ALGERIA:
Automotive
December 2016

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MAP OF ALGERIA

Source : PRS Group

EXECUTIVE SUMMARY

Since the early 2000s development of domestic industry and manufacturing operations have been at the core of wider economic diversification efforts. Algeria's aging passenger cars and low ownership penetration present significant potential opportunities within the domestic market. Algeria's automotive industry has witnessed uneven growth in recent years, with the contribution of the automotive sector to domestic GDP estimated at around 2.5%. Recent growth can be attributed to several key reforms within the areas of taxation, access to land and bureaucracy that have an overlying goal of furthering horizontal and vertical diversification of Algerian industry. Algeria's automotive market is the second largest in Africa behind South Arica, with imports reaching 439,600 vehicles valued at US$ 6.1 bn in 2014.

Algeria's automotive market has experienced exceptional yet uneven growth over the past five years, driven by the proliferation of credit facilities delivered by the National Agency for Youth Employment and significant salary raises within the Algerian public sector, along with recent changes to automotive legislation that has seen demand fall. Car imports peaked in 2012 with 600,000 units imported, although the recent implementation of safety standards in April 2015 and a tax on new vehicles that saw prices rise by 30% in July 2015 have resulted in diminishing demand over the past year. Indeed, other regulations including a ban on cash payments when purchasing a vehicle and new licensing legislation regarding multi-brand importers is expected to reduce demand by an estimated 30% from 300,000 units in 2015 to 210,000 units in 2016.

In Algeria, there are two state firms charged with overseeing the vehicle sector: the National Society of Industrial Vehicles (Société Nationale de Véhicules Industriels or SNVI) and the National Investment Fund (Fonds National d'Investissement, FNI), which is responsible for financing of certain projects. Though Algeria's economy is known for being closed and restrictive, the government has undertaken reforms in recent years to bolster the automobile industry. In 2014, the government put forth a new Finance Law that encourages local investment on a smaller scale. In terms of the automotive industry, the law stipulates that all authorised car dealerships must invest in some variety of industrial or service activity directly related to the automotive sector between 2014 and 2017, otherwise they risk losing their authorisation. Additionally, a recent uptick in development activities will see the creation of additional assembly and manufacturing operations within the country in the near term as the government attempts to cement Algeria's status as a regional auto manufacturing hub.

While the Algerian automobile industry is growing in a positive direction, the sector does face several important obstacles. Algeria does not have a well-developed industrial chain, resulting in a lack of everything from maintenance service providers, to spare parts, to component manufactures, to specialised office tasks, within the country. Other obstacles facing the industry include the implementation of recent legislation governing car purchases, along with a growing government budget deficit that could result in a reduction in public sector salaries, a move that would limit demand in the near-term. Despite this, the outlook domestic automotive sector remains somewhat promising. Supported by sustained hydrocarbon revenues, the government has singled out industrial development as a key pillar of economic diversification efforts, suggesting that the automotive sector will continue to be the focus of both private and public sector investment. Additionally, interest by international manufacturers is expected to support sector expansion as major names such as Renault and Peugeot work to establish domestic assembly and production facilities.

The Middle East and North Africa (MENA) is one of the fastest growing regions in terms of demand, consumption and growth in the automotive industry. The overall MENA market reached over 2.5 mn unit sales in 2015, with Saudi Arabia, the United Arab Emirates and Egypt accounting for 58% of the market. Analysts anticipate that the MENA automotive market will grow by around 50% between the 2013-2018 period.

INDUSTRY STRUCTURE

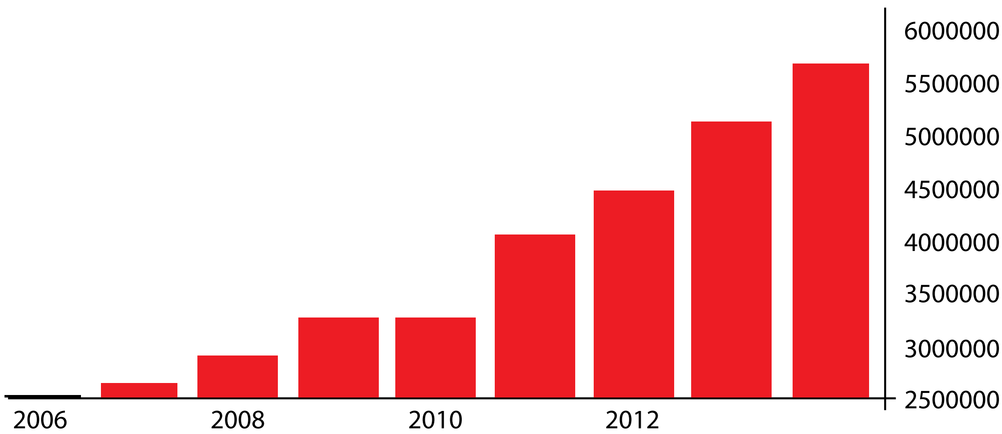
The automotive industry encompasses a variety of activities, products and services that together enable the design, development, manufacturing, distribution, marketing, and selling of motor vehicles. The automotive industry does not include the maintenance or repair of vehicles. The industry continues to be one of the top revenue-generating industries worldwide. The automotive industry operates via a network of international development, manufacturing and assembly of vehicles, with a combination of state- and privately-owned operations. Subsidies, trade tariffs and inflation are important factors in the health and profitability of the automotive industry.

Algeria is considered an important market in the MENA region, and it is the second-largest car market in Africa. In Algeria, there are two state firms charged with the vehicle sector, the National Society of Industrial Vehicles (Société Nationale de Véhicules Industriels or SNVI) and the National Investment Fund (Fonds National d'Investissement, FNI), which is responsible for financing of certain projects.

MARKET OVERVIEW

Algeria is Africa's second-largest automobile market, and the automotive industry has shown positive, albeit uneven, growth over the past several years. Aside from a slowdown in 2013 and 2014, automotive sales have boomed in recent years. Indeed, after a historical high of more than 600,000 cars imported in 2012, the Algerian automotive market experienced a progressive slowdown beginning in 2013 and has yet to fully recover. This was in part due to consumer spending money on other household expenditures, including housing, which has seen a rise in prices. Furthermore, recent legislation placing restrictions on purchasing new vehicles and the implementation of associated taxes is expected to see demand fall further in 2016 to under 300,000 units, down from 439,600 units in 2014.

Algeria Consumer Spending (DZD mn)



Source : Trading Economics

There are two state industrial vehicle firms, the National Society of Industrial Vehicles (Société Nationale de Véhicules Industriels or SNVI) and the National Investment Fund (Fonds National d'Investissement, FNI). French Renault is the leading automobile brand with, 26.9% share of the market in 2014.

Algerian Vehicle Registrations by Brand

Brand	Registrations
Renault	49,000
Peugeot	48,000
Dacia	24,000
Hyundai	20,000
Toyota	20,000
Volkswagen	17,000
Seat	14,000
Chevrolet	11,000
Citroen	9,000

Source : Inovev

Algeria Auto Market Structure

	Low Cost (EUR '000)	Mid-Range	High End
Price Range	8-11	11-20	20 and up
Brands	Dacia, Renault	VW, Skoda, Seat, PSA, Hyundai	Audi, Mercedes, BMW, Range Rover

Source : SMMT

Although Algeria's car market has traditionally been exclusively supplied by imports, 2014 saw the initial release of the first car made in Algeria. The domestically produced unit is a Renault model manufactured by a Franco-Algerian company known as Renault Algérie Production. Sales hit 14,000 units in 2014, with production estimated to reach 20,000 vehicles in 2015. Total production at the plant will reach 75,000 vehicles by 2019, and as part of contractual terms, Renault Algérie will raise its local content rate from 16% to 42% by subcontracting for upholstery, wiring and window gates locally.

