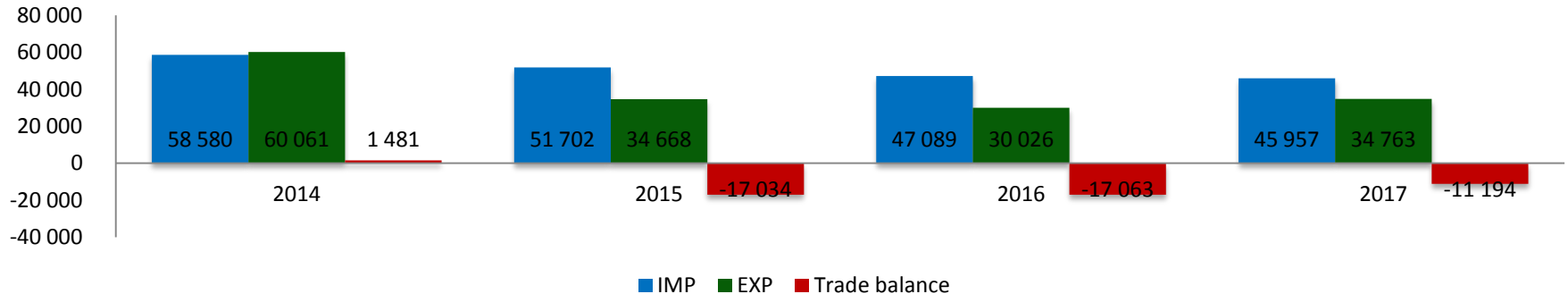
Algeria – Japan Trade

- Bilateral trade is impacted by lower Algerian export earnings

Millions USD	2013	2014	2015	2016	2017
Exports to Japan	307	1216	680	105	159
Imports from Japan	900	1 601	927	326	304
Balance	593	385	248	222	145
Japan's share in Algeria's exports	1.4%	2.5%	2.5%	1.1%	0.9%
Japan's share in Algeria's import	1.1%	0.7%	0.5%	0.5%	0.3%

Evolution of foreign trade in million of US \$

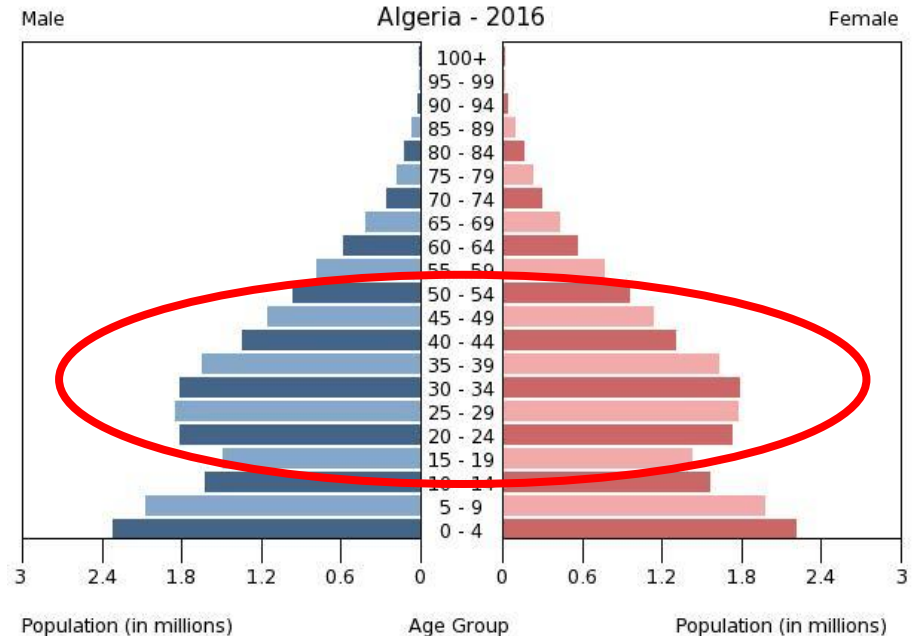
- The deficit in the Algerian trade balance narrowed in 2017 thanks to the rise in hydrocarbon prices and the continuation of import restrictions.
- Exports amounted to USD 34.8 billion in 2017, up 15.8% from 2016 (USD 30 billion) while imports were USD 46 billion, down 2.4% compared to 2016 (USD 47.1 billion).
- The deficit recorded this year is then 11,2 billion USD, down 34,4% compared to the previous year (17,1 billion USD)



