KfW Research
Economics in Brief

Protests in Algeria also highlight the limitations of the economic model

No. 176, 5 April 2019

One Pager

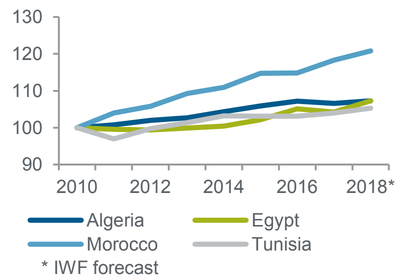
Author: Dr Tim Heinemann, phone +49 69 7431-4784, tim.heinemann@kfw.de

A second Arab Spring

The protest movement against the Algerian president and government has amplified the voices of those who evoke similarities to the dawn of the Arab Spring of 2011 and warn against renewed destabilisation of the region. This comparison comes to mind but has little justification. Unlike in 2011, the protests have been peaceful and President Bouteflika, after much hesitation, has now finally resigned. Another reason the protests have been without conflict is that there has hardly been any third party intervention. Turkey, Qatar and Saudi Arabia had attempted to influence developments during the uprising in 2011. Rather, current events appear to be nudging Algeria closer to developments in neighbouring countries. Reform-minded Tunisia and Morocco have welcomed this process.

Figure 1: GDP growth per capita

Index values 2010=100



Source: Reuters Eikon, own calculations

Stability, not revolution

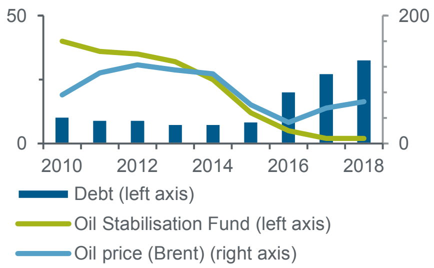
Although large Algerian cities saw protests during the Arab Spring, these were never supported by the wider public. A look at the country's history may explain this behaviour. Memories of the civil war of the 1990s made radical regime change unpopular in 2011. The fear of another civil war erupting was too great to join the protesters. The desire for stability and security remains strong, which also explains why current protests have been relatively calm. Whether this will continue depends not least on which stakeholders will make up the interim government and who will be on the reform commission.

Stability – at a cost

Unlike in Egypt and Tunisia, the government in 2011 succeeded in quickly defusing the tense social and economic situation. Thanks to the rapid rise in commodity prices (2011–2014), the country had sufficient financial resources to increase subsidies, e.g. for fuel, expand social housing construction and lift public sector wages. When the oil price fell after 2014, the status quo was secured with the aid of the Oil Stabilisation Fund. The option of financing further expenditure from the Fund has been depleted since 2017. Since then, economic stability has been financed by higher sovereign debt.

Figure 2: Oil price, Oil Stabilisation Fund, sovereign debt

Share in GDP (left axis) / USD (right axis)



Source: Reuters Eikon, own calculations

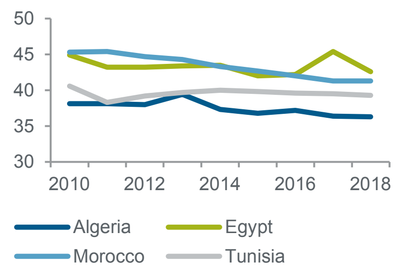
Despite the rapid rise, Algeria's debt is only half the regional average, standing at just under 33%. Because debt levels were rising, subsidies were reduced slightly in 2017 and taxes raised moderately in a bid to improve state revenue.

Limits of the economic model

The limitations to Algeria's economic development – and to its political model – are now becoming apparent. The main problem of the country – and the entire region – is labour market participation (especially of young people). It is North Africa's lowest. This situation is fuelling dissatisfaction with the government but the desire for political change continues to be the main focus of current protests.

Figure 3: Working-age population as a share of total population

In per cent



Source: ILO, own calculations

The regime change that has now unfolded offers an opportunity not just for political reform but also for economic reform. Algeria is better positioned for this than other countries in the region because it still has the ability to support structural reforms in the oil and gas sector and the diversification of its economy with investment and fiscal incentives. It is to be hoped that the interim government will seize this opportunity. The whole region would benefit. ■