After the successful inauguration of the Renault plant in 2014, the Algerian government approved a project for the creation of a PSA plant with an investment of US$ 100 mn. Situated near the Renault plant, the PSA factory will produce three car models: the Peugeot 301, the Peugeot 208 and the Citröen C Elysée. Additionally, Italian manufacturer Iveco has also shown interest in the development of a truck assembly plant in the new industrial zone Bouira, located around 100 km south of Algiers, with negotiations underway for a joint venture agreement that will see around 1,500 vehicles assembled a year, with around 20% of parts to be manufactured locally.

While the Algerian government has taken proactive steps over the past decade to invite private sector participation within key economic segments, the country's business environment remains a potential threat to sector development. Mired by corruption, red tape and bureaucratic inefficiencies, Algeria ranked 163 out of 189 national economies in the World Bank's 2017 Doing Business Report. Despite recent moves by the government to improve the business climate, including streamlining the construction permit process and reducing the tax on professional activities, Algeria still scored particularly poorly when it comes to starting a business (145), getting credit (174), registering property (161), protecting minority investors (174) and trading across borders (178). In order for the sector to attract increasing levels of foreign investment and participation the government will need to priortise the implementation of pro-business reforms in the near-term.

Though Algeria's economy is known for being closed and restrictive, the government has undertaken reforms in recent years to bolster the automobile industry. In 2014, the government put forth a new Finance Law that encourages local investment on a smaller scale. In terms of the automotive industry, the law stipulates that all authorised car dealerships must invest in some variety of industrial or service activity directly related to the automotive sector between 2014 and 2017, otherwise they risk losing their authorisation.

The government is committed to boosting the automotive sector, and has identified it as a key market in diversifying the economy. In order to achieve this, the government has identified key priorities, including improving quality, boosting competitiveness, and creating a network of subcontractors. The country's main goal is to reach a local content integration rate of around 30% over the next five years. This can only be achieved through the establishment of large-scale automotive clusters that gather a number of small and medium enterprises (SMEs) around bigger corporations, an attractive investment opportunity for foreign companies.

Algeria has also had a problem with the number of foreign cars that have come into the country. In an attempt to stop the flow of foreign vehicle imports, the government added a stipulation to the new law that restricts foreign imports to only those vehicles or rolling engines that are meant for direct sale in dealers' distribution networks. This works to end the practice of dealers importing vehicles on behalf of a third-party vendor and limit sales channels to officially authorised platforms.

Additional legislation aimed at impacting the domestic automotive sector was introduced in 2015. In April 2015, the government introduced the implementation of new safety standards in line with European Union (EU) standards. Under the recent policy vehicle importers and distributors will have to apply for authorisation by the Ministry of Industry, which is granted based on a series of requirements. While the policy is aimed at increasing road safety, it also has curbed car imports significantly over the past year as many importers scramble to attain authorisation. Additionally, in July 2015, the government enacted a tax on all new vehicles, a move that has pushed car prices up by 30%. Other moves that have further reduced demand in 2016 include a ban on cash payments when purchasing a vehicle and a new licensing policy aimed at multi-brand importers. While recent legislation is expected to bring the industry in line with international standards and increase competition, demand for vehicle imports is expected to decline in the near-term as vehicle prices soar and importers strive to balance the costs and activities related to compliance with potential future revenue.

Overall, the outlook for the Algerian automotive sector remains mixed. The sector continues to be supported by government reform and investment initiatives, while increasing interest from foreign companies could see the rapid development of manufacturing and assembly operations within the country in the near term, positioning Algeria as a regional auto manufacturing hub. Indeed, the country's competitive labour costs and strategic location offers European manufacturers the opportunity to extend their reach into the African market. Additionally, low levels of car ownership and the prevalence of old cars on Algerian roadways are factors that will contribute to sector expansion in the medium and long term.

While these factors remain promising, a number of challenges still face the sector. Although the recent government reforms passed are aimed at bringing the industry in line with global standards and increasing competition, they have had a crushing downward effect on demand. As the price of passenger vehicles has soared over 30% within the past year, it is expected demand will remain muted in the near-term. The government will need to carefully re-examine the impact recent legislation has had on the industry and make changes as needed. Additionally, the country's business environment remains a major stopping block to sector growth. While the government has shown an increasing interest in partnering with private sector companies to set up domestic manufacturing operations, foreign investment levels will remain far below their potential due to the country's difficult and corrupt business environment. Finally, as country's such as Egypt and Iran continue to ramp up their domestic automotive operations, Algeria will be faced with increasing competition from these larger and more developed markets.

Assembly

Over the past several years, Algeria has channelled finances into funding plants that will service the domestic market. The country is committed to promoting the consumption of locally constructed goods, and recent government initiatives have attracted the interest of major automakers, resulting in an uptick in development agreements. In 2012, Algeria joined a joint venture with Renault for the French company to build a production city in Oran in the country's northern region. As Algeria has laws in place that limit the percentage a foreign entity can hold, the production unit of this facility is 49% owned by Renault. The majority share is split between the Société Nationale de Véhicules Industriels (SNVI) with 34%, and the National Investment Fund (FNI) with 17%.

With production commencing in 2014, the factory has produced around 20,000 units to date, with operations recently expanded in 2015 to boost production to 25,000 units annually. In the coming years Renault plans to add a third shift at the factory, boosting production to 75,000 units annually by 2019. It is important to note that Algeria's restrictive agreement with Renault barred other manufacturers from building automobile factories until 2016. Indeed, rising interest by companies looking to set up domestic assembly operations have resulted in a number of development initiatives.

Chinese-owned First Auto Works (FAW), for example, is already planning to build an assembly plant in Algeria, the second after the Renault plan. The factory will have an initial output of 10,000 cars a year; the company's goal is for the factory to produce 30,000 cars a year. The plant will make cars for the Algerian market, as well as other North African markets, and for export to Southern Europe with an initial investment of US$ 61.9 mn. The plant is a joint venture between FAW subsidiary FAW-African Investment Company and the Algeria Arco Fina Group. The joint venture will also build a sales network in Algeria. While no completion date has been set, development is slated to commence in 2016.

After the successful inauguration of the Renault plant in 2014, in December 2015 the Algerian government approved a project that will see the creation of a PSA plant with an investment of US$ 100 mn. Situated near the Renault plant, the PSA factory will produce three car models: the Peugeot 301, the Peugeot 208 and the Citröen C Elysée. Production is slated to begin in 2018/19 and plant capacity will start at 25,000 units annually and grow to 150,000 units annually by 2025. In addition to the production and assembly plant the site will include automotive equipment manufacturers and replacement parts manufacturers.

Italian manufacturer Iveco has also shown interest in the development of a US$ 37.1 mn truck assembly plant in the new industrial zone Bouira, located around 100 km south of Algiers, with negotiations underway for a joint venture agreement that will see around 1,500 vehicles assembled a year initially, with production scalable to 8,000 units by 2024 and around 20% of parts to be manufactured locally. Production at the factory is slated to commence by 2016 year-end.

Other recent deals include a November 2016 contract signed by the Volkswagen Group for a vehicle assembly plant in Algeria's north western city of Relizane. With construction commencing in 2017, once complete, the facility will have a production capacity of 100,000 vehicles annually. Additionally, a 2016 agreement with top Chinese automaker Anhui Jiamghuai Automobile Company will see the development of a light-load truck assembly plant, the country's first operation in Africa. With a total investment of US$ 128 mn, the plant will have a capacity of 10,000 light trucks annually once the first phase of construction is complete. Further agreements are expected to flow through the pipeline in coming years as the Ministry of Industry and Mines continue talks with major players such as Nissan, Fiat and Hyundai.

