Algeria: Summary of the Tax System, 1999

(All amounts in Algerian dinars)

Tax	Nature of Tax	Exemptions and Deductions	Rate
			Imported products: B. Cigarettes a. dark tobacco 2,534/kg b. light tobacco 2,534/kg C. Cigars 2,990/kg D. Smoking tobacco 1,460/kg E. Other tobacco 1,460/kg
2.5 Tax on petroleum products	Tax on domestically consumed petroleum products.	Exported products.	Premium gasoline 95% Regular gasoline 77% Fuel oil 10% Gas oil 13% Propane 28% Butane 62% GPL 246%
2.6 Tax on professional activities (*Taxe sur l'activitié professionelle)* Allocated in full to local governments.	Turnover tax on individuals or companies subject to IRG or IBS.	Several.	2.55%.
3. Taxes on international trade			
3.1 Customs duties (*Droits de Douane)*	Levied on imported goods.	Investment goods and products directly used in hydrocarbon prospecting and exploitation. Goods imported by the Ministry of Defense.	5%, 15%, 25%, and 45%; all duties are assessed ad valorem on C.I.F. values (except for products subject to minimum dutiable values).
3.2 Service fees (*Redevance Douanière*, RD and *Redevance pour Formalité Douanière*, RFD)	Flat fiscal duties on imports.	Same as for customs duties.	0.4% RD and 2% RFD; all duties are assessed ad valorem on C.I.F. values (except for products subject to minimum dutiable values).

Report on the Observance of Standards and Codes

Basel Core Principles

Algeria

Prepared by a staff team from the International Monetary Fund and the World Bank in the context of an Article IV mission, on the basis of information provided by the Algerian authorities.

The International Monetary Fund
June 2000

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CORE PRINCIPLE ASSESSMENT SUMMARY[1]

COUNTRY: ALGERIA

I. General

1. In the context of the Article IV consultation discussions, a joint IMF/World Bank team prepared the following assessment of Algeria's compliance with the Basel Core Principles for Effective Banking Supervision.[2]

2. The team based its assessment on intensive discussions with representatives of the different subdivisions of the Bank of Algeria's Departments of Research, Credit and Inspection, as well as with the Vice-Governor of the Bank of Algeria. It also incorporates the information collected or views expressed during meetings with heads of most state-owned banks and some private commercial banks. The assessment is based on these discussions, as well as written material, notably Algeria's Banking Law of April 10, 1990. The assessment team enjoyed the full cooperation of its counterparts at the central bank, which devoted a lot of their time to the discussions and provided all the information that was available.

II. Institutional and Market Structure

3. Regulation and supervision of the banking sector in Algeria is shared between three institutions but the Bank of Algeria has the main responsibility both operationally and through the central role played by the governor. The Banking Law 90–10 of April 10, 1990 (*loi sur la monnaie et le crédit*) defines the principles and modalities of surveillance of the Algerian banking system. This task is shared between three institutions:

- The Money and Credit Council is responsible for licensing and regulation (Arts. 44 et seq.).

- The Banking Commission is in charge of surveillance and has jurisdiction and powers to take sanctions (Arts. 143 et seq.).

- The central bank is responsible for implementation (Arts. 91 et seq., Art. 148).

The Money and Credit Council is also the Executive Board of the Bank of Algeria (Art. 42).

[1] The assessment was conducted in November 1999. It was coordinated by Mr. Durand (IMF) and conducted by a joint IMF/World Bank team comprising Messrs. Védrenne-Lacombe (World Bank) and Chaize (Bank of France, retired).

[2] The assessment was conducted following the "Core Principles Methodology," which has been approved by the Basel Committee on Banking Supervision, as well as by the Core Principles Liaison Group, in which the IMF and the World Bank are represented. The compliance was measured against essential criteria only.

4. The Money and Credit Council and the Banking Commission are collegiate bodies. The members of the Banking Commission are appointed for a renewable five-year term (Art. 144). Salaries, expenses, and attendance fees of the members of both institutions are paid by the central bank (Arts. 24, 36, and 144). The central bank prepares draft regulations and takes care by delegation of the banking commission of off-site surveillance and on-site inspections.

5. The Governor, who has a six-year term, chairs the three institutions and assumes the ultimate responsibility for policy implementation and for the unity of action of the whole group. He can only be removed for serious dereliction of duty (Art. 22). While holding this office, the Governor may not hold any legislative, governmental, or civil service office or exercise any other professional activity: nor may he borrow (Art. 23).

