SM/08/21
Correction 1

May 22, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Algeria—Financial System Stability Assessment—Update**

The attached correction to SM/08/21 (1/17/08) has been provided by the staff:

Mischaracterization of the Views of the Authorities

Page 1, para. 4, line 3: for "The recent decision to postpone indefinitely the first privatization of a large state-owned bank is a major setback" read "Unfortunately, in December 2007, the first privatization of a large state-owned bank—a key recommendation of the 2003 FSAP—was postponed until further notice in relation with deteriorating international market conditions."

Questions may be referred to Mr. Durand, MCM (ext. 38555).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

Corrected: 5/20/09

INTERNATIONAL MONETARY FUND

Algeria

Financial System Stability Assessment Update

Prepared by the Monetary and Capital Markets and Middle East and Central Asia Departments

Approved by Jaime Caruana and Mohsin S. Khan

January 16, 2008

This Financial System Stability Assessment (FSSA) Update is based on the work of the joint IMF/World Bank Financial Sector Assessment Program (FSAP) update team that visited Algeria in March and June 2007. The FSAP update findings were further discussed in November with the authorities during the Article IV consultation mission. The authorities have asked MENAFATF to conduct the AML/CFT assessment in July 2008, consistent with the timeframe established by the IMF and WB Executive Boards.

The mission comprised of Messrs. Durand (Chief), Crowley, Sensenbrenner, and Zoromé; and Mmes. Maechler, Oulidi, and Perez (all IMF); Messrs. Debals (Deputy), de Meneval, Mousset, Van Der Plaats, Gonnet, and Hassler and Ms. Zkri (all World Bank); and Messrs. Garrigues (consultant, payment systems expert), and Viala (expert, Commission de Contrôle des Assurances, des Mutuelles et des Institutions de Prévoyance, France). The main findings of the FSAP update are:

- **The Algerian financial system appears stable owing to recurrent government support to public banks.** This practice hampers the development of an efficient banking system. The private banks, which represent less than 10 percent of total banking sector assets, are all subsidiaries of reputable foreign banks and maintain a sound performance record and risk profile.
- **Since the 2003 FSAP, the authorities have implemented a number of reforms in the banking system, although progress remains slow.** These include further foreign bank entry, improvement of banking supervision, and the modernization of the payment system. ~~The recent decision to postpone indefinitely the first privatization of a large state-owned bank is a major setback.~~Unfortunately, in December 2007, the first privatization of a large state-owned bank—a key recommendation of the 2003 FSAP—was postponed until further notice in relation with deteriorating international market conditions.
- **The system still faces significant challenges in meeting the financial needs of a growing economy and areas of further improvements include**:
  - Clarifying the role of the state in the financial sector and creating a level-playing field between private and public banks;
  - Improving the operating environment of the financial sector by ensuring the reliability of financial statements, fully harmonizing financial sector laws and regulations, and strengthening the operations of the judicial system; and
  - Developing nonbank financing by creating a reliable and well-defined yield curve, introducing project financing techniques, and providing the legal framework for money market paper.
  - Improving liquidity management by: (i) creating closer coordination between the Bank of Algeria and the Ministry of Finance to control the liquidity impact of fiscal disbursements; and (ii) introducing a mechanism to insulate the liquidity generated from the repatriation of oil export proceeds.

FSAPs are designed to assess the stability of the financial system as a whole and not that of individual institutions. They have been developed to help countries identify and remedy weaknesses in their financial sector structure, thereby enhancing their resilience to macroeconomic shocks and cross-border contagion. FSAPs do not cover risks that are specific to individual institutions such as asset quality, operational or legal risks, or fraud.

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