Top 10 Algerian Auto Products

Logan
Hilux
Picanto
Accent
208
Polo
Ibiza
Kangaroo VU
Clio 4
Symbol

Source : SMMT

Commercial Vehicle Market

The country's commercial vehicle market is comprised of trucks, buses and vans. According to analysts, the market is expected to grow over at a healthy compound annual growth rate (CAGR) of 7.5% during 2015-2020. There are several important factors propelling growth in the Algerian market, including a rising demand for heavy duty trucks from construction and mining sectors, a growing tourism sector (particularly from other MENA countries) leading to a surge in demand for intercity buses, and continuing improvements in the country's transport infrastructure.

Vans are the most dominant unit in the commercial vehicle market, and are expected to remain so through 2020. However, in terms of growth, it's the heavy-duty truck segment that is forecast to demonstrate the highest growth amongst all the truck segments over the next five years. This is due to rising construction and building activities that the Algerian government is put in place. The country is also cognisant of the fact that it must generally upgrade its old truck feet.

Maintenance and Spare Parts

Algeria does not have a particularly well-developed maintenance or spare part market. Indeed, one of the main problems facing the country's automobile industry is the lack of a well-developed industrial value chain. In order to remedy this, the government has announced it will launch a new programme that will see the construction of nearly fifty industrial zones across the country. These zones will include the space for SMEs to set up maintenance and spare part shops.

In the meantime, some progress has been made when it comes to supply chain development. In early 2016, Mercedes Benz announced plans to establish a spare parts manufacturing centre in the country's southern region. Renault is also in the process of conducting a feasibility study for the construction of a spare parts manufacturing facility in Constantine in the country's north east. Renault Algeria is also taking steps to raise its local content rate from 16% to 42% by 2019. Renault will subcontract parts such as upholstery, wiring and window gates to the local market, and, in late 2015, the company signed agreements with three local subcontractors for the production of plastic injection parts, cables and seats.

Passenger Car Market

As demand for individual vehicles has soared, passenger car sales have subsequently increased across Algeria. In 2014, the country imported US$ 6.1 bn worth of vehicles. In early 2014, the Algerian government reinstated consumer credit facilities, which has further allowed citizens to purchase cars more easily. French manufacturers Peugeot and Renault lead the sector with 17.5% market share and sales of just over 75,000 vehicles each, followed by Renault's subsidiary Dacia (8.8%), South Korea's Hyundai (7.8%) and Japan's Toyota (7.6%). In terms of demand, premium hatchbacks such as the Seat Ibiza and Peugot 207 dominate the market, while entry-level sedans such as the Renault/Dacia Logan and Hyundai Accent continue to capture a growing market share. Analysts project that passenger car sales will expand at a compound annual growth rate (CAGR) of 2.1% through 2020 to reach 407,000 units.

The Algerian government has recently passed reforms aimed at increasing the safety of the passenger car market. Imported cars must be equipped with safety measures such as airbags, cruise control, anti-lock wheel ABS, and electronic stability control. Many foreign car companies have expressed anger over these new rules. However, the Algerian government seems committed to increasing the domestic market - the new Renault plant, which will see up to 75,000 new cars built each year by 2019, will inevitably be cheaper for Algerians than imported cars.

Tyres

Algeria's tyre market is strong, and expected to grow positively over the next few years, at a CAGR of 6% through 2020. The tyre market has been growing due to an increasing demand for automobiles, particularly passenger cars. Indeed, the passenger car tyre market is the dominant segment in the country's tire market, with sales increasing at a CAGR of 12% during 2010-2014. Analysts are confident that this represents a strong growth in the demand for passenger car replacement tyres over the next few years.

After the passenger car market, tyres are sold for the commercial vehicle and two-wheeler segments. The northern region of the country comprising Algiers and Oran, accounted for majority of the overall tyre demand in the country, and the region is expected to continue its market dominance over the forecast period as well; this is partially due to a population concentration, and the number of factories and assembly plants that are located in these two cities.

Because Algeria does not have the proper automobile production facilities (though this could change with the introduction of free economic zones), the market is wholly dominated by the replacement tyre segment, which is import-dependent. Chinese tyre brands dominate the market, followed by tyres from Japan, South Korea, and Indonesia.

Imports

Due to limited domestic auto manufacturing operations, Algeria remains a net importer of vehicles, with around 300,000 units imported in 2015, mainly from Europe and China. In an effort to simulate local production, the government introduced import license restrictions that came into effect in January 2015. Under the restrictions, the government set a 152,000-unit import quota that covers both passenger and transport vehicles. The new licensing regulations have had a strong downward effect on the market in 2016, with imports down by 68% in the first seven months of 2016. While it remains to be seen what effect these restrictions will have on the market into 2017, imports are expected to continue on their decline in the medium-term as domestic production operations continue to expand.

KEY PLAYERS

Groupe Renault

Groupe Renault is a French multinational automobile manufacturer established in 1899. The company produces both passenger and commercial vehicles including cars, trucks, vans, tractors and buses. For the past eight years, French Renault has been the leading brand in the Algerian market, with nearly 18% of the market and 74,000 vehicles sold in 2014. In 2012, Renault signed a memorandum of understanding (MoU) with the Algerian government to progressively build up the Algerian automotive industry. In 2013, the Renault Algerie Production Company was founded, and that same year, construction began on an assembly plant in the northern city of Oran; the plant was inaugurated in 2014. In its first year, 25,000 cars were produced and nearly 1,000 jobs were created. Renault plans to increase the number of cars made to 75,000 over the next several years.

Peugeot

Peugot is a French car manufacturer headquartered in Paris. In June 2015, French car company Peugeot announced that it was in advanced talks with the Algerian government to open up a manufacturing plant in the country. Though the plant is still in its early stages (restricted by Algeria's MoU with Renault), officials have stated that it will be built in the West of the country, and will produce three Peugeot models: the Citroën C-Elysee, the Peugeot 301 and the Peugeot 208.

Dacia

A subsidiary of Renault, Dacia was established in Algeria in 2005, and celebrated its ten-year anniversary in the country in September 2015. Dacia has been very successful in the country, selling over 250,000 units since it was first launched. The Duster model is the most widely sold SUV in the country; 25,000 units have been sold since this particular style was introduced on the market in 2010. Another popular car is the Logan, which represents 70% of all Dacia sales. In 2013, Dacia was the third most popular brand in the Algerian market, selling 37,290 units.

Hyundai

South Korean giant Hyundai represents 7.8% of the market share in Algeria. It is the fourth most popular automotive brand in the country. In September 2015, the company announced it would be launching a new model in Algeria, the cross utility vehicle called Creta, to be sold in early 2016. The same month, the company announced it would be launching a new showroom for its vehicles in the city of Hydra.

Cosidar

Established in 1979, Cosidar is a state-owned enterprise that deals with Algerian infrastructure projects. Parts of the company were owned by Danish enterprise Christiani & Nielsen and the Banque extérieure d'Algérie (BEA); in 2010, Cosidar was transferred to 100% national investment. The company is responsible for several important public transportation projects. They built the Metro d'Alger in 1989, and the East-West highway, which was completed in 2009.

First Auto Works (FAW)

Chinese-owned First Auto Works (FAW) is planning to build an assembly plant in Algeria. The factory will have an initial output of 10,000 cars a year; the company's goal is for the factory to produce 30,000 cars a year. The plant will make cars for the Algerian market, as well as other North African markets, and for export to Southern Europe. The plant is a joint venture between FAW subsidiary FAW-African Investment Company and the Algeria Arco Fina Group. The joint venture will also build a sales network in Algeria.