6. The market structure is characterized by the strong presence of the public sector. As of end-1999, the banking system was composed of the Bank of Algeria, 17 commercial banks, and 10 other financial institutions. There were 6 public banks (including CNEP, the former savings and loan institution, which was transformed in a commercial bank in 1997). Private banks—domestic or foreign-owned—have been allowed to enter the market since the beginning of the 1990s. One of them—El Baraka Bank—follows Islamic banking principles and was chartered as soon as 1990. The other private banks were chartered between 1997 and 1999. Public banks still dominate the banking sector. Their share of total assets and deposits is estimated at about 95 percent. Credit to the economy by the banking system remains small (about 30 percent of GDP).[3]

7. Since 1991, government-owned banks have been repeatedly restructured. Indeed, despite the introduction of market-based reforms in the early 1990s, they have lacked the institutional framework and the experience to promote efficient financial intermediation. Moreover, they have been burdened by a legacy of directed lending to public enterprises and sectoral credit specialization, which have weakened the quality of their portfolios considerably. A cleaning-up of their balance sheets had to be done several times in the 1990s, in particular through substitution of government bonds for nonperforming loans to public enterprises and recapitalization.[4]

8. Despite these efforts, public banks' operational efficiency remains mediocre at best. They fail to provide some basic banking services to large segments of the population. This is attested by the fact that households are still reluctant to become customers of public banks for basic banking services. Indeed, most of them use CCP (the postal system's financial arm) for fund transfers and cash withdrawals. For a significant part, this reluctance stems from the

[3] Against about 50 percent of GDP in Tunisia and Morocco.

[4] Public enterprises were also restructured in the 1990s. This process led notably to the closure of about a thousand small enterprises/units and to about 450,000 layoffs.

severe shortcomings of the payments system (e.g., the check clearance process may take up to several weeks).[5]

9. There are still serious doubts regarding government-owned banks' profitability and solvency. Returns on assets and on equity are particularly low in international or even regional comparison. This phenomenon has various causes. First, banks have suffered from their continued financial support, sometime at the behest of past governments, to loss-making public enterprises. Moreover, capitalization of interests due on government bonds have created a liquidity constraint and implied recourse to costly central bank refinancing. In addition, losses on credit extended to the private sector have also been significant, pointing to a possible lack of expertise and loose internal controls. Second, the cost of banks' resources is high relative to lending rates. Given the low mobilization of savings in the banking system and the reluctance of households to hold sight accounts in public banks, the latter have to resort extensively to resources, such as central bank refinancing,[6] whose cost sometimes exceeds the yield of some assets (such as business equipment loans, whose rates do not appear market-determined). In this context, banks' compliance to capital adequacy ratios hinges on the large share (about 20 percent) of claims on the government in their balance sheets and the implicit government guarantee on nonperforming loans to public enterprises.

III. Main Findings

10. The Basel Core Principles (CPs) are grouped into seven major categories: (i) preconditions for effective banking supervision; (ii) licensing and structure; (iii) prudential regulations and requirements; (iv) methods for ongoing supervision; (v) information requirements; (vi) formal powers of supervision; and (vii) cross-border banking.[7]

11. **Preconditions for effective banking supervision (CP 1).** As a result of many years of implicit guarantee by the treasury of dominant state-owned banks, the "culture" of banking and banking supervision is not yet fully developed. This may result in delays before newly enacted regulations and guidelines are fully implemented across the banking system. In addition, the difficult financial situation of major players in the banking system and the weakness of the operational capacity of state-owned banks are both an impediment for the development of an efficient banking supervision system. Also, state ownership of the main banks potentially weakens banking supervision efficiency.

12. The Banking Law and relevant regulations are considered sufficient to cover banking activities from a prudential standpoint. Nevertheless, the central bank will have to find a

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[5] The authorities have requested the World Bank's assistance in tackling this issue.

[6] The average refinancing rate was about 12 percent in 1999 due to the intensive use of the overdraft facility (whose rate is 19 percent) by some banks.

[7] See Appendix I: summary of assessment findings.

suitable opportunity to clarify in its legislation what is covered by other activities that banks may undertake, as well as to define the modalities for coordination between the banking system supervisors and the financial market supervisors.

13. **Licensing and structure (CPs 2–5).** These principles focus on the definition of banking activities and the proper use of the name "bank" as well as supervisory means to protect the sound ownership and structure of banks. Algeria is compliant with all the principles in this group. Most of the licensing criteria have been met. However, some financial institutions were licensed before the current procedures were introduced; their situation should be reviewed and necessary steps should be taken to bring them into compliance. While the Banking Law allows insurance companies to conduct on a derogatory basis some banking operations, it would be desirable to enforce a clear separation between banking and insurance operations. Bank investments must also be regulated.

14. **Prudential regulations and requirements (CPs 6–15).** There is a substantial need for improved enforcement of the existing regulations. This would entail strengthening prudential reporting, and bank surveillance and inspection. The supervisory authorities have almost completed a major project to define prudential standards and are contemplating issuing new regulations on internal bank controls. The new texts comply with international standards, with the possible exception of coverage of certain risks. For instance, Algerian banks are required to maintain a minimum level of capital and an 8 percent risk-weighted minimum capital adequacy ratio (CP 6). The risk-weighted ratio is based on the model of the Basel Capital Accord but does not include the Basel norms for market risks. Moreover, capital ratios are not calculated on a consolidated basis, although this is for the time being a minor problem in practice.

15. On large exposures (CP 9), there is a regulation but the authorities have not been able to check compliance with it because these exposures are not being reported adequately. There are also rules for credit granting and for the evaluation of loans and of loan-loss provisions (CPs 7 and 8); the current legislation requires banks to regularly evaluate their loans and to provision doubtful loans, but regulatory time limit on reporting to the supervisory authorities of nonperforming loans or on the classification of claims should be enforced.

