

# BEST'S COUNTRY RISK REPORT

## Algeria CRT-5

August 22, 2018

**Region:** Middle East & North Africa

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Algeria is a CRT-5 country with a high level of economic risk and very high levels of political and financial system risk. Algeria's hydrocarbon-based economy is vulnerable to commodity price volatility and changes in global demand.
- GDP growth was 2.0% in 2017. GDP growth is forecasted at 3.0% for 2018, driven by improving commodity prices and high government spending. Medium-term GDP growth forecasts range from 2.0% to 3.0%.
- The map depicts countries in the region that A.M. Best evaluates for country risk. The region's countries have risk levels ranging from CRT-3 to CRT-5.



- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

## Regional Summary: Middle East & North Africa

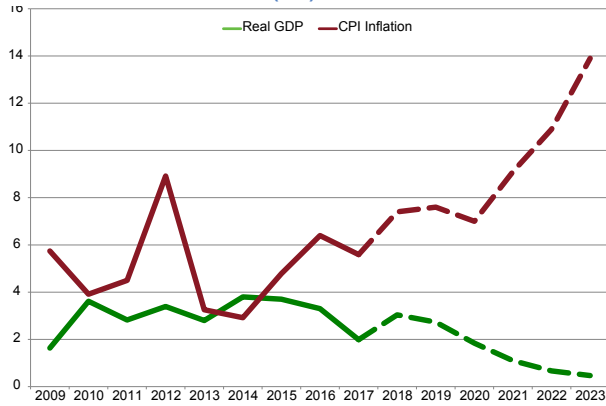
- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries financing large fiscal deficits through increased borrowing and draw downs of fiscal buffers.
- Economic growth for the region is estimated to increase in 2018 on strengthening global growth, a moderate rise in oil prices, easing fiscal adjustment, reforms to promote non-oil sector growth, and growing infrastructure investment.
- Fiscal consolidation and revenue generating programs implemented over the last few years continue, albeit at a slower pace. Revenue measures include the introduction of a value-added tax (January 2018) in Saudi Arabia and the United Arab Emirates, with other countries likely to implement similar measures by the end of the year. Improving the efficiency of public spending (via a bill that lowers the government wage bill, for example) on the expenditure side is also a priority.

Vital Statistics 2017		
Nominal GDP	USD bn	178.29
Population	mil	41.5
GDP Per Capita	USD	4,292
Real GDP Growth	%	2.0
Inflation Rate	%	5.6
United Nations Estimates		
Literacy Rate	%	80.2
Urbanization	%	71.9
Dependency Ratio	%	52.7
Life Expectancy	Years	77.0
Median Age	Years	28.1
Insurance Statistics		
Insurance Regulator	Direction de Assurances, under Ministry of Finance	
Premiums Written (Life)	USD mil	117
Premiums Written (Non-Life)	USD mil	1,099
Premiums Growth (2016 - 2017)	%	-2.8
Regional Comparison		
	Country Risk Tier	
Algeria	CRT-5	
Egypt	CRT-5	
Ghana	CRT-5	
Libya	CRT-5	
Morocco	CRT-4	
Tunisia	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



### Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

### Economic Risk: High

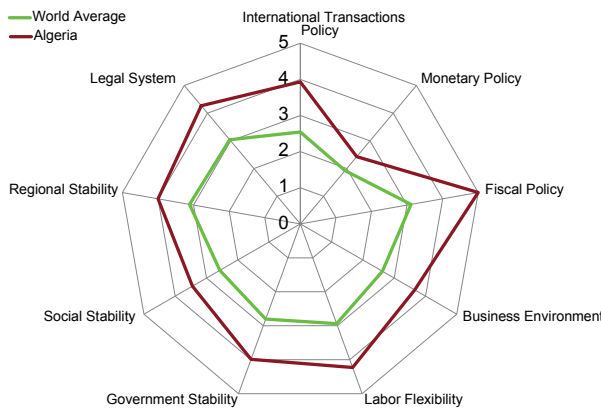
- The energy sector dominates Algeria's economy. It accounts for approximately 60% of government revenues and over 90% of export earnings.
- Levels of unemployment have increased, reflecting sluggish non-hydrocarbon growth. Unemployment rates are particularly high among women, the educated, and the youth demographics.
- The primary drivers of economic risk include a dependence on hydrocarbons for foreign currency, high unemployment rates, and a noncompetitive private sector.
- Algeria has made advancements in lowering poverty levels in the country. However, the costs of the underlying social programs will become unsustainable in a low commodity price environment.

### Political Risk: Very High

- President Abdelaziz Bouteflika has been in office since 1999. He won a fourth term in office, but whether he will be able to serve beyond his current term (which expires in 2019) is uncertain due to age and health issues.
- If Bouteflika does not run for president in 2019, there is no obvious candidate for the office. However, any candidate who gets the backing of the main ruling parties, the FLN and the RND, would very likely be difficult to defeat.
- The ruling elite has a lot of influence over politics and generally support candidates that do not put government stability—and the protection of their vested interests—at risk. The military also has significant influence in the political sphere.
- The country remains susceptible to political unrest and large-scale labor strikes owing to inadequate housing, job shortages, and insufficient utilities. The government has used generous social programs to minimize unrest.
- The government has put forth reform measures to improve private sector development by improving the business operating environment. Algeria currently ranks 166 out of 190 countries in the latest World Bank's Ease of Doing Business Survey. The country needs to improve its access to finance, raise levels of transparency, and increase the private sector's competitiveness.

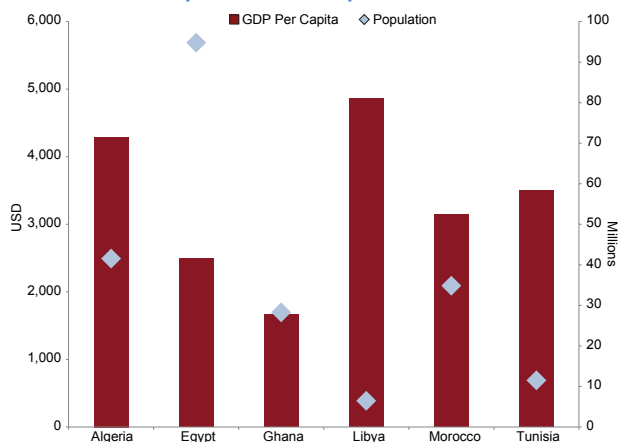
### Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Financial System Risk: Very High

- The insurance industry in Algeria is regulated by the Direction des Assurances, which falls under the Treasury of the Ministry of Finance.
- Algeria has an underdeveloped banking sector, which has limited the country's ability to provide the domestic lending needed to promote the private sector.
- According to the IMF, Algeria's banking system remains profitable and adequately capitalized. However, non-performing loans have increased slightly. Banking sector liquidity has also declined, but remains sufficient to cover half of the banks' short term liabilities.