Toyota

Toyota Motor Corporation is a Japanese auto manufacturer headquartered in Toyota, Aichi, Japan. Toyota represents 7.6% of car sales in Algeria. The company has twelve different models that it sells across the country.

Société Nationale de Véhicules Industriels (SNVI)

Established in 1967, the SNVI is a state-owned public enterprise specializing in the construction and commercialization of heavy-duty industrial vehicles. The SNVI produces trucks, tractors, and buses (for public transportation usage). The latest available figures, from 2011, show that the company brought in 20 mn Libyan dinar and sold over 2,000 units. In 2015, the SNVI sold 650 public transportation buses to the Etablissement de Transport Urbain et Suburbain d'Alger. The company's most productive period was in the 1980s, when it was producing 6,000 vehicles a year; the SNVI has stated it would like to return to these production levels.

Mercedes-Benz

Mercedes-Benz Algeria is a wholly owned subsidiary of the German-owned Daimler AG. Daimler established the subsidiary in 2014, after the venture was created in July 2012. It is composed of three main shareholders, namely the National Defence Ministry (34%) and SNVI (17%). The second shareholder is represented by the Emirati investment fund "Aabar" (49%). Mercedes-Benz Algeria is headquartered in Tiaret.

ECONOMIC OVERVIEW

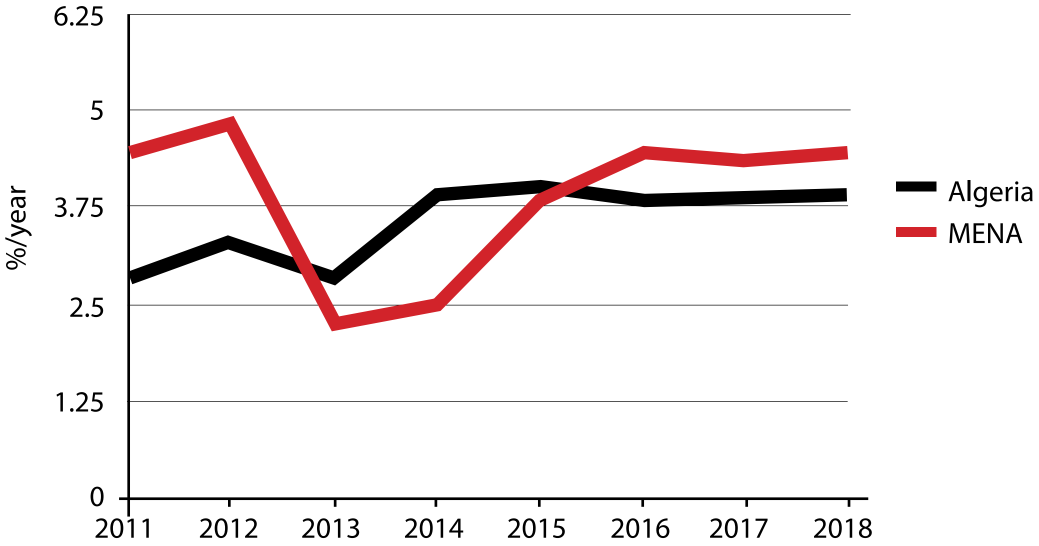
Economics forecasts

Subject Descriptor	Units	2014	2015	2016	2017	2018	2019
GDP, constant prices	% change	3.8	3.9	3.6	2.9	2.6	2.8
GDP, current prices	US dollars	213.5	166.8	168.3	178.4	184.2	189.3
GDP per capita, current prices	US dollars	5,458	4,174	4,129	4,295	4,351	4,393
Total investment	%, GDP	47.8	51.3	47.8	47.1	47.0	47.5
Inflation, average consumer prices	% change	2.9	4.8	5.9	4.8	4.3	4
Volume of imports of goods and services	% change	10.1	-7.1	-6.4	6.3	-5.9	-3.2
Volume of Imports of goods	% change	10.1	-7.1	-6.4	6.3	-5.9	-3.2
Volume of exports of goods and services	% change	0.3	5.4	3.0	-0.1	1.6	2.0
Volume of exports of goods	% change	0.5	1.2	2.2	0.5	1.7	2.0
Unemployment rate	%, total labour force	10.6	11.2	9.9	10.4	11.2	11.8
Population	Millions	39.1	30.0	40.8	41.5	42.3	43.1
General government structural balance	%, potential GDP	-7.3	-16.2	-12.9	-9.3	-7.7	-6.6
General government gross debt	%, GDP	8.0	9.1	13.0	17.1	23.8	29.1
Current account balance	%, GDP	-4.4	-16.5	-15.1	-13.2	-10.2	-8.2

Source: IMF

Algeria's economy grew by 3.9% in 2015, up from 3.8% the previous year, boosted by higher output in agricultural sector, according to official figures in July 2016. Hydrocarbon production increased slightly last year (0.4%), while non-hydrocarbon growth was steady. However the economy is heading for a pronounced slowdown in growth over the coming years but not a recession. Output will be depressed by weaker growth in government spending, lower consumer and business confidence, and the managed depreciation of the Algerian dinar that will weigh on economic activity. Algeria faces important challenges, with the large decline in oil prices expected to be sustained over the medium term. The outlook hinges on the strength of the policy response to the oil price shock. The 2016 Finance Bill approved in October 2015 envisages a 9% cut in expenditure.

GDP Growth



Source: IMF, World Economic Outlook database, September 2016

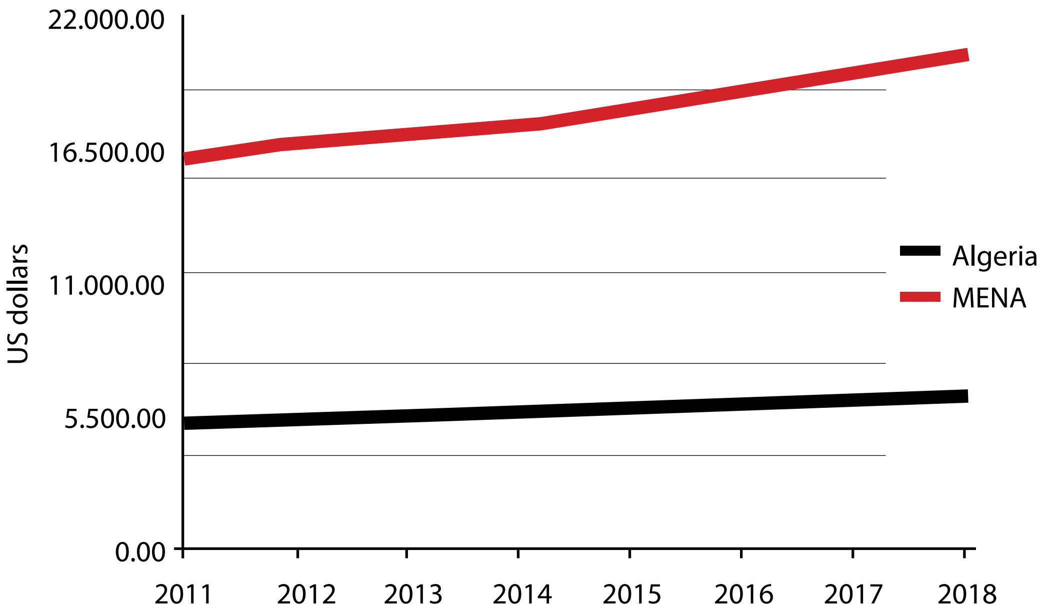
The markdowns in the growth forecasts highlight the need for the authorities to diversify the Algerian economy. Algeria's growth potential will depend on the size and speed of fiscal consolidation and the success and types of structural reforms. In its long-awaited three-year recovery plan unveiled in June 2016 the government set out an aim of diversifying away from oil and expanding the role of the private sector. The government plans to make up for oil losses by exploiting the country's major shale gas reserves. However, public protests over the environmental impact and economic viability of the plans have forced the government to pull back. The Public Investment Programme targets increased domestic consumption and private investment. The plan is estimated be worth US$ 262 bn over five years and will target achieving 7% growth. To boost the economy, the government is aiming to further develop its hydrocarbon resources and has also explicitly embraced private sector development by opening research centres and launching major transport and housing projects. GDP per capita rose in 2014 after stagnating between 2011 and 2013 in the face of higher inflation. It is now expected to grow at a slower pace than had been forecast in April and will now fail to regain the level of US$ 5,000 per person achieved in the early years of this decade. It is also growing at slower pace than the rest of the MENA region — a gap that is forecast to widen.