16. **Methods for ongoing supervision (CPs 16–20).** This group of principles relates to the supervisory methods that should be applied, both on-site and off-site, and the necessity to evaluate these methods qualitatively on an ongoing basis. The principles stipulate the need for supervision of banks on a consolidated basis.

17. On-site inspection has been fairly limited until now. It has only consisted of examinations of limited scope—examinations of agencies or small private banks and a few cross-sectional thematic surveys. As of November 1999, the major banks, all of them public, had not yet been subjected to any global or in-depth examination.

18. The resources available to the Inspection Department are still limited; a major plan to boost these resources is being implemented; it will quadruple the number of staff available

over the next five years. An off-site surveillance unit has already been established and the computer equipment put in place. The Inspection Department is also expected to centralize and use the information on banks and enterprises held by other departments, especially Research and Credit.

19. Algeria does not apply consolidated supervision. However, this has been so far less harmful to effective supervision than is the case in many other countries, because of the structure of the banking system.

20. **Information requirements (CP 21).** The central bank, until now, has been receiving monthly accounting statements, which it analyzed mainly for monetary policy purposes. As of end-December 1998, the banks have been required to calculate the prudential ratios themselves. Thus far, only the Research Department has been estimating the capital adequacy ratio of the main credit institutions based on the results, summarily updated, of an external audit conducted in 1995.

21. **Formal powers of supervisors, including remedial measures and exit (CP 22).** The law gives legal powers to the Bank of Algeria to call for remedial action for weak banks, so that Algeria broadly meets the requirements of Principle 22. Some aspects of these provisions should be specified, including their legal underpinning, the ability to appeal the central bank's decisions, the suspension of effects of judgments pending appeal, and the procedures in place to enforce sanctions. Similarly, the Banking Commission should be able to turn to the courts if the offenses committed are of a penalty nature. But the major weakness lies in the absence of internal explicit rules mitigating against supervisory forbearance. Possible shortcomings relating to remedial action should also be seen against the background that all major banks are owned by the government.

22. **Cross-border banking (CP 23–25).** These Principles are all related to issues such as cooperation between home and host country supervisors and exchange of information, consolidated supervision on a global basis, and equal treatment of foreign establishments. The national supervisory authorities have not established any formal bilateral arrangements with any foreign supervisory authorities. The possibility of signing such agreements is raised in legislation on the installation abroad of banks incorporated in Algeria, and informal contacts are set up as necessary. Locally incorporated banks can be prohibited from undertaking activities in countries where the laws on banking secrecy could prevent the communication of information necessary for their supervision. The supervisory authorities, acting as the supervisory authorities of the host country, would not refuse to supply information to the supervisors of the country of origin, provided there was reciprocity and confidentiality.

IV. Main Recommendations and Response of the Authorities

23. Most of the regulatory framework is already in place; new regulations should be introduced, however, to deal with foreign exchange and interest rate risks and money laundering. But first and foremost, the authorities should develop their capacity to enforce efficiently the existing regulations.

24. The priority is to improve the prudential reporting and the collection of information likely to lead to a reliable assessment of the situation of the banks vis-à-vis the prudential norms. Despite government ownership of the larger banks, the supervisory institutions should acquire a thorough knowledge of each of the major players in the banking sector and, more particularly, of the quality, distribution, and profitability of their assets, as well as of the reliability of their information systems and transparency. Coordination with external auditors should be an essential step in this process.

25. In order to deal with the specific background against which regulators are operating, it is essential for the authorities to focus on the measures needed to allow a smooth transition to a performing banking system. This would entail:

- conservatively applying licensing procedures so as to avoid the creation of new banks with unclear business plans or management skills whose quick failure would unnecessarily damage the public confidence;

- defining a policy for banks' exit to allow the rapid and orderly exit from the system of nonviable banks;

- establishing a legal framework and defining procedures with which supervisors can manage a banking crisis situation; and

- giving particular attention to compliance with the principles of good governance, which, in both the public and the private banking sectors, means providing a clear demarcation for the shareholders' right to intervene in the management of a bank.

26. The full report on the assessment of Algeria's compliance with the Basel Core Principles was discussed with the authorities. They expressed broad agreement with the conclusion reached by the staff. The authorities took a very constructive approach showing a genuine desire to start as soon as possible to improve the situation. Based on the findings of this assessment, the authorities have already embarked on an intensive program of technical assistance with IMF experts aiming at developing their supervisory capacity[8] and increasing their effective knowledge of the banking system from a financial—as well as operational—perspective, which is a prerequisite for an efficient approach to bank supervision. The

[8] As a result, on-site inspections of the government-owned banks have started to be conducted in the first half of 2000.

program involves the training of on-site personnel, including helping them in the preparation of on-site limited-scope inspections in the major banks, the identification of the information needed to fulfill off-site monitoring, the organization of the storage of the data received to foster its availability for processing, streamlining of the current organization to better identify responsibilities, and the development of synergies among data collecting departments.