

The financial Strategy of Revenue Regulation Fund (RRF) in Algeria (2000-2016)

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Abstract:

This study aims to show the role of the revenue regulation fund as a mechanism to balance the State's General Budget Within the framework of financial policy. Considering that Financing of the state budget and the implementation of their development plans Depend heavily on petroleum income tax, which is related directly to oil prices.

And because of the fluctuations in oil prices in the global market Which affect to the public revenues Through the petroleum income tax, Algeria has created a Fund for the Regulation of Revenue Which considered as a tool for managing the resources of petroleum tax To cover the budget deficit on one side and repayment of the debt on another side.

Keywords: Revenue Regulation Fund; Petroleum Tax; Budget Policy

JEL Classification: H61, H62, H68.

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1. INTRODUCTION

Algeria has pursued a policy of expansionary spending because of the financial resources available resulting from oil price surpluses and accumulated from the beginning of the millennium, which had an impact on the financing of various development plans. And accompany with it, Algeria has resorted to creating a revenue regulation fund to absorb the surpluses of petroleum tax on the estimates of the financial laws in order to finance the treasury deficit on one hand and repayment of debt on the other hand.

However, with the beginning of the collapse of oil prices in the global market, (mid -2014), and the impact on the balance of various indicators of the Algerian economy, the RRF had an important role to confronting the negative repercussions on the state’s general budget, by ensuring the financing of the accumulated budget deficit. In addition, other measures relating to expenditure policy and fiscal policy, and this contributed to the treatment of negative repercussions of the decline in oil prices.

The main problem: What is the role of the Revenue regulation Fund (RRF) in the budget performance of Algeria during the period (2000-2016)?

We will try to treat the main question according to the following axes:

1. Presentation of the revenue regulation Fund (RRF)
2. Evolution of the budget deficit in Algeria during the period (2000-2016)
3. Role of the RRF in the budgetary management in Algeria (2000-2016)

1. PRESENTATION OF THE REVENUE REGULATION FUND

The Revenue regulation Fund is considered as mechanism for the management of petroleum tax resources.

The Resource Tuning Fund is included in one of the Treasury Account Categories; it is the category of private allocation accounts, which received wide attention in the Algerian budget system.

The revenue regulation Fund was established by Law N° 2000-02 of 27 June 2000, including the Supplementary Finance Law 2000 (Law, 2000) .

Article 10 of this law stipulates that: A special allocation account No. 103-302 entitled "revenue regulation Fund" shall be opened in the Treasury's writings and shall be credited to this account:

In the Income section:

- Surplus tax rates resulting from a higher level of fuel prices than those expected under the Finance Law.
- All other income related to the operation of the Fund.

In the expenditure section:

- Controlling the expenditures and balance of the budget specified by the annual finance law.
- Reduction of public debt.

The Minister responsible for finance shall be deemed to have ordered the main disbursement of such account.

In pursuance of this article, Executive Decree N° 02-67 of 06 February 2002 (Decree, 2002). As well as Ministerial Decision No° 122 of 16 June 2002 (Ministerial Decree N° 122, 2002) to determine the list of income and expenses of the account.

The expenditure is detailed as follows:

- Control the expenses and balance of the budget specified by the annual Finance Law,
- Reduction of public debt by: payment of the public and external public debt due for payment, and any advance payment of public debt.

This fund was used to achieve the principle of balance in the general budget, and as is known that in Algeria, the vote on the state's general budget is based on the deficit in some cases. So this fund used to restore balance to the public budget. Which affects the system of transparency in public finances, the budget deficit was also a mechanism of budget policy to achieve different goals.

The above article has been modified under Article 66 of Law N° 03-22 of December 28, 2003, which includes the Finance Law of 2004, as stated in the text of the article:

"Article 10 of Law N° 2000-02 of 27 June 2000, which contains the Supplementary Finance Law 2000, shall be modified and edited as follows: A special allocation account number 103-302, entitled "Revenue Regulation Fund, shall be opened in the Treasury's writings and credited to this account:

In the Income section:

- Excess of value resulting from the level of revenues of oil revenues exceeding the estimates of the Finance Law.
- Advances of the Bank of Algeria directed to the vital management of external indebtedness.
- Any other income related to the operation of the Fund.

In the expenditure section:

- To compensate for the missing value resulting from the level of revenues from the oil tax less than the estimates of the Finance Law.
- The reduction of public debt.
- The Minister of Finance is the principal authority to disburse this account.
- The modalities of the application of this article shall be determined by regulation. "
- Another change was included in the Supplementary Finance Law of 2006 (Order04, 2006), as article 25 modified the expenditures of the Fund, which contained in the Supplementary Finance Law 2000 and became as follows:
 - Financing Treasury Deficit, provided that the fund balance is not less than 740 billion dinars.
 - Reducing the public indebtedness.

