

Algeria

Fiscal Year 2025

Capacity Development Activities

Central Bank Operations

Calibrating Open Market Operations

At the urgent request of the Banque d'Algérie METAC reviewed the current practice of calibrating open market operations during 2-4 July. The mission supported the integration of the new liquidity forecasting framework that was delivered by the 2022 Technical Assistance mission, into the calibration of the weekly liquidity operations. The mission was hands-on in nature and improved and adjusted the existing procedures.

Operationalizing an In-House Credit Assessment System

This follow-up mission during 7-10 July is part of a project that assists the Banque d'Algérie in improving their calculation of credit rating and haircuts to support the BA in their objective to protect the central bank balance sheets when accepting collateral in liquidity-providing operations. The project reached a first major milestone with the implementation of an automated internal rating tool for non-financial corporations. The rating methodology will be implemented across the local branches of the Banque d'Algérie where the automated rating will be supplemented with the relevant expert judgement. Initially, the rating will be used internally to calculate haircuts applicable to credit claims when mobilized for central bank liquidity provision operations.

Financial Supervision and Regulation

Developing a Risk Rating Framework for Banks

METAC assisted Banque d'Algerie (BA) during June 10–27 to develop a risk rating framework for banks, representing the last phase of a multi-step project that started in 2020. The project aimed at replacing the existing CAMELS rating system with a new rating system that covers a wider array of risks and is based on a set of quantitative and qualitative indicators. Unlike the CAMELS rating, the new rating will be produced by the off-site function to ensure updated results. The mission (i) finalized the methodological guide that describes the architecture, processes, and procedures of rating; (ii) reviewed the test results and proposed final finetuning to some indicators, weights, and benchmarks; and (iii) developed a guide relating the rating of a bank and its size to the intensity and frequency of supervisory activities. Finally, regulations to further enhance the new rating system and reinforce risk-based supervision were proposed as next steps.

Developing Regulation on Operational Risk

During 8-12 December, METAC assisted the Banque d'Algérie (BA) in developing new regulation on operational risk in reference to Basel Committee on Banking Supervision (BCBS) principles on the management of operational risk and to the Basel Core Principles for Effective Banking Supervision. The draft regulation covered all aspects of operational risk management such as governance, risk management environment, measurement and monitoring mechanisms, information technology and business continuity planning. The mission further developed a new reporting requirement containing

detailed information of types of operational losses. The enhancement of BA's regulatory framework and supervisors' knowledge on the topic will advance the implementation of new banks' rating system and Risk-based Supervision.

Enhancing Onsite Inspection Manual

In April, METAC supported the Banque d'Algérie in updating its inspection manual—drafted more than 15 years ago—to align with the newly developed bank rating methodology, developed with METAC's assistance. Two new chapters on governance and concentration risk were added, and the credit risk chapter was significantly revised. Remaining sections on liquidity, internal control, and operational risk will be updated in a future mission. The manual provides a unified framework and practical tools for onsite inspectors, enhancing risk-based supervision and complementing progress made in the bank risk rating initiative.

Macroeconomic Frameworks

Extending the Quarterly Projection Model (QPM) to the Fiscal Sector

During 26 May to 6 June, METAC assisted the Bank of Algeria (BA) in extending the Quarterly Projection Model to incorporate the fiscal sector and assess implications on inflation dynamics, the central bank's reaction function, and the evolution of debt. The mission team provided hands-on training on preparing the forecasts and various alternative scenarios. Incorporating the effect of fiscal policy, forward-looking expectations, and timely intervention of the Central Bank will help BA in conducting monetary policy and achieving its long-term goals.

Extending the Quarterly Projection Model

In November 2024, a joint IMF HQ and METAC mission assisted the Algerian authorities in expanding their Quarterly Projection Model by incorporating the external sector dynamics into the model. To this end, the forecasting framework now incorporates feedback from the external sector to other economic sectors, thereby promoting the forecast accuracy. Following a previous mission that extended the model to include the fiscal block, the current mission's focus on the external sector allows for monitoring external developments and gauging the strength of the underlying transmission mechanisms into the economy. These efforts are aligned with the central bank's objectives of achieving the inflation target and minimizing deviations of GDP from its potential level.

Anti-Money Laundering & Combating the Financing of Terrorism (Co-hosted by METAC and financed by the AML/CFT Trust Fund)

Enhancing the ML/TF Risk Understanding of the Supervisors

AML/CFT Regional Advisor Peter El Sharoni participated in a mission comprising a series of virtual CD sessions conducted in May and June to assist the Bank of Algeria in enhancing AML/CFT risk-based supervision of financial institutions under its purview. The sessions focused on the understanding of the main threats affecting the banking sector and that can trigger ML risks for enhancing the risk assessment tools utilized by supervisors, including geographic risks and risks related to the cross-border movements of funds.

Enhancing Supervisors' Understanding of ML/TF Risk

The AML/CFT Regional Advisor participated in three virtual CD sessions conducted during the period August to assist the Bank of Algeria in enhancing AML/CFT risk-based supervision of the financial institutions under its purview. The sessions focused on the understanding of the main Money Laundering (ML) threats affecting the banking sector and the development of risk assessment tools for supervisors. The sessions also covered risk mitigation indicators and assessing strengths and weaknesses of internal controls.

Enhancing Supervisors Understanding of ML/TF Risk and Promoting Beneficial Ownership Frameworks

The AML/CFT Advisor participated in a virtual mission in December 2024 to assist the Bank of Algeria in enhancing AML/CFT risk-based supervision of the banks under its purview. The discussion focused on the plan for the banking sector's risk assessment, the outline of the supervisory strategy to be developed by the Bank of Algeria and the remaining steps to complete an interim AML/CFT Risk Assessment Matrix for 2024. The advisor previously participated in another virtual mission in November 2024 to assist the authorities of the Central Registry of Beneficial Ownership which operates under the Ministry of Trade and Export Promotion in developing the implementation of the new beneficial ownership framework. The mission conducted a brief diagnostic assessment of the system currently in place to collect beneficial ownership information and making it available to competent authorities on a timely basis.

Enhancing AML/CFT risk-based supervision and beneficial ownership framework

The mission supported the Bank of Algeria in enhancing AML/CFT risk-based supervision of banks. The TA team also conducted an in-depth analysis of the framework to collect and verify information on beneficial ownership, under the purview of the National Center for Commercial Register. A workplan was developed to enhance the framework.