Population data (source: CIA World Factbook)

■ A demographic economic endowment:

- 41.7 million inhabitants at the end of 2017, with a population growth rate estimated at 1.75%
- Qualify young population : **68% of the population is under 35**
- One of the most advanced education system and health coverage system in Africa
- Life expectancy at birth: 77 years
- Health expenditure: 7.2% of GDP

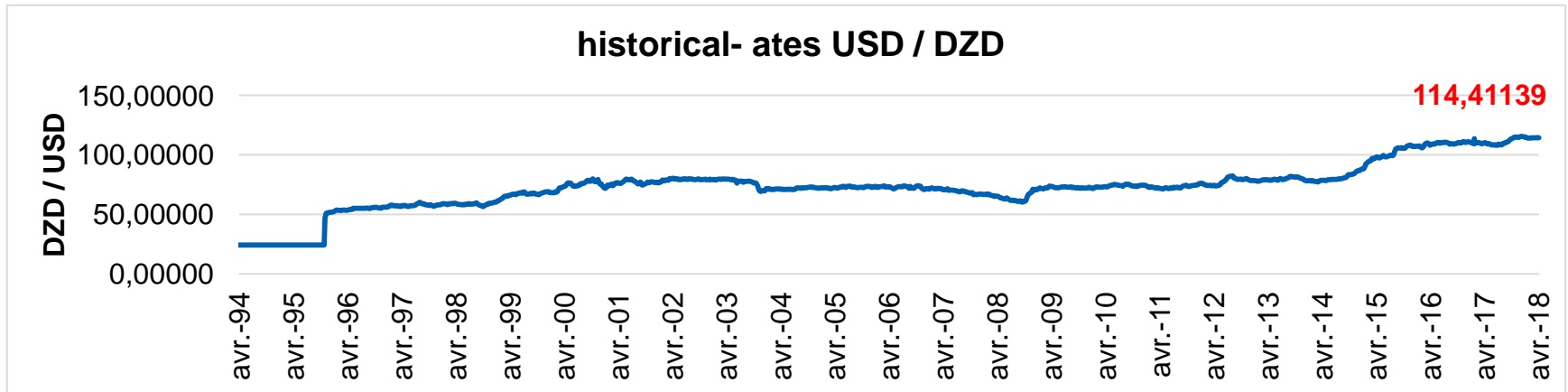


Source: ONS



Macroeconomic indicators

- In connection with the fall in international oil prices, the exchange rate of the dinar depreciation estimated at 30.6% in late 2014 and late 2017. The authorities have also undertaken a series of measures designed to stimulate local production and to reduce deficits in the trade balance and



Source: Oanda

Business and investment opportunities

**Renewable
Energy**

Petrochemicals

Mining

Health

Construction
materials

Hospitality

**Financial
services**

Engineering

Consumers
products

RENEWABLE ENERGY



Renewable energy

- The government, in the context of the Climate Conference has undertaken **to reduce carbon gas emission by 7% to 22% by 2030.**
- The global cost of the renewable electricity program is expected to reach between **60-100 billion US dollars.**
- Government has established the National Energy Control Fund (FNME) which aims to facilitate the projects financing by the **granting of interest-free loans and guarantees of loans** from banks.
- Expected volume of natural gas saved by 2030 is **300 billion m³.**

