

Algeria

Technical Assistance in Fiscal Year 2017

The oil price shock has hit Algeria's economy hard and exposed the longstanding vulnerabilities of an economy highly dependent on hydrocarbons. The IMF staff report for the 2016 Article IV Consultation highlighted the need to achieve a durable and ambitious fiscal consolidation over the medium term, deep structural reforms are necessary to offset the impact of fiscal consolidation on growth, and reduce the dependence on oil, by greater exchange rate flexibility, a carefully calibrated monetary policy that guards against inflation, and policies to mitigate risks in the banking system. Against this background, METAC's assistance focused on supporting the authorities' efforts aimed at fiscal consolidation, and developing Bank of Algeria's (BA) capacity to monitor credit risk.

Banking Regulation and Supervision (July 17-21, March 12-16)

Credit risk is a major concern for banks in Algeria. The stress tests performed by the FSAP in 2014 indicated that credit and specifically loan concentration are the main banking sector risks in Algeria. The BA has been working on enhancing and improving the supervision of credit risk in the banking sector and further building the capacity of its supervisors in better monitoring this risk. To support these efforts, METAC organized a national workshop on credit registry, to train a group of 28 staff from various departments of BA. Focusing on the latest developments on credit registry and the experience of other METAC member countries, the workshop emphasized on how to take advantage of the credit registry to monitor credit risk, particularly those arising from large borrowers and credit concentration. Following the training, METAC assisted BA in identifying areas for improving its credit registry to meet international best practices and to strengthen credit reporting by banks.

In a second mission to Algeria, METAC trained BA supervisors on the ICAAP, covering the objectives of ICAAP, its framework and design, stress testing as an essential element in assessing capital needs under stressful conditions, material risks to be assessed, and the methodology and techniques to quantify risks and risk appetite. The mission also assisted the authorities in clarifying the concept of related parties, as recommended by the 2013 FSAP, and provided specific suggestions to amend the BA regulation related to this topic.

PFM (May 30-June 6, July 18-31)

Lower oil prices have caused a sharp drop in cash resources and a deterioration of budget balances in many oil-producing countries. Ambitious fiscal consolidation together with reforms in PFM could help restore fiscal sustainability against the backdrop of declining oil revenues.

- Cognizant of the need for such reforms, the Algerian authorities requested a TA mission to take stock of current practices and the institutional framework for cash management, and to identify areas for reform. The mission recommended a reorganization of the treasury function and closer coordination with the central bank; review of the existing cash management process to provide reliable and timely data on budget execution, receipts and

payments; and establishing a cash forecasting function within the Treasury Directorate. The authorities welcomed the mission's recommendations, and expressed interest for building an effective and long-term cooperation to achieve sustainable PFM reforms.

- This was followed by a joint IMF FAD–METAC mission, which worked on

(i) developing and operationalizing a medium-term budget framework (MTBF) to put the expenditures on a sustainable path in line with the fiscal policy objectives, and

(ii) strengthening the cash management framework and upstream expenditure controls to ensure that fiscal and expenditure priorities are on track during budget execution. The mission recommended (i) extending the coverage of the MTBF; (ii) introducing multi-year commitment ceilings and a monthly flash reporting system; (iii) adopting the new organic budget law; (iv) and measures to strengthen cash flow forecasting and the treasury's day-to-day coordination with the central bank.

Revenue Administration (November 23-December 6)

METAC's new resident advisor participated in a TA mission of the IMF's FAD to review the status of implementation of the strategic plan 2015-19 of the General Directorate of Taxes (GDT). The mission recommended mitigation measures and steps to improve tax administration core processes, including to modernize filing and payment procedures, develop risk-based audit programs, and collect arrears. Attention was also given to VAT administration, including registration, filing, audit and refunds. The mission was an opportunity for METAC's advisor to meet the authorities and discuss areas where METAC could provide TA going forward.