However, according to law N°16-14 of December 28, 2016, (law 16-14, 2016) which includes the Finance law of 2017, the Fund balance ceiling has been deleted. And the article n° 121 provided for an amended to article

n° 10 of the supplementary financial Law of 2000, Amended and supplemented. And therefore is charged to the expenditure section of the revenue regulation Fund:

- Financing Treasury Deficit,
- Reducing public indebtedness.

On the basis of the Financial Law 2017, Executive Decree n° 17-112 dated March 14, 2017 amends and supplements, executive decree n° 02-67 of February 6, 2002, (Executive Decree n° 17-112 , 2017) which defines the modalities of the management of special allocation account n° 103-302 entitled "Revenue regulation Fund". According to Article 01, it is included in the expenditure section:

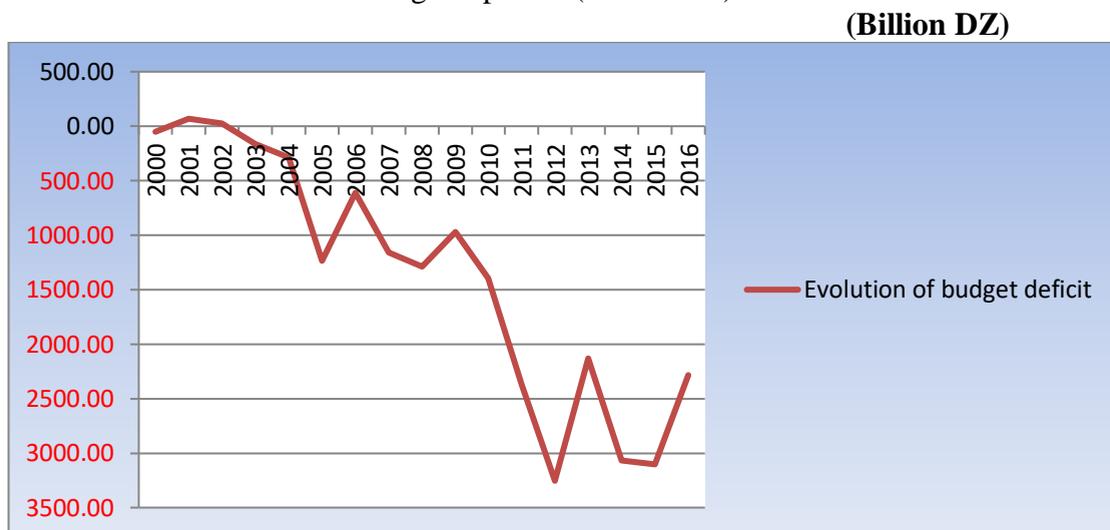
- Financing Treasury Deficit,
- Reducing public indebtedness,
- (Rest unchanged)

2. EVOLUTION OF TH BUDGET DEFICIT IN ALGERIA DURING THE PERIOD (2000-2016)

Since the beginning of the millennium, the volume of public expenditure has increased significantly, because the policy of expansionary spending through the approved development programs such as the economic recovery program (2001-2004), the supplementary program to support growth (2005-2009), and the plan to consolidate the growth (2010-2014). Even for the management expenses that have risen after raising the guaranteed minimum wage and the increase in wages, grants and allowances in the public sector since 2008. As well as the increase of the social transfers associated with various support formats. This is what led to widening the gap between public expenditure and public revenues of the state.

Knowing that during this period, Algeria has taken the mechanism of the revenue regulation Fund to cover the budget deficit. It is a fund that derives its resources from oil tax surpluses. However, after falling oil prices in mid-2014, the Fund's resources began to decline.

Fig.1. Evolution of the Budget Deficit in Algeria during the period (2000-2016)



Source: Prepared by the researcher, based on statistics of the Ministry of Finance website: www.mf.gov.dz

Since 2000 to 2016, the government has been financing the treasury deficit, based on bank financing, non-bank financing, and a little external indebtedness.

In 2001, there was an increase in the volume of public revenues over public expenditure by about 68 billion dinars (dz). And since 2003, the budget deficit has increased to about 164.6 billion dinars (dz), excluding the allocation accounts for the treasury, which had significant surpluses estimated at 186.9 billion dinars (dz) [Excluding the surplus of the revenue regulation Fund, which reached 476 billion dinars (dz) in 2003, about 156 billion dinars were allocated to repay debts].

In that year, the treasury deficit was about 10.2 billion dinars (dz). It has been covered by bank financing.

In 2004, the Treasury deficit increased significantly to reach 187.3 billion dinars (dz). It was about 285.3 billion dinars (dz) without balance of the allocation accounts of the treasury, which amounted to about 109.8

billion dinars (dz). It was covered through non-bank financing as well as the revenue regulation Fund.