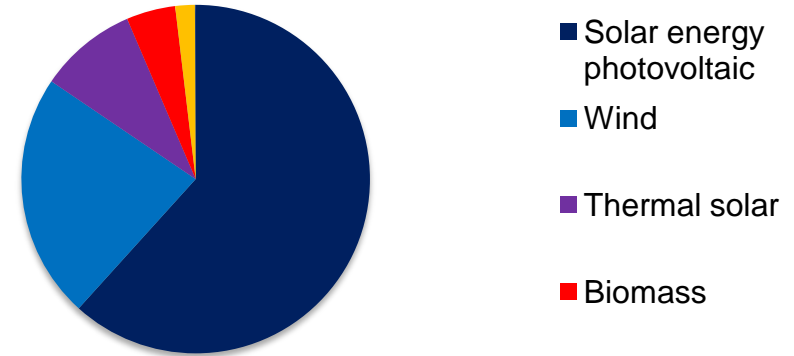
Renewable energy target (source : CDER)

- The Algerian government plans to switch to a renewable energy capacity of 4.5GW/h by 2020 and 22GW/h in 2030 (27% of the national production), with a large part of solar energy. As far as exports are concerned, the target is 2 000MW for 2020 and 10 000MW for 2030.

- **The repartition of this program in 2030:**

- Photovoltaic energy : 13 575 MW
- Wind : 5 010 MW
- Thermal solar : 2 000 MW
- Biomass : 1 000 MW
- Cogeneration : 400 MW
- Geothermal : 15 MW

Production of renewable energy in 2030

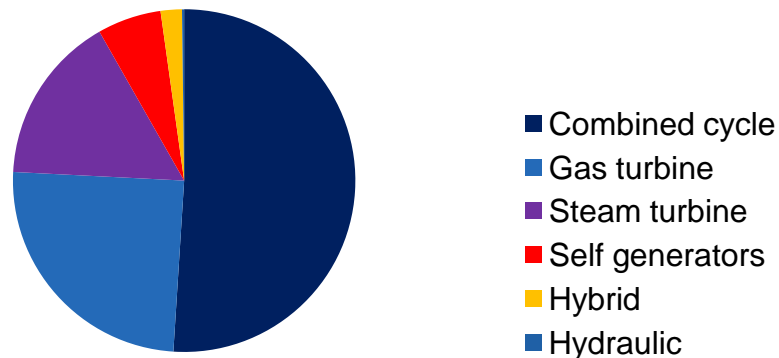


- Algeria has also set a target for exports (2000MW for 2020 and 10000MW for 2030), subject to the construction of an interconnection to the EU.

Current state of the power production (source :minister of energy)

- The electricity production in Algeria amounted to 59.9 TW/h in 2013 with 98% come from fossil energy (gas, oil).
- Base pricing in Algeria is presently very low but an increase is expected in the future in order to promote energy saving.

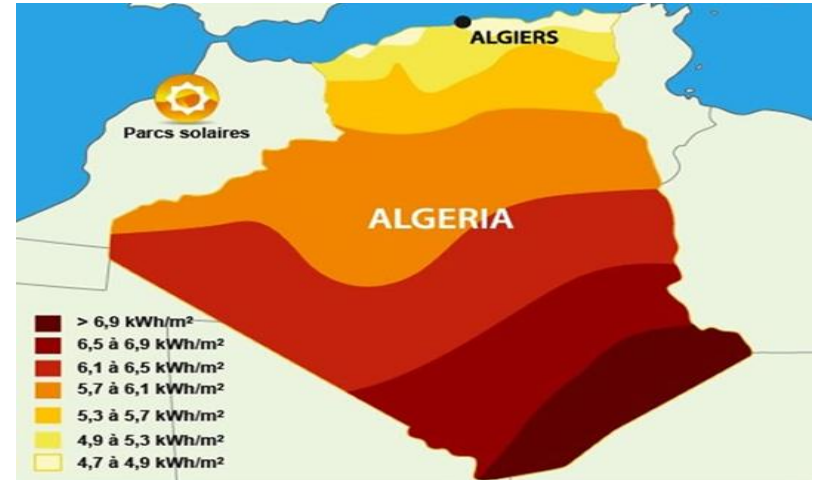
Structure of power production 2013



The 125 first kw/h	\$0,02 the kw/h
Beyond 125 kw/h	\$0,04 the kw/h

Great potential of renewable energy

- Great potential of renewable energy (in particular solar energy)
- Power consumption is in a constant growth with peaks in summer (air conditioner) which match with peak sunlight availability.



