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ALGERIA:

fighting with neo-liberalist reforms

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Countries with only one economic sector developed, such as the oil one, are very vulnerable to economy shifts and face many problems when the oil prices fall. Algeria could not be the exception to the rule. With the oil prices slumping during the past two years, the Algerian economy has had to face a budget crisis as hydrocarbons make up roughly 60% of the state income, representing 40% of the Algerian GDP and 90% of its export earnings.[1] The Dinar has depreciated, all the while expenses on daily needs have risen for the Algerian people who are once again demonstrating on the streets. What are the Algerian regime's next moves? How will the Algerian people react to austerity?

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The Algerian state had traditionally dominated the national economy, in part because of its socialist-based state. During the past 20 years or so, the regime not only managed to easily avoid the 2011 Arab revolts but more or less established and legitimised itself through oil money. In times of social unrest, Bouteflika's regime would promise salary increases, welfare and subsidies, keeping the Algerian people poised. This does not seem to be the case anymore. The inability of the state to provide social security, governmental jobs in any sector – the Algerian state has been a major job provider all these years - in contrast with the advent of a blooming, young middle class, has set the country on fire.

The country was an important hydrocarbon supplier for Europe and enjoyed great economic development during the previous years. However, Algeria did not develop industries other than the state-driven hydrocarbon one. Following 2014, when oil price slumped from US$100 to US$40 a barrel in 2016, the national economy declined and lost its ability to rely on the energy revenues. The heavy regulated hydrocarbon industry now struggles to provide the state with the necessary funding. Furthermore, the industry suffers also from a lack of infrastructures as well as from heavy corruption, making the country unapproachable for foreign investment. The governmental deficit has effectively doubled in merely the span of a year.[2]

Let's be honest though. Algeria is not in danger. Not yet at least. The MENA region has more problematic and instable countries at this point of history. Nevertheless, Algeria faces an economic dysfunction that could eventually turn into a very dangerous one within the coming years as things are getting tougher. In a country where everything – the GDP included - increased, a slower development rate, combined with the dependence on the falling petrochemical industry and foreign imports, poses questions on its future sustainability. President Bouteflika's regime faces the dilemma of the so-called economic development: unpopular austerity measures. While Algeria's foreign exchange reserves decrease dramatically, and despite governmental efforts to remedy the situation by passing new laws to control imports, the trade balance remains far from a healthy one. A significant number of foreign organisations such as the International Monetary Fund, as well as Algerian entrepreneurs, call for a neoliberal shift within the Algerian economy.[3] As the regime started a demilitarisation process, Bouteflika searched for another source of legitimacy: money flows. His brother Said gathered around him a new economic elite; namely, businessmen with opportunistic and profitable relations with the state decision-makers, as well as foreign investors.[4] With Bouteflika's serious illness and low popularity, this new economic elite seems to have a heavy hand on the Algerian economy.

The government hesitates to take big steps for transforming the economy, although it did proceed to some changes. When it comes to privatization, it allowed private sales up to 66% in state-owned companies, and also opened the door for their private ownership during 2016.[5] Parallelly, the law for private investment was loosened regarding taxes. Still, the law continues to pose great fetters for investment, whilst its contribution to the GDP is considered a minor one, partly because these changes should have been implemented long ago while the economy was still blooming. What is more, the Algerian opposition, as well as trade unions, are opposing this called "sell-off" of the country to foreign investors.

When it comes to the state's earnings on the other hand, the government adopted a new fiscal budget that included, amongst others, an increase in value-added taxes by 2%, new income taxes, but also tax increases to daily expenses such as electricity, alcohol, tobacco and oil.[6] Not to mention that after the depreciation of the Dinar and the trade imbalance, the prices of imported goods have already skyrocketed. Last but not least, subsidies on fuel were cut short. When it comes to oil especially, reforms serve one more reason: to cut corners on oil consumption since oil reserves will soon only be able to cover domestic needs.

