

# Business

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## Algeria's poor fret over plan to slash subsidies on basic goods

### Many economists support the plan as a necessary evil

**ALGIERS:** Algeria plans to scrap its generous state subsidies on basic goods that have long helped maintain social peace but strained state budgets as energy revenues have fallen. Many economists support the plan as a necessary evil, as long as the neediest are protected, but some poor families are fearful about the impact.

The North African country, heavily dependent on oil and gas exports, has for decades subsidized everything from bread and milk to fuel and electricity, at the cost of billions of dollars a year. But income from energy exports has fallen for years, especially during the downturn driven by the COVID-19 pandemic, heightening the strain on public finances in the country of 43 million.

The International Monetary Fund (IMF), which advocates subsidy reform, last month urged Algiers to "recalibrate" its policies. Lawmakers voted last week to wind back the subsidy system that has helped share the energy wealth with all households regardless of income, leaving some people worried about how they will get by.

"It's a disaster," Hafidha, a mother-of-two with a monthly pension of 50,000 dinars (\$360) said at an Algiers market. "Already with the current prices we have a hard time making ends meet. The price of sugar, oil, water and fuel will definitely go up."

Public fears were stoked when fruit and vegetable prices recently skyrocketed. The price of potatoes more than tripled to 140 dinars (\$1) a kilogram, although authorities blamed this on market speculators they said they had since disbanded.

#### 'Recalibration'

During Algeria's transition to a market economy

in the 1990s, subsidies replaced the fixed prices of a planned economy that had been in place since independence from France in 1962. Algeria's subsidy system has been financed by energy exports that account for about 95 percent of foreign revenues and 60 percent of its budget. But with a recent decline in energy prices, "the state no longer has the means for such a generous social policy" economist Omar Berkouk told AFP.

"All the World Bank and International Monetary Fund experts, as well as economists, have pointed to the need to reduce (subsidies) by better targeting the recipients," he added. Critics of state subsidies say they are costly, create harmful market distortions and are inefficient because they help rich households more than poor ones. In early October, the IMF said the pandemic and a fall in oil prices and output had "seriously impacted the economy last year" when Algeria's real GDP contracted by 4.9 percent.

Although a recovery is underway, it recommended "a broad-based fiscal adjustment" with measures to protect the most vulnerable should start in 2022.

Algeria's state budget for next year sets aside the equivalent of \$17 billion for social transfers, including compensation measures, as well as assistance for education, health, housing and support for large families.

This is far below the \$30-40 billion a year in the state budgets between 2012 and 2017.

#### Identifying the needy

Previous governments considered introducing more targeted subsidies in 2015, and again in 2017 when the current President Abdelmadjid Tebboune



ALGIERS: Algeria has for decades subsidized everything from bread and milk to fuel and electricity. —AFP

was prime minister. "It was ex-president Abdelaziz Bouteflika who prevented any such action, with an eye to running for a fifth term," Berkouk said about the late veteran leader who was ousted amid mass protests in 2019.

Zoheir Rouis of the Jil Jadid (New Generation) party said the lifting of subsidies should not be "an end in itself but another way to optimize public spending". Social and labor issues expert Nouredine Bouderra however slammed the move as "dangerous for national cohesion" in comments to the Reporters news outlet, arguing it comes as the

purchasing power of many Algerians is already "under violent assault".

Prime Minister Aïme Benabderrahmane, who is also finance minister, assured parliament that "the government has no intention of cutting state aid", promising instead "a new philosophy that targets families in need with direct aid". But Berkouk voiced concern that "it's difficult to identify the people in most need" given the large informal economy and absence of income and asset declarations.

"The poor are visible in the streets, but there is no statistical tool to identify them." —AFP

## Why is Turkish currency in freefall?

**ANKARA:** The Turkish lira has been in freefall as President Recep Tayyip Erdogan has championed interest rate cuts despite rampant inflation. The currency hit a record low this week—exceeding 13 to the dollar—and has lost over 43 percent in value against the US greenback since the start of the year.

Here are key questions about the lira's collapse:

#### Why is the lira crashing?

Erdogan insisted this summer interest rates had to fall, taking the unorthodox view that high rates equal high inflation. The central bank has since slashed the main interest rate by 400 basis points, sparking doubts about its independence. In its latest decision last week it suggested another cut was likely in December. But the lira's issues go deeper.

Erdogan, who has sacked three central bank governors since July 2019, has refused to accept any responsibility for the lira's collapse. "I reject policies that will condemn our people to unemployment, hunger and poverty," he said on Monday, warning



ISTANBUL: A man walks past a currency exchange agency near Grand Bazaar in Istanbul yesterday. —AFP

that the country was in a "war of economic independence".

Kerim Rota, who is in charge of economic policy at the opposition Future Party, said the lira was suffering the worst monthly devaluation since 1994, and the second worst in the past 40 years.

"If it reaches 14.25 (to the dollar) at the end of the month, it will be the highest. It's now out of control, this is clear to see," Rota told Halk TV in an interview Tuesday. The Turkish currency rose yesterday, trading at under 12 lira to the dollar.

#### What are the risks?

While many say Turkey's banking sector is stronger since the 2001 economic crisis, there are concerns about

the impact on banks and the potential for capital controls. "Banks are better placed to cope with the spillovers from a weaker lira than they were a few years ago," said Jason Tuvey, an emerging markets analyst at Capital Economics.