Thus, the increase in the budget deficit continues from year to year. And reached the year 2012 to about 3254 billion dinars (dz), and the treasury deficit was about 3246 billion dinars (dz).

The deficit was financed by bank and non-bank financing as well as the revenue regulation Fund.

The budget deficit in 2013 fell to about 2128 billion dinars (dz), and it rose again in 2014 to about 3068 billion dinars (dz). Due to the large increase recorded in public expenditure, which moved from 6024 billion dinars (dz) in 2013 to about 6995 billion dinars (dz) in 2014.

In 2015, despite the increase in public revenues to about 4552 billion dinars (dz), but public expenditure also continued to rise with high record in recent years, amounting to about 7656 billion dinars (dz), of which about 4617 billion dinars (dz) for current expenditure and 3039 billion dinars (dz) as capital and investment expenditure. Thus the budget deficit was 3103 billion dinars (dz).

In view of the austerity policy and fiscal measures taken in 2016, the budget deficit decreased to about 2285 billion dinars (dz). Where the public expenditure decreased by 4.6% compared to 2015, and the public revenues rose by 10% compared to 2015. Knowing that in 2015, the National Loan for economic growth was used to finance the treasury deficit.

3. ROLE OF THE RRF IN THE BUDGETARY MANAGEMENT IN ALGERIA DURING THE PERIOD (2000-2016)

A. Evolution of the RRF in the light of oil prices fluctuations.

As it is known, the state's budget general in Algeria depends on the reference price of the oil price when it is prepared. Therefore, any change in oil prices in the world market will affect on the state budget on one side and the revenue regulation fund on other side. The reference price has changed over recent years from 19 \$ a barrel to 37 \$ a barrel to 50 \$ a barrel in 2017.

In order to take advantage of the surpluses derived from high oil prices and their optimal utilization, the Algerian government has established the revenue regulation Fund in 2000, which was of great importance in the accumulation of surpluses resulting from the increase in oil prices, as did many oil exporting countries. This fund is considered as a special allocation account under the supervision of the Minister of Finance, it is financed through the surplus of the value of the petroleum tax from the estimates of the Finance Law and the advances of the Bank of Algeria which is directed to the effective functioning of external debt and various other incomes related to the Fund. It also aims to pay the debt and cover the state budget deficit resulting from the decrease of the oil revenues and the deficit of the treasury in general.

Although Algeria has relied on the revenue regulation Fund to finance the budget deficit, but this fund was not a safety barrier in front of the shock of falling oil prices middle-2014.

The following table gives us a general picture of the revenue regulation fund during the period (2000-2016)

Table 1. General Status of the Revenue Regulation Fund (2000-2016)

	Oil tax recovered	Oil tax (Budget)	Oil tax Surplus	Bank of Algeria advances	RRF availability before deduction	Deduction for public debt	Payment of Bank of Algeria advances	Financing of the budget deficit	Total deductions	RRF balance after deduction
2000	1 173 237	720 000	453 237	0	453 237	221 100	0	0	221 100	232 137
2001	964 464	840 600	123 864	0	356 001	184 467	0	0	184 467	171 534
2002	942 904	916 400	26 504	0	198 038	170 060	0	0	170 060	27 978
2003	1 284 974	836 060	448 914	0	476 892	156 000	0	0	156 000	320 892
2004	1 485 699	862 200	623 499	0	944 391	222 703	0	0	222 703	721 688
2005	2 267 836	899 000	1 368 836	0	2 090 524	247 838	0	0	247 838	1 842 686
2006	2 714 000	916 000	1 798 000	0	3 640 686	618 111	0	91 530	709 641	2 931 045
2007	2 711 848	973 000	1 738 848	0	4 669 893	314 455	607 956	531 952	1 454 363	3 215 530
2008	4 003 559	1 715 400	2 288 159	0	5 503 690	465 437	0	758 180	1 223 617	4 280 073
2009	2 327 675	1 927 000	400 675	0	4 680 747	0	0	364 282	364 282	4 316 465
2010	2 820 010	1 501 700	1 318 310	0	5 634 775	0	0	791 938	791 938	4 842 837
2011	3 829 720	1 529 400	2 300 320	0	7 143 157	0	0	1 761 455	1 761 455	5 381 702
2012	4 054 349	1 519 040	2 535 309	0	7 917 011	0	0	2 283 260	2 283 260	5 633 751
2013	3 678 131	1 615 900	2 062 231	0	7 695 962	0	0	2 132 471	2 132 471	5 563 511
2014	3 388 355	1 577 730	1 810 625	0	7 374 136	0	0	2 965 672	2 965 672	4 408 464
2015	2 275,1	1 722,9	552,2	0	4 960,4	0	0	2 886,5	2 886,5	2 073,8
2016	1 781,1	1 682,6	98,6	0	2 172,4	0	0	1 387,9	1 387,9	784,5