Hopes for a slowdown in inflation have faded. The annual rate of 6.1% in May 2016 was unchanged from April, which had seen a sharp spike from 4.6% the previous month and 3% in February. The drop in the annual rate to a two-year low in February had pointed to a retreat after several months of strong price rises. Price pressures have begun to threaten to put inflation adrift from the 4% target set by the Bank of Algeria, the central bank. However inflation is still below the 5%-plus levels seen at the start of the year and the rates of 10%-12% seen in 2012. A contributory factor has been the depreciation of the dinar's exchange rate. In January 2016 Trade Minister Belaib Bakhti unveiled new regulations for the wholesale markets for fruits and vegetables that reaffirmed the government's commitment to maintaining prices subsidy of widely consumed products.

The budget deficit hit a record high in 2015 thanks to a collapse in hydrocarbon revenues and a significant fiscal expansion. The deficit reached an all-time high of 16.4% of GDP. Lower oil prices fed through to into a 30% decline in hydrocarbon revenues, while spending grew by 10.2%. The 2016 Budget that took effect from 1 January 2016 envisages cuts in public spending, a decline in revenues and increases in household utility prices. The package includes a 9% cut in state spending to DZD 8 tr, indicating that Algeria is finally getting to grips with its budget deficit, albeit at the cost of lower domestic demand as a result. The budget envisages cuts in utility subsidies and infrastructure projects but not in health, education, or housing. Parliament has approved increases in domestic gasoline, diesel, gas and electricity prices. The government is also proposing allowing the sale of 66% in state-owned enterprises to the private sector.

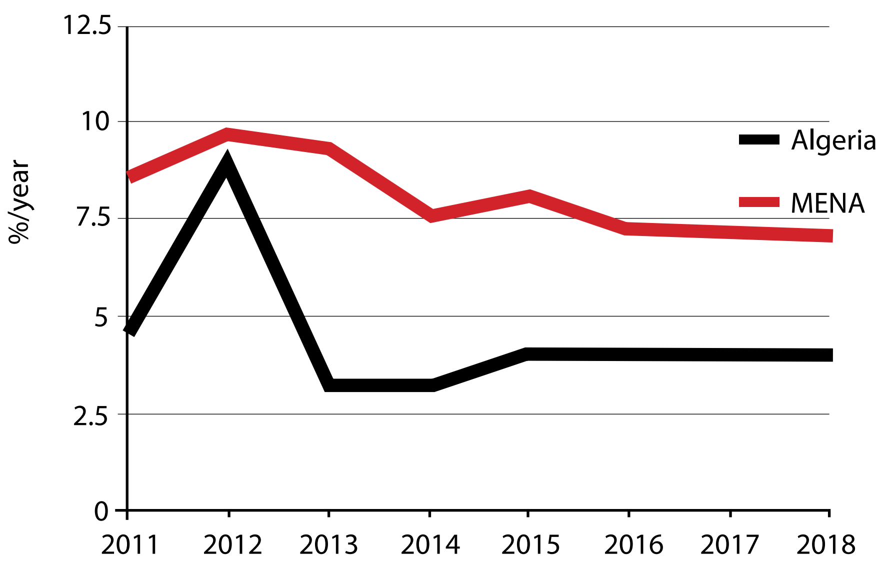
The fiscal deficit nearly doubled to a record high of 16% of GDP in 2015 as a result of much lower hydrocarbon revenues. Oil and gas exports make up 95% of exports and account for 60% of the state budget. However the IMF forecasts that the deficit will shrink to around 9% by 2019. The deficit will be financed mainly by drawing from the Fonds de Régulation des Recettes (FRR), Algeria's oil saving fund, which declined to 12.3% of GDP from 25.6 percent in 2014. Total government debt is forecast to rise to 37% by 2019 from just below 9% in 2014.

GDP per capita



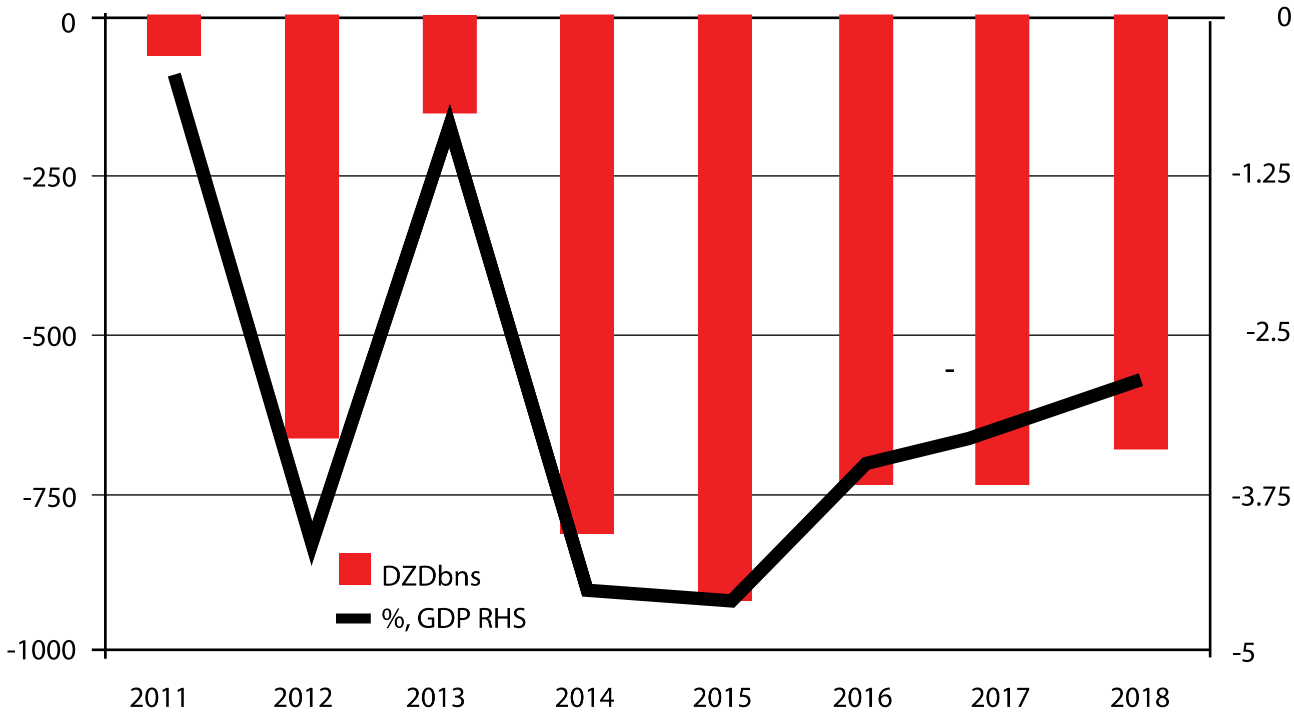
Source: IMF, World Economic Outlook database, September 2016