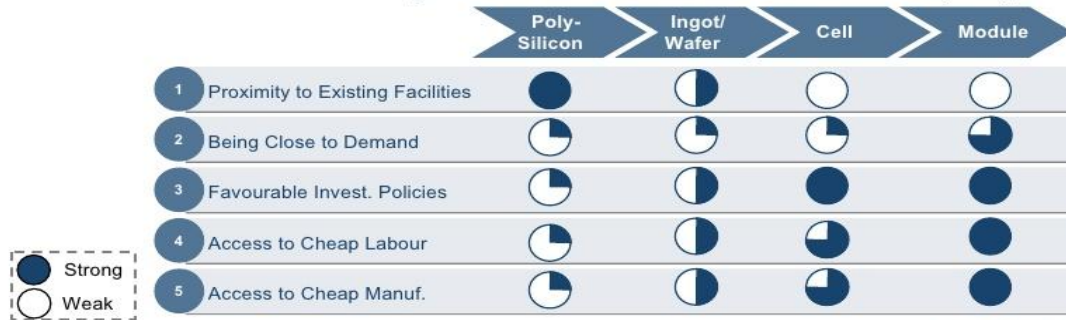
(source: CDER)

Value Chain of PV Production

Executive Summary

Solar Power Industry Hot Spot Segment Assessment: Summary

Overview of Investment Attractiveness: Key Location Factors for Selected Solar Module Materials (World), 2010



Source: Frost & Sullivan

- Proximity to existing manufacturing facilities is important at the technology-intensive lower part of the solar value chain. As production technology becomes less demanding, the factor reduces in its significance.
- Being close to the demand gets more important towards the top-side of the value chain as it may be cost-ineffective for a manufacturer to transport large amounts of bulky modules around the globe.
- Favourable investment policies along with a general trend to outsource production to lower cost countries has changed the solar cell and module industry, with larger quantities of equipment produced in Asian countries.
- Access to cheap labour and manufacturing locations are crucial for cell and module manufacturing. There is a stronger trend to set up manufacturing facilities in Asian countries such as China, Malaysia, Taiwan and the Philippines.

Algeria's advantages

- **Based on the value chain analysis of photovoltaic production, Algeria meets all the conditions for the establishment of poly silicon or wafer production units:**
 - Access to equipment and other facilities;
 - Proximity of markets (local and foreign)
 - Solar energy potential;
 - Investment support;
 - Access to funding;
 - Regulatory framework

Institutional framework

- Energy Regulator (**CREG**)
- R&D Centre of Electricity and Gas (**CREDEG**)
- Agency of Promotion and Rationalisation of the Use of Energy (**APRUE**)
- Centre for Renewable Energies (**CDER**)
- National Fund for Renewable Energy (**FNER**)
- Ministry of Energy and Mines: in charge of designing Algeria's energy policy
- Sonelgaz Group:
 - Power producer : Société Algérienne de Production de l'Électricité (SPE):
 - TSO : Société Algérienne de Gestion du Réseau de Transport de l'Électricité (GRTE)
 - Power production/transmission system operation : Opérateur Système Électrique (OS)
 - Power distributors : Sociétés Algériennes de Distribution de l'électricité et du gaz d'Alger (SDA), du Centre (SDC) de l'Est (SDE) and de l'Ouest (SDO):

