LAPSE OF TIME

SM/20/123
Supplement 1

July 27, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Algeria—Financial System Stability Assessment—Draft Press Release**

Board Action:	Executive Directors' **consideration** on a lapse of time basis
Deadline to Request Board Meeting:	**Wednesday, July 29, 2020** **12:00 (noon)**
Publication:	Yes*
Questions:	Mr. Walsh, MCM (ext. 35929) Mr. Khallouf, MCM (ext. 38683) Mr. Lugo, MCM (ext. 39638)

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**

IMF Executive Board Concludes Financial System Stability Assessment with Algeria

FOR IMMEDIATE RELEASE

WASHINGTON, DC – [Month dd, YYYY] the Executive Board of the International Monetary Fund (IMF) concluded the Financial System Stability Assessment with Algeria[1] on July 29, 2020 without a meeting.[2]

The FSSA was prepared by a staff team of the IMF for the Executive Board's consideration on Wednesday, July 29. The FSSA reflects discussions with the Algeria authorities in September 2019, and is based on information available at that time. Given the focus on vulnerabilities and policy frameworks, many of the FSSA's findings and recommendations remain pertinent. The stress tests in this report account for the effects of COVID-19 in the baseline outlook and include a more adverse scenario that assumes the outbreak lasts longer than currently anticipated.

According to the FSSA, prior to the pandemic, credit growth in Algeria had been rapid, deficit monetization had raised macro risks, and international reserves had fallen substantially. Government interventions in the economy are pervasive and funded by hydrocarbon revenue, rendering Algeria highly vulnerable to exogenous shocks and leaving it with limited policy space to absorb them.

The Bank of Algeria (BA) has managed reserve requirements to address large liquidity shifts from hydrocarbon prices. Stress tests show that the COVID-19 shock is likely to leave some banks undercapitalized, and if prolonged, could result in systemwide undercapitalization. While the authorities have made key improvements since the last FSAP, financial supervisors lack independence, and risk management overall could be improved. Although supervisory rules appear adequate, a large stock of legacy NPLs was potentially underprovisioned. Liquidity management is underdeveloped. Subsidies administered via the financial sector should be reformed and inclusive finance and digital payments better developed.

Looking ahead, supervisors should meet regularly, and the Banking Commission should ensure all banks abide by prudential and AML/CFT regulations, issuing sanctions where warranted. The regulatory framework should be strengthened, notably on bank governance internal controls, and politically exposed persons (PEPs). Better credit risk management is needed, and NPL provisioning should be better monitored and enforced. Interbank rate fluctuations should be limited within a mid-corridor system and the money market better developed. A crisis management framework, including a special resolution framework, should be introduced, and mechanisms for systemic risk oversight restarted. Better corporate governance and reform of subsidy programs, along with better credit risk supervision, would help contain sovereign-bank linkages.

---

[1] The Financial Sector Assessment Program (FSAP), established in 1999, is a comprehensive and in-depth assessment of a country's financial sector. FSAPs provide input for Article IV consultations and thus enhance Fund surveillance. FSAPs are mandatory for the 29 jurisdictions with systemically important financial sectors and otherwise conducted upon request from member countries. The key findings of an FSAP are summarized in a Financial System Stability Assessment (FSSA).

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.