Inflation



Source: IMF, World Economic Outlook database, September 2016

Government net lending

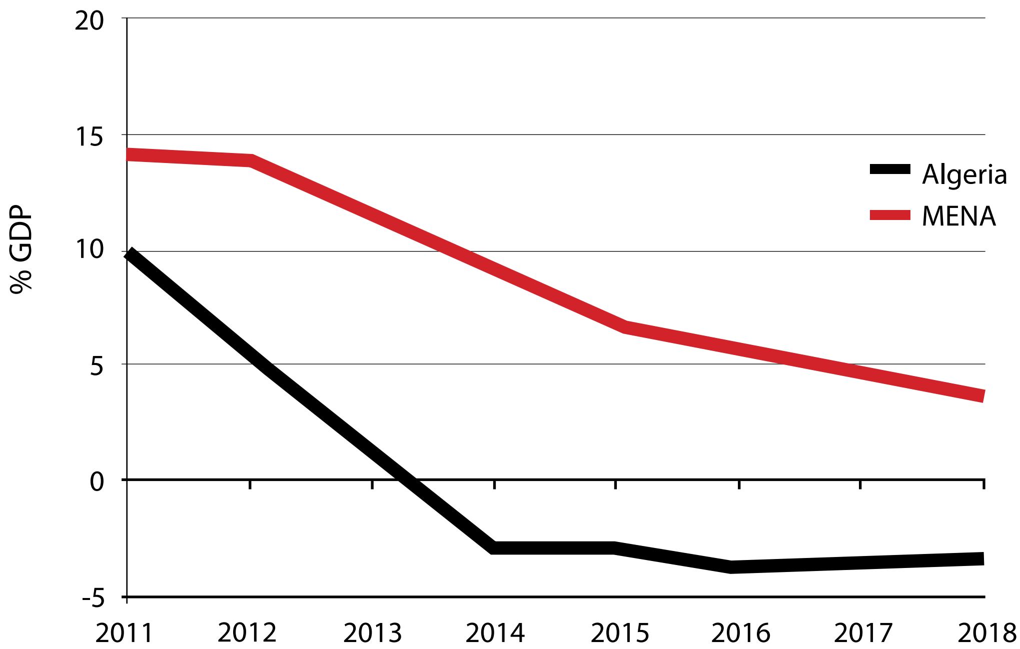


Source: IMF, World Economic Outlook, database April 2016

The plunge in oil prices since the middle of 2014 has hit Algeria's financing position hard. The country is experiencing a significant widening of its current account deficit thanks to weaker oil revenues from 4.5% of GDP in 2014 to an estimated 17.7% in 2015. The position has worsened: Algeria's energy earnings dropped 40.8% in 2015 from the previous year, causing a trade deficit of US$ 13.7 bn after a US$ 4.3 bn surplus in 2014. The deficit is projected to widen from 4.4% of GDP in 2014 to 17.9% of GDP in 2016 before starting to narrow as hydrocarbon exports eventually recover and fiscal consolidation compresses imports. Algeria's trade balance deficit hit US$ 10.83 bn in the first half of 2016, against US$ 8.51 bn during the same period in 2015, up by 27.2%. . Oil and gas sales make up 95% of Algeria's exports. Algeria has very high international reserves, which would cover two years' worth of imports. However the country's international reserves have fallen from US$ 195 bn in 2013 to an estimated US$ 106 bn at the end of March 2016. This compared with US$ 185 bn at the same point a year earlier. This fall is no surprise given Algeria's continued dependence on oil and gas production and export for most of its revenues, and the prevailing low prices for both commodities. Oil and gas revenues represent more than 95% of the country's foreign earnings.

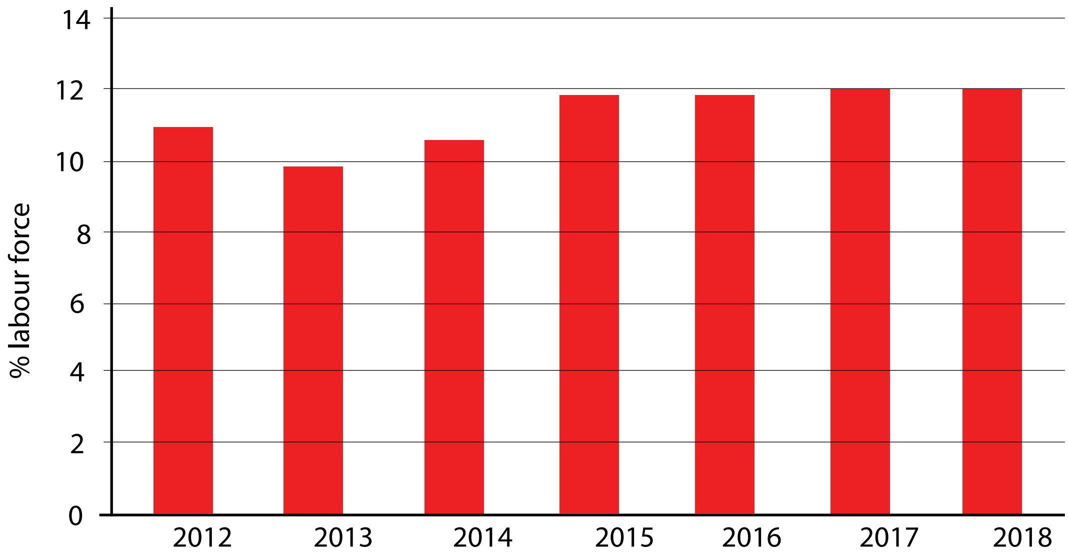
Unemployment has risen sharply over the last year as the labour market performance continues to be disappointing. The jobless rate reached 11.2% in September 2015 against 10.6% a year earlier. After a fall in the unemployment rate below 10% in 2013, it is now forecast to head back over 12% in the coming years. Unemployment is particularly severe among women and the young: the rate of unemployed young people from 16 to 24 is close to 30%. Female unemployment at 16.6% is almost twice the level for men (9.9%). Algerians under the age of 30 account for about 70% of the unemployed. The labour force participation rate — at 42% — is low by international standards. Protests over alleged nepotism and corruption in the award of public housing as well as unemployment and food prices have increased. The government has expressed continued commitment to job creation and reduction of regional disparities although specific measures remain to be developed. An ongoing revision of the labour code — undertaken in consultation with representatives from trade unions and employers — is being seen by commentators as an opportunity to enhance labour market flexibility while ensuring adequate protection for workers. Low rates of participation and employment persist and there is a sizeable informal sector, which makes it more difficult for job creation initiatives to succeed. However interventionist measures did help reduce unemployment for candidates with higher education qualifications in 2013 and 2014. There is evidence that employers have difficulties in finding applicants with an adequate level of technical or job skills, which would point to the need for more investment in targeted education and training.