FINANCIAL SERVICES



Banking system

- The Algerian banking system is still poorly developed in view of the size of it's economy.
- Many financials institutions are already settled but the public sector still dominate.
 - 6 public banks still owns 90% of total banking sector assets. (source : *Bank of Algeria*)

	Algeria	Morocco	Tunisia
Automated Banking machine (ABM) per 100 000 inhabitants	6,57	25,11	23,59
Banking agency network (per 100 000 adults)	5,1	24,4	18,3
Borrowers from commercial banks (per 1000 adults)	43,7	-	204

Source: WorldBank

Modernization process of the financial system

- Recapitalization of the public banks and the stabilization of their portfolios.
- Launching of interbanking projects with new array of products, international payment cards, data transmission networks, monetics.
- Creation of private equity firms.
- Improving secure communications networks and introducing a modern means of payment.
- Payment by bank check has become obligatory for a purchase of a good from a certain value. (5M dinar for the purchase of a property and 1M dinar for the purchase of a vehicle for example).The goal is the reduction of the informal economy and to channeling funds to the banking system.
- Algiers' stock exchange is the smallest in the MENA region with a capitalization of 0.1% of GDP but officials aim to reach a capitalization of USD 7.8 billion in the next five years and enlist 50 new companies.



Transport infrastructures



Maritime transport

- The Algerian maritime transport fleet, which consisted of 54 ships in 1980, now only gathers 10 ships, following a very strong disinvestment, after the financial crisis of the 1990s.
- Even though transport has been legally open since the reform of the Maritime Code in 1998, only one private operator (CEVITAL) is involved in this activity for its own needs. The rest is provided by the public group CNAN (National Navigation Company)
- Tonnage transported in own fleet represents less than 4% of imported or exported goods, excluding hydrocarbons
- Freight rates charged by international ship-owners show high costs (40%) compared to those practiced in the countries of the region.
- The Algerian government has undertaken to invest in this sector through the acquisition of new vessels.

Port activity

- Algeria has ten ports on the Mediterranean coast, of which three (Skikda, Arzew and Bejaia) are dedicated in part to the export of hydrocarbons (100 million tons / year), the others being in charge of the treatment of general goods (around 40 million tonnes / year, of which 3 for export).
- These ports are ancient infrastructures built for the most part in the 19th century or during the first half of the 20th century. Their dilapidation is the cause of many malfunctions of the logistics chain and high additional costs for import and export.
- The Doing Business Report of the World Bank regularly points to excessive transit times for goods in port enclosures.
- The government became aware of these delays and engaged in a partnership with an operator for the construction of a port in the central region. This 7-year project will be delivered in part at the end of 2020.
- The Algerian maritime code, which distinguishes between public service and commercial activities, theoretically authorizes the privatization of port management.



Opportunities opened by the Trans-Saharan Highway project

- The Trans-Saharan Highway (RTS) project plans to link Lagos (Nigeria) to Algerian ports, with a total length of 9400 Kms
- A Liaison Committee bringing together the six countries concerned (Algeria, Mali, Niger, Nigeria, Chad and Tunisia) follows its realization
- Algeria, Tunisia and Nigeria have completed their sections. The others benefit from international funding mobilized by the AfDB and are expected to be completed in three years.
- The completion of the project is likely to improve access for many African countries and increased trade between the Maghreb and Africa
- It should be noted that an optical fiber installation project backed by the RTS is still in progress.