Austerity measures were considered essential: state spending has also been cut off by 1.3% in 2016.[7] For example, the construction of infrastructure such as university hospitals were paused. As for governmental jobs, these have been put on hold as well, creating a situation that will eventually lead to even bigger numbers of unemployment,[8] which is already over 11%. Nevertheless, things are about to get worse: the government plans on firing 40% of its civil servants, in an effort to minimize state expenses.[9] In any case, the country has been suffering from high unemployment rates in its modern history, besides a hopeful declination in 2014. In order for the problem of chronic unemployment to be tackled head on and for jobs to be created, the Algerian economy has no other choice but to promote private investments that could absorb the millions of young educated citizens below the age of 25.[10]

Behind this neoliberal shift in the Algerian economy lies the economic elite that has recently gathered around the government. Members of the economic fora of the country are trying to attract investors and initiatives for northern Africa. Nevertheless, researchers even doubt that these economy alterations would finally take place as we head towards new elections next May.[11] Besides the common assumption that the Algerian elections are traditionally rigged, austerity measures have never been a popular reform in any country and Bouteflika's regime cannot take this risk. The aspirations of the "governmental" businessmen could crash on political implications that the pre-electoral period could cause.

Indeed, the Algerian middle and working class seem rather unhappy with the reforms that affect their purchasing power. The Algerian people - 35% of them live below the poverty line-[12] have to bear the brunt caused by inflation and taxes, with the existing subsidies not equally nor fairly distributed. Because of corruption, welfare goes to the people with connections or influence. Therefore, for a year now, protests on the streets of large cities are calling for decreases in prices, jobs and demand better living conditions. The state, unable to use the old tool of bargaining welfare subsidies, is getting more and more oppressive, prosecuting people for participating in demonstrations.[13] Protesters on the other hand, cannot remain silent anymore on the state's corruption and inefficiency, as they partially did before the economic crisis.

There are two looming future outcomes: either the Algerian government will face the unrest with the traditional propaganda and more repression, or it will postpone sine die the changes needed. Last year, the state while searching for non-austerity measures, borrowed €900 million from the African Development Bank in order to invest in the non-hydrocarbon industry.[14] At the same time, it pushed other OPEC countries to limit their oil production from 33,394 million barrels per day to 33 million, in order to affect the oil price fall.[15] Saudi Arabia and Iran were positive towards this direction, as well as Russian President Vladimir Putin, and finally found themselves in agreement. Nevertheless, the USA profited by increasing their production, effectively causing zero alteration to international oil prices. As a result, Saudi Arabia undermined the deal by increasing its production as well, making it a foregone conclusion that the deal will not be renewed for another six-month period. Therefore, a solution through OPEC does not seem attainable for Algeria at this juncture, forcing the country to return to politically costly economy reforms.

Generally, Algeria's painful past haunts its citizens, who hesitate to revolt under the fear of a new civil war. The state is aware of that and often keeps the memory of the warfare situation of the 90's alive in order to achieve resiliency. However, the truth is that as the years go by, the new generations of Algerians have no memory of the bloody civil war and are more prone to unrest. Indeed, young Algerians also suffering from the higher unemployment rates, are the key players in the demonstrations through the use of social media. For the time being, the protesters do not question the regime itself, and stick to asking for lower prices in daily expenses, jobs and higher salaries. The Algerians feel that they are the ones who carry the weight for their failed governmental economic policy.

Algeria's economic and social future is at stake. The turning point for the country would be, first of all, its political future though. One should hold his breath for the national elections in May; even if the elections are easily won by Bouteflika's entourage, the political tensions will not stop. With a possible victory, the state will appear stronger and more decisive in favour of neoliberal economic policies. At the same time, the Algerian people could take their demonstrations to the next level, especially in the case of an unfair electoral outcome. The coming months will certainly be crucial ones for the Algerians and their country.

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