Current Account Balance



Source: Source: IMF, World Economic Outlook database, September 2016

Unemployment rate



Source: IMF, World Economic Outlook, database October 2016

The economy will enjoy a much slower rate of growth over the next four years than it has been used to at below 3%, putting it under the average for the 10-year period leading up to the global financial crisis and the Arab Spring. However the growth mix will depend on strong rates of non-hydrocarbon sectors offsetting the likely further declines in oil and gas. On the other hand, planned investment in shale gas production could contribute to growth but this is likely to encounter public protests. The authorities have begun to undertake fiscal consolidation and implement selected reforms. The key to the outlook will be the success in implementing the reform programme. Over the medium term, Algeria's macroeconomic prospects will depend on the size and pace of fiscal consolidation, the extent of structural reforms, and the appropriateness of other policies. The fiscal and external buffers accumulated in the past provide a window of opportunity to implement those reforms gradually and smooth the adjustment. According to the IMF, Algeria has impressive economic potential, but added to that there would need to be a shift towards a private sector-led growth model if this potential was to be realised. However this opportunity to reshape Algeria's growth model should be seized now, before a more rapid adjustment becomes unavoidable.

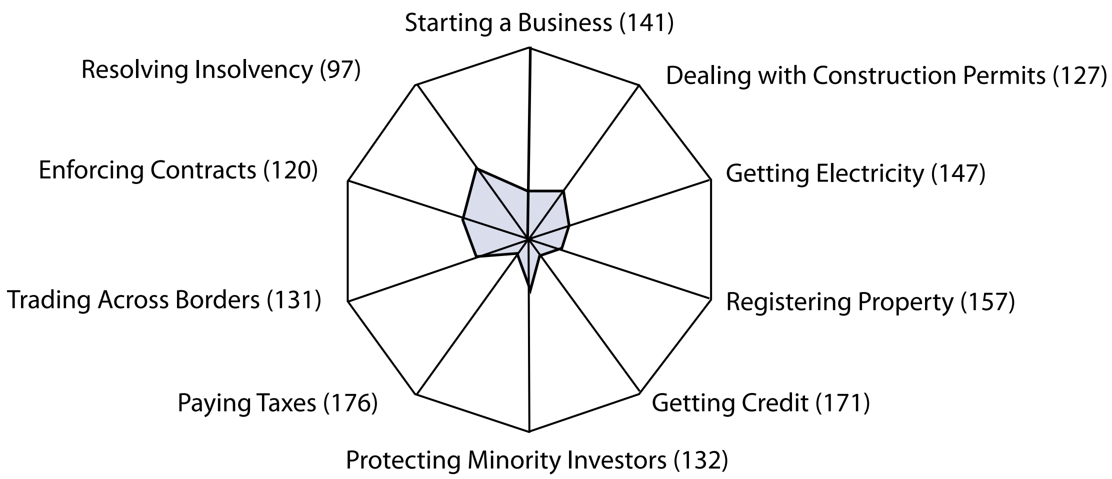
However the risks are predominantly slanted to the downside and the downgrade in growth forecasts indicate many of these are coming to fruition. The collapse in oil prices threatens to harm economic growth, as Algeria remains highly dependent on the energy sector, which accounts for 30% of its GDP. Much of the existing oil infrastructure is obsolete and uncompetitive and needs investment that may not be available. Energy production is likely to remain weak. The non-oil sector has been growing but will be affected by a drop in orders from the hydrocarbon sector and the impact of reduced household spending, as inflation remains high. But oil price falls are a much greater danger to the country's budget and external position as they make up 95% and 65% of export revenue and tax income respectively. The volume of its currency reserves and the low level of public debt has allowed the government to adapt to the oil shock but the running down of currency reserves will limit the funding possibilities in 2016 and public debt will approach 40% of GDP by the end of the forecast period. Difficulties obtaining a political and social consensus behind the programme could complicate the implementation of necessary reforms and ultimately lead to a more sudden adjustment. The persistent rise in inflation above the central bank's target, which could rise further unless food prices retreat and the central bank takes action to tighten monetary policy, is a risk to financial stability. Higher inflation, weaker domestic demand, rising unemployment will lead to a greater threat of civil unrest.

The country has endured localised unrest for many years and, significantly, the government is no longer in a position to simply throw money at the problem as it has done in the past. The danger of political instability is heightened by the fact that the president, Abdelaziz Bouteflika, is rarely seen in public. Meanwhile increased tensions in the Middle East could both cause instability and social unrest domestically but, on the other hand, could lead to an upturn in fuel prices (as could further deterioration in relations between Russia and the West over Ukraine).

Algeria is a stable country, albeit in a highly authoritarian and centralised way. However doing business can be difficult as the bureaucracy can be complex and lead to delays. Concerns over the political succession and the security situation concerns, combined with a poor business environment, have prompted foreign investors to take flight since the start of 2015. The government is trying to attract more foreign investment and technology. In July 2016 parliament passed a new investment law to spur economic growth in the country. It includes tax breaks and measures to ease bureaucratic procedures that have been one of the main hurdles to investment. Investors will get 10-year exemptions from tax on property needed for a project and a three-year tax break on profits on a new project.

The World Bank's 2016 Doing Business Report ranks it towards the bottom of its 189 countries, at 163. This is one of the worst ratings amongst its MENA peers, with only Iraq and Libya scoring worse. This was a fall of two places from 2015. It scores worst on measures such as trading across borders (176) and getting credit (174). Algeria ranked 88 out of 175 countries in Transparency International's 2015 Corruption Perceptions Index, down by 100 in 2014. According to the UK Government's business risk analysis most businesses report successful business operations in Algeria free of corrupt practices. However, there are still some isolated anecdotal reports of low-level corruption.

Doing Business in Algeria



Source: World Bank, Doing Business Report, 2015

CHALLENGES TO INDUSTRY

Though the Algerian automobile industry is growing in a positive direction, the sector does face several important obstacles. One of the most pressing is that Algeria does not have a well-developed industrial chain. This has meant that everything from maintenance, to spare parts, to component manufactures, to specialised office tasks, are lacking in the country.

The Algerian economy is also considered fairly closed, with many restrictions put in place for foreign companies wishing to operate within the country. Most recently, Algeria's joint venture with Renault to set up a domestic assembly plant in the north of the country means that foreign firms were not able to establish their own domestic assembly plants until 2016. Algeria is also trying to turn the market inward, and increase the purchasing of domestically assembled cars, as opposed to imported vehicles. This poses a clear challenge for new foreign firms wishing to enter the market.

Algeria also suffers from several political and instability issues, that stem in part from the country's dependence on its oil production. While Algeria has avoided the full-scale public revolts seen in other MENA countries as part of the Arab Spring, the country's dependence on oil in an era of falling prices leaves it vulnerable to social unrest. One possible trigger for mass protest is the government's plans to make up for oil losses by exploiting the country's major shale gas reserves. However, public protests over the environmental impact and economic viability of the plans have forced the government to pull back. Since the start of 2015, thousands of protesters have joined up in the rural town of Ain Salah in the Sahara to take part in increasingly loud rallies protesting against a $70 bn hydraulic fracturing project they claim will pollute the groundwater and disturb the environment.

Algeria also suffers from very real political instability that has manifested itself through violent acts across the country. Recent attacks, such as the November 2011 explosion of a gas pipeline in northern Algeria, demonstrate the danger posed by Al Qaeda in the Islamic Maghreb (AQIM) and other armed groups keen on weakening the Algerian government's hold on the national security situation. Further attacks on pipelines and distribution networks remain likely as AQIM seeks to weaken the government's economic lifeline.

Corruption and bureaucratic inefficiencies are also challenging. Perceptions of corruption in Algeria remain fairly high and the country was ranked 88 out of 168 countries in Transparency International's 2015 Corruption Perceptions Index with a 'control of corruption' score of -0.48.