HEALTH



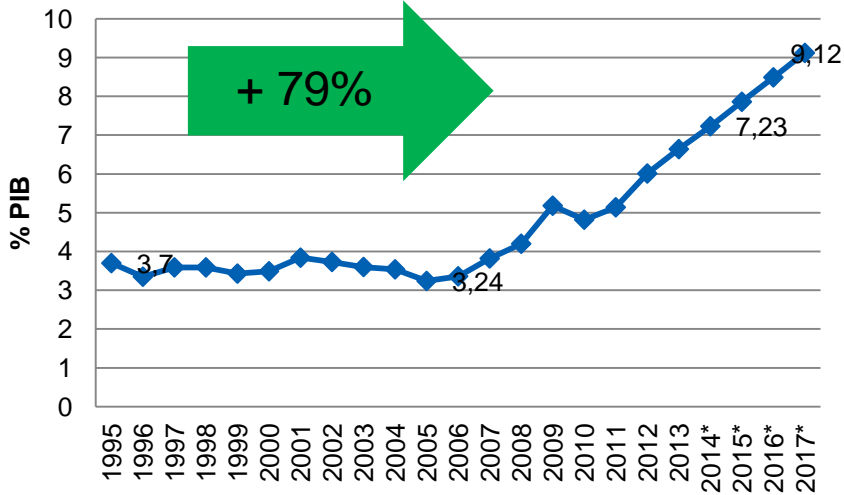
Health

- Algeria has one of the best healthcare coverage in Africa.
- Algeria will continue to play a important role in the modernization of the health system over the coming years. In addition, we note the Algeria has become Africa's largest pharmaceutical market in 2014, after surpassing South Africa.
- Pharmaceutical values and volumes will continue to be boosted by various healthcare modernization programs. The government has indicated its commitment to the improvement of its population's health, outlining a programme through to 2025. This situation will provide substantial opportunities to foreign players - most of which operate in the country through imports or local partnerships - as well as stronger domestic companies, which will be well placed to respond to increased demand for generic products.

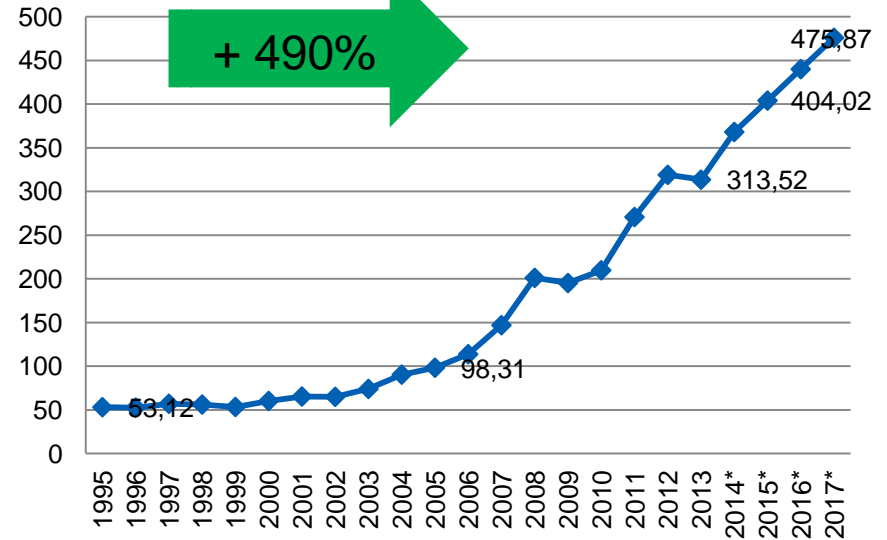


Health

Health care spending in the private and public sectors, in relation to GDP



Annual health spending per capita in US \$



Source: World Bank



Health

	Algeria	Morocco	Tunisia	Middle East and North Africa
Health expenditure per capita	313	189	309	259
Prevalence rate of diabetes	7,3%	7,9%	9,4%	9,2%
Total Health expenditure (%GDP)	6,6%	6%	7,1%	5,97%
Life expectancy at birth	71	71	74	70
Number of doctors per 1,000 inhabitants	1,21	0,6	1,2	1,48

