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Abstracts

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North Africa: Moderate Contagion Risks

The four frontier markets of North Africa (Algeria, Libya, Morocco and Tunisia) certainly face elevated levels of political risk following the protests that began in Tunisia and spread across the Middle East and North Africa (MENA) region in early January. However, our core view is that regime change brought about by large-scale demonstrations, which succeeded in Tunisia, will not achieve the same result in the other North African frontier markets. While we see scope for civil unrest in Libya, Algeria, and Morocco, we believe each government has the tools to suppress protests, either through force or appeasement. Given our view that North African regimes (apart from Tunisia) will remain in power, we believe the economies of those countries will benefit from the relative stability of the status quo, while oil producers such as Libya and Algeria may actually benefit from the spike in oil prices brought about by an increase in risk aversion. Libya will lead the pack in terms of real growth between 2011 and 2015, averaging 5.1% per year, while Tunisia will lag the group with an average of just 3.9% over the same period.

While Libya shares many characteristics with Tunisia, we expect Tripoli to survive any onslaught attempts at regime change, boding well for overall stability and economic growth. Indeed, we acknowledge that the country faces large structural economic imbalances, rising food prices, and unrest in bordering countries, but we believe the strength of Libya’s security apparatus and the weakness of the opposition will prevent the ouster of Colonel Muammar Qadhafi. We see healthy rates of growth over the medium term, as Tripoli seeks to exploit the country’s energy resources, though our growth forecasts are below consensus, due to our relatively bearish outlook on oil production. Overall, we expect broad continuity in the country’s political and economic

policies.

The political situation in Tunisia following the ouster of president Zine el Abidine Ben Ali is very fragile, and whether or not the country is able to restore stability in 2011 will be the single most important factor affecting the long-term outlook on the country's economy.

Despite the fact that the regime was overthrown in mid-January, there are still violent clashes between security forces loyal to the old government and protestors. In addition, there are few, if any, prominent political candidates outside Ben Ali's political party, the Constitutional Democratic Rally, who have the experience and background to lead the country. In order to bring back order to Tunisia and rejuvenate the economy, a government will need to be formed quickly and work effectively to attract foreign direct investment.

Algeria's oil and gas resources will continue to be the lifeblood of the economy, and we expect real growth to accelerate from 4.2% in 2011 to 5.8% in 2015. Algiers' willingness to allow foreign investment into the energy sector, which drives not only overall economic growth but also fiscal revenues and exports, will be reinforced by its desire to prevent future demonstrations through subsidies on food products and the creation of more jobs. On the other hand, we note that the government's protectionist measures will be felt to some extent in the pharmaceutical and infrastructure sectors, and to a great extent in the telecoms sector.

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