But, he added, "the risk is that the lira suffers further sharp and disorderly falls that do trigger problems in the banking sector. A credit crunch could ensue that weighs heavily on economic activity."

Any signs of a "flood of withdrawal requests" from foreign exchange deposits would likely trigger more aggressive capital controls, he warned. Over half of all deposits in Turkish banks are in foreign currencies, mainly dollars.

Turkey's official inflation target is five percent but has stubbornly remained in the double digits in the past two years, nearing 20 percent last month. Opposition parties say real inflation is much higher than what the official data shows. Given the situation, the opposition has called for an early election ahead of a scheduled vote in June 2023, but Erdogan vowed Tuesday that "there will be no early election".

#### What does Erdogan expect?

The president is prioritizing growth with the economy expected to expand by nine percent in 2021 and 3.5 percent in 2022. During another currency crisis in 2018, the central bank aggressively hiked the main interest rate but the likelihood of a repeat under a more determined Erdogan is low.

Some experts have accused the president of seeking to make Turkey more attractive as a hub for cheap production with Turkish wages worth less in dollar terms. Turkey's net monthly minimum wage of 2,825.90 liras amounted to \$380 in January 2021 but as of yesterday was equivalent to \$222.

"Until recently, Team Erdogan's '2023 goals' included becoming a post-industrial powerhouse and a high-tech leader. Now, it's to make Turkey a source of ultra-cheap labor," tweeted Duke University professor Timur Kuran. —AFP

## IEA urges OPEC to take 'necessary steps' to lower oil prices

**PARIS:** The head of the International Energy Agency yesterday called on OPEC and its allies to take measures to help bring oil prices down to "reasonable levels". "I very much hope to see in the next meeting or meetings they... make the necessary steps in order to comfort the global oil markets and help bring the prices down at reasonable levels," Fatih Birol told reporters.

The head of the IEA, which unites oil consuming nations, took aim at Russia in particular. "Russia can easily increase exports to Europe about 15 percent... and significantly comfort the European gas markets," said Birol.

Natural gas prices in Europe have surged this year and Russia, the region's major supplier, has been slow to step up deliveries. OPEC nations and their allies, including Russia, are slowly increasing their output each month towards pre-pandemic levels. They have declined to move faster despite a jump in prices to over \$80 per barrel, a level that many analysts worry could undermine the global economic recovery.

The United States and a handful of other oil consuming nations announced on Tuesday a release of their strategic oil reserves in a bid to blunt soaring prices at the pump that are biting into consumers pocketbooks and pushing up transportation costs. Global crude prices rose further as the move was less ambitious than anticipated. —AFP

## Oil majors 'pocketing the difference' as gas prices surge: Biden

**WASHINGTON:** Oil majors have raised gasoline prices for the sake of their own profits, US President Joe Biden said Tuesday as his administration looked for ways to lower prices at pumps nationwide at the beginning of the holiday travel season. The White House has upped the pressure on oil markets amid a spike in energy prices that has driven overall US inflation to record levels.

Biden had earlier in the day announced the United States would release crude from its national stockpile along with China, India, Japan, Korea and Britain in a bid to drive global prices lower, while again taking aim at oil majors he accused of unfairly raising prices.

"The price of gasoline in the wholesale market has fallen by about 10 percent in the last few years but the price at the pump

hasn't budged a penny," Biden said at the White House. "In other words, gas supply companies are paying less and making a lot more," he said, accusing companies of "pocketing the difference" between wholesale and retail prices.

Last week, he urged the Federal Trade Commission (FTC) to look into the causes of the nationwide spike in gasoline, saying oil companies have increased prices at the pump even as their expenses decline and profits soar. Analysts say the case for misconduct by oil firms is not clear cut. Energy is a global market and crude prices are rebounding from the depths of the pandemic downturn last year, when they briefly went negative.

The United States is dealing with a record wave of inflation as it goes through its own stronger-than-expected economic rebirth, with consumer prices seeing their biggest annual jump in more than three decades last month. "We and this administration are leaving no stone unturned as we examine the market to figure what's behind the high prices," Energy Secretary Jennifer Granholm told reporters Tuesday. "If historical averages were true today, people would be paying about 30 cents less per-gallon at the pump based upon the differential between unfinished gas and gasoline at the pump. So he's asked for the FTC to take a look at this." —AFP

## France sanctions US e-commerce site over 'dangerous' goods

**PARIS:** France has ordered search engines to remove US-based e-commerce platform Wish from their results over it selling substandard or unsafe products, the economy ministry said yesterday.

Search engines like Google are expected to remove the website—which offers cheap, mostly Chinese products—from their results in the coming days. Application stores are no longer to feature the Wish app. But the website operated by San Francisco-based firm ContextLogic should be accessible to customers with the right web address.

"There is no reason to tolerate online what we do not accept in physical shops," Economy Minister Bruno Le Maire told French newspaper Le Parisien. The sanctions come after France's DGC-CRF anti-fraud agency analyzed 140 products sold on Wish and found a large majority to be "non-conforming".

Ninety percent of electronic items examined were deemed "dangerous", as were 62 percent of costume jewelry products, and 45 percent of toys. The anti-fraud agency noted that even after it informed Wish about these failings and the website removed the substandard items, they then reappeared under different names. The latest sanction should last until the website conforms with French law. The US startup said it was taking legal action against the measures, which it called "illegal and disproportionate". —AFP



ANNAPOLIS, US: The price of gas is seen as traffic moves through Annapolis, MD, on Tuesday. —AFP