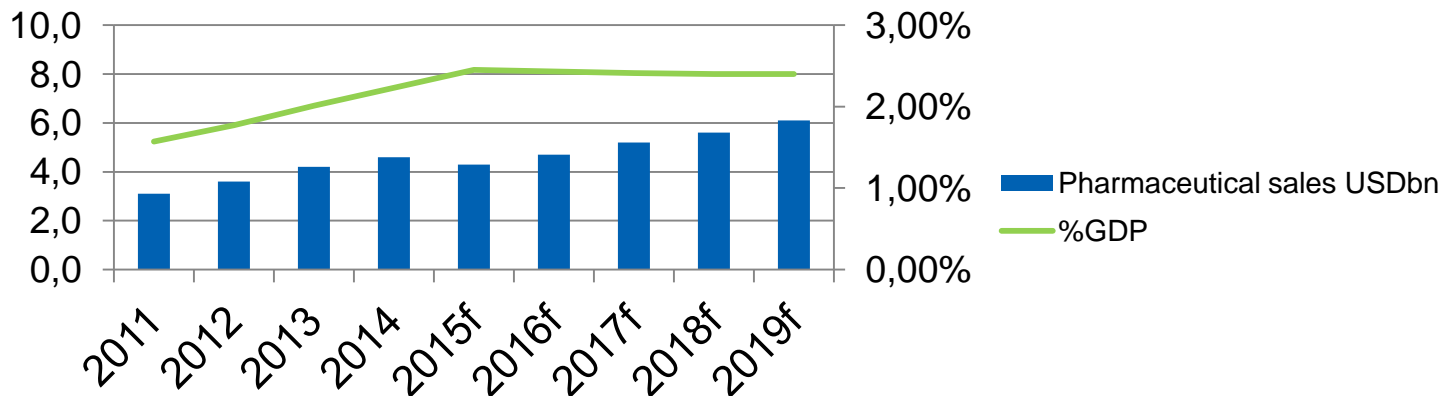
- One of the best healthcare in Africa.
- Free national healthcare system.
- To modernize the healthcare system, the government planned to build 172 hospitals, 45 specialized health centers, 377 clinics and 1,000 treatment rooms.(source BMI)

Source: World Bank



Potential of the pharmaceutical market (rapport BMI)

- Largest pharmaceutical market in Africa with **\$4,64bn.**
- Strong political will to develop the sector in Algeria:
 - Prohibition in 2011 of the importation of drugs that are produced locally, officials expect to reach 70% of local production against 30% today.
- Market in **strong growth** with an average of **10% per year.**



Local production of drugs

The market share of local drug production increased from 25% in 2008 to 47% at the end of 2016

The development of local production relies on effective protection of the internal market, against the competition of imports

Between 2008 and 2016, the average annual growth rate of production and the global market have been 18%

	2008	2011	2014	2015	2016
Manufactured drugs M.US\$	473	1 042	1 388	1 458	1 770
Imported drugs MUS\$	1 382	1 671	1 937	1 752	2 020
Total Market	1 855	2 713	3 325	3 210	3 790
Local manufacturing share (%)	25%	38%	42%	45%	47%

Source: Ministry of Health- DGPES

CAR MARKET



Local market of cars

For a long time, the local market has been largely dominated by the import sector. Excluding the public company SNVI, which produced a limited range of heavy vehicles, no manufacturer entered the market until 2014

Between 2005 and 2015, the market was supplied with nearly 600 000 vehicles / year by some 40 manufacturers represented by local dealers

	2012	2013	2014	2015	2016
Total imports (millions USD)	7 739	7 772	6 981	4 886	3 487
Imports from Japan (millions USD)	470	518	346	152	84
Japan's share	6.1%	6.7%	5.0%	3.1%	2.4%

Source : CCI - COMTRADE

Encouragement of local production

- Following the financial crisis that hit the country from 2014, the government made the decision to strongly restrict imports, by instituting import licenses from January 2016
- Vehicle import bill was the most important item that was the first targeted by the restrictive policy applied in 2016
- This will have been reduced significantly with a drop of more than 55% between 2013 and 2017
- In 2017, specifications are put in place by the Ministry of Industry, which subordinates the import to a local industrialization project, with integration objectives set at 40% at the end of the fifth year.

Questions and Contact

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