SWOT CHART

Strengths

- The country's large and growing population supports the passenger vehicle market.
- Recent state investments in industrial and transport infrastructure should help reinvigorate the manufacturing sector, provided that private investment can keep up the pace.
- The country has recently passed security safety measures, similar to other developed countries, which should reduce the risk of automotive accidents.
- The newly inaugurated Renault domestic assembly plant has attracted interest from other international vehicle manufacturers keen on setting up operations in Algeria.

Weaknesses

- Algeria's economy is generally closed to foreign involvement, and any agreements with foreign companies hold significant restrictions.
- Corruption and bureaucratic inefficiency continue to compromise the country's business environment and deter foreign interests.
- With over 23% of Algerians living under the poverty line, a large majority of the population are not able to afford a vehicle, limiting demand.
- Due to limited diversification, any decline in petroleum prices has a strong negative impact on the domestic economy.

Opportunities

- The government is in talks to establish nearly fifty economic free zones across the country, which will allow significant opportunity for companies to set up specialized facilities relating to management, maintenance, and spare parts.
- Government initiatives to develop public transport networks in Algeria's largest urban areas provide ample opportunities for distributors specialising in buses and heavy transport systems.
- Around 70% of the vehicles on the road are over 10 years old, suggesting growing demand for new passenger car vehicles in coming years.
- With vehicle ownership around 100 per 1,000 inhabitants, the market is growing from a low base, suggesting significant opportunities for expansion.

Threats

- Algeria's security outlook remains riskier than the rest of the region as the country faces internal threats from terrorist cells associated with Al-Qaeda in the Islamic Maghreb (AQIM).
- A sustained dip in global energy prices has threatened the governments ability to carry out ambitious development projects and has resulted in a decline in consumer spending, limiting demand for new vehicles.
- As regional auto manufactures continue to ramp up their domestic production operations, Algeria will continue to face strong competition from countries such as Egypt, Iran and Morocco.
- Recent reforms passed have resulted in a significant decline in imports while vehicle prices continue to soar, limiting demand in the sector.

PROJECTIONS

Economic Projections

	2017	2018	2019	2020	2021
Nominal GDP (US$ bn)	172.4	177.8	182.6	187.5	193.1
Real GDP Growth (%)	3.1	2.7	2.7	3.0	3.2
GDP Per Capita (US$)	5,035	5,191	5,331	5,475	5,640
Population (mn)	40.7	41.4	42.0	42.6	43.3

Source : Noozz

Industry Projections

	2017	2018	2019	2020	2021
Industry Contribution to GDP (%)	2.53	2.58	2.65	2.79	2.97
Vehicle Imports (units)	83,000	85,000	93,500	112,200	145,860
Vehicle Ownership Penetration (%)	12.1	12.4	12.8	13.2	13.6

Source : Noozz

NEEDS ASSESSMENT

• As the automotive industry grows, continued investment remains key to profitable, well-structured future. Key players and government components must push for plans to ensure steady investment, both domestic and international, to effectively capitalise on the industry's momentum.

• Algeria should continue to make efforts to facilitate the buying of vehicles for the middle class. The government has already, in an effort to avoid Arab Spring unrest that has affected the rest of the region, increased salaries and reinstated loans for car payments. These are steps in the right direction, and the government should continue along this path.

• Algeria's roadways are not as developed as they should be. Although the country is almost finished building its first continuous coastal highway, more roads need to be built to encourage the use of private vehicles.

• The country must address its absence of a well-developed industrial value chain. Algeria suffers from a lack of repairs, mechanics, and spare parts, which could be remedied by a more comprehensive and in-depth value chain.

• The government needs to address the country's restrictive and corrupt business environment. In order for the sector to benefit from rising levels of foreign investment, the government will need to prioritise reforms to bring the country's business environment more in line with international standards.

• The government needs to monitor recent reforms passed aimed at increasing local production and consumption, as these reforms have had a strong downward effect on demand over the past year.

• The government will need to carefully monitor the activities of regional producers such as Egypt and Iran to ensure development projects remain feasible and lucrative in the face of rising competition.

MENA-WIDE OVERVIEW

The Middle East and North Africa region is one of the fastest growing regions in terms of demand, consumption and growth in the automotive industry. The overall MENA market reached over 2 million sales in 2015, with Saudi Arabia, the UAE and Egypt accounting for 58% of the market. Analysts anticipate that the MENA automotive market will grow by around 50% through 2018. Since 2009, the MENA market has been steadily growing at 8% CAGR.

North African Auto Industry

Brand	Algeria	Morocco	Tunisia
Auto Market	439,637	122,081	47,959
Manufacturing & Assembly Plants	Renault Mercedes (military)	Renault (2) Renault Suppliers	None

Source : SMMT

Growth is particularly robust in Saudi Arabia and the UAE, where high income, a growing local and expatriate population, and economic prices of energy have all contributed to sales growth. Saudi Arabia is the largest importer of vehicles and auto parts in the MENA, accounting for nearly 40% of all vehicle sales across the region. In the past four years, Saudi Arabia's automotive market has been growing at 20% CAGR. New car sales are expected to rise by 6.7% annually; by 2020, analysts predict Saudi Arabia will be selling over one million units a year.

The UAE is the second-largest market in the region, as well as one of the fastest-growing ones, with sales of new vehicles rising by 5% in 2015 despite a sustained climate of low oil prices. The country witnessed a total industry volume of 281,000 units in 2015, compared to 310,304 units sold in 2012. Business Monitor International (BMI) predicts continued annual growth of nearly 20% through 2017. Kuwait tops the list in terms of number of vehicles owned in the region, with 723 vehicles per 1,000 people.

Across the region for the past several years, the MENA car market has been dominated by Asian brands such as Toyota and Hyundai, while European brands have been lagging. Asian brands are known for the reliability, ruggedness, brand reputation and price-value ratio, making them a favourite across the region. Toyota and Hyundai have the largest market share, representing 39% of total MENA sales in 2014. The most popular styles in the region are medium-sized sedans such as Hyundai Avante, Toyota Corolla and Nissan Sunny. Both medium and large-sized SUVs are gaining popularity n Saudi Arabia, for example, SUV sales account for 12% of annual volumes sold. Smaller vehicles are less popular, accounting for about 15% of annual volumes sold across the region.

Low-cost Chinese brands have been increasingly entering the MENA market. They have been successful by focusing on middle-class populations who want a new vehicle at an affordable price. Geely, which recently entered a joint venture with GB Auto in Egypt, has expanded across the region. Geely sales in Saudi Arabia rose to 52,800 units in 2015, up from 17,000 units in 2013. There is significant opportunity to be had in introducing low-cost, well-built cars targeting lower and middle classes across the region.

There are also rampant opportunities in the after-sales market in MENA, which is forecasted to grow to around US$ 11 bn, at a 10% CAGR, through 2018. Short maintenance cycles, low fuel costs and high average mileage per annum all contribute to the importance of maintenance and repair in MENA. However, the after-sales service experience does not always comply with global standards. Recruiting and maintaining skilled labour and developing skills are a key requirement and challenge for distributors and dealers across the region.

Growing at a rapid pace, the Algerian automotive industry remains one of the largest in the MENA region. Although the sector experienced a decline amidst the 2011 Arab Spring, the automotive segment continues to benefit from a rise in demand and ownership levels, with around 300,000 cars imported in 2015.

While the manufacturing segment continues to benefit from government-funded initiatives and partnerships with multinational players, car ownership levels have benefitted from a rise in the availability of auto loans and associated financing schemes. While high poverty rates, widespread corruption and recent restrictions such as the implementation of import quotas continue to present challenges to the industry, increasing investment levels backed by the government and foreign interests along with the emergence of the country's middle class segment and development of local transport networks is expected to support growth looking ahead.