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Algeria and Libya Business Forecast Report Q1 2015

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Abstracts

Core Views

Algeria's economy will grow by 3.4% in real terms in 2015, with public spending continuing to support both household consumption and construction activity. We do not expect weaker oil prices to lead to a turnaround in the government's expansionary fiscal policy.

Macroeconomic vulnerabilities will increase in coming years, as the hydrocarbon sector continues its structural decline.

We expect Algeria to post its first current account deficits since 1998, remaining in the red for the rest of our ten-year forecast period. Although extensive foreign exchange reserves and an insignificant level of external debt should provide considerable buffers for the time being, the country's deteriorating trade dynamics presents a substantial risk to macroeconomic stability over the longer term.

The victory of Abdelaziz Bouteflika in Algeria's presidential election which took place in April 2014, will ensure a continuation of the political status quo. Protests by the opposition will not translate in immediate risks for the country. However, the lack of structural reform to the economy will contribute to increasing political challenges over the longer term.

Steps taken by President Abdelaziz Bouteflika to weaken the political influence of Algeria's powerful military intelligence services are positive for the country's internal stability. However, the regime will remain factionalised, particularly given Bouteflika's ailing health and the lack of consensus over potential successors.

Although the Algerian government has called for more foreign investment into the

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country, we expect FDI inflows to remain sparse in the years ahead. Foreign investors will remain deterred by numerous restrictions and Algeria's weak business climate, and we do not anticipate any comprehensive liberalisation of the economy.

Core Views

As a result of ongoing political violence, a significant degree of productive capacity (both physical and human) throughout the Libyan economy has been lost. Road, housing and utility infrastructure havesuffered considerable damage and will take years to repair under even the most stable of political environments. Moreover, given the importance of the hydrocarbon industry, damage to oil production and refining infrastructure will pose significant long-term challenges.

Libya's political climate will remain volatile through 2015, as competing militias compete for control over the country's vast resource wealth.

A lack of institutional capacity will hamper reconstruction efforts. Libya lacks the institutions necessary to carry out much-needed investment projects.

Low oil prices, coupled with protracted political instability, will result in minimal new investment in the oil sector over the coming years. The economy's growth potential will depend on three key variables: the speed and scale of oil production; the state of the underlying security environment; and the state of the utilities sector – in particular, the provision of a stable supply of electricity. Rapid growth rates in 2015 result from base effects, and mask key structural weaknesses in the country.

Major Forecast Changes

We project real GDP in Libya to fall by 16.7% in 2015 from our previous forecast of growth of 38.0% in 2015. Despite extremely low base effects – the economy will contract by 27.6% in 2014 – the economy will remain in a deep crisis.

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Fragile Federalised State To Emerge

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CHAPTER 2.3: 10 YEAR FORECAST - LIBYA

The Libyan Economy To 2023

Protracted Crisis As Political Instability Is Elevated

Relatively rapid real GDP growth rates in Libya over the coming decade will mask key structural weaknesses in the economy. The expansion will remain highly dependent on the energy sector, however elevated political instability will result in volatility in output. Efforts to diversify the economy away from crude and to improve private sector activity will be unsuccessful, ensuring unemployment levels stay elevated and investors shy away.

Table: Long-Term Macroeconomic Forecasts

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CHAPTER 3: BMI GLOBAL ASSUMPTIONS

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