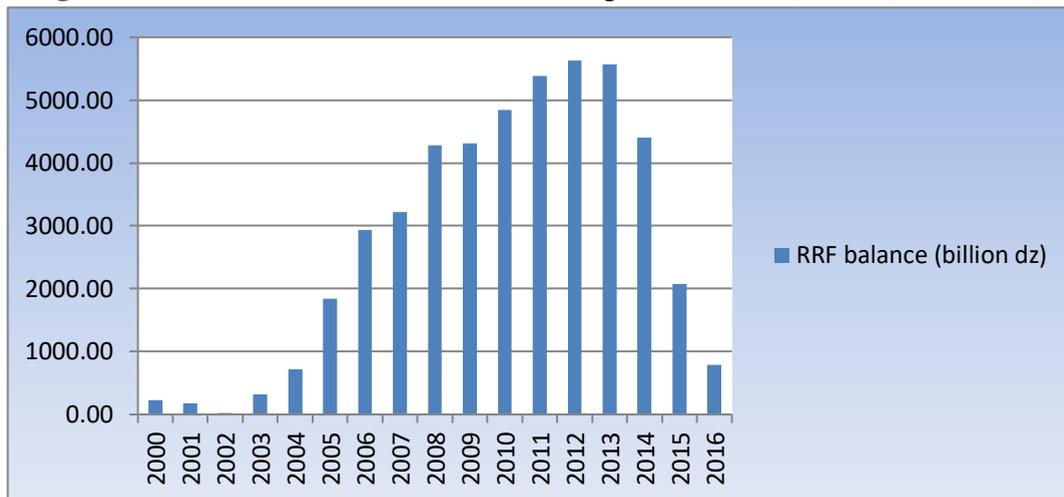
(Million Algerian Dinars-DZ)

Source: Prepared by the researcher, based on statistics of the Algerian Ministry of Finance. Website <http://www.mf.gov.dz>

B. Role of the RRF in the Treatment of Budget deficit during the period (2000-2016)

The Fund's balance has been steadily improving since its inception, due to the rise in oil prices, except for the years 2001 and 2002, where the oil prices fell, and affected the surplus of the oil tax and the balance of the Fund.

Fig.2. Evolution of balance of the revenue regulation Fund (RRF) (2000-2016)



Source: Prepared by the researcher, based on statistics of ministry of finance in Algeria.

Website: www.mf.gov.dz

However, the decline in oil prices did not affect the budget deficit in 2001 and 2002, as the price of oil did not fall below what is specified in the Finance Law as a reference price (19 \$ a barrel). But quickly the fund's balance increased in 2003 to 320 billion dinars (dz), 721 billion dinars (dz) in 2004, and 1842 billion dinars (dz) in 2005. Until 2005, his mission was to pay the public debt in the form of a debt management fund. This means that during the previous period, the resources of the Fund have not been directed to compensate the drop of oil tax for what is estimated in the Finance law. Through the important amendment that was in the finance law 2004. It is unreasonable to vote on a budget deficit, and then it will be funded through the revenue regulation fund.

The objective of the fund here is to compensate the low value of the oil tax estimated in the Finance law, after their objective which was based on control of expenditures and budget balance specified by the Annual Finance law. Especially, the increase in public spending in development programs such as the economic recovery program 2001-2004.

Also, through the same amendment included in the Finance Act 2004, a new resource has been added to the Fund, which are advances of the Bank of Algeria's to manage external debt to face the possibility of declining resources derived from oil tax and continue to advance payment of external debt.

The treasury deficit was financed from 2000 to 2004 by bank and non-bank financing. This measure has contributed to reduce the inflation, despite the high volume of government spending. With consideration that financing the budget deficit through the Fund directly leads to an increase in the volume of monetary mass. So we find that the fund was as a tool to absorb the monetary resulting from the financial surpluses of the oil tax.

Consequently, the government's policy was to accumulate these financial surpluses and use them to finance the treasury deficit in general and the budget deficit especially, when oil prices fell below the reference price, which was estimated at 19 \$ a barrel during that period.

In 2006, the fund's balance increased to 2931 billion dinars (dz). In this year, the fund began financing the treasury deficit as well as repaying public debt. Also in according to the supplementary finance law of 2006, a condition has been added for the revenue regulation Fund, it was that the fund balance should not be less than 740 billion dinars (dz) (Article 25, 2006).

The 2006 amendment did not specify the cause of the deficit which requires funding, but rather extended the funding of the budget deficit to the treasury deficit, whatever the cause of the deficit.

This modification in 2006 is due to the perceived financial surpluses that encouraged the government to pursue the expansionist policy

represented in spending programs such as the economic recovery program (2001-2004) and the supplementary program to support growth (2005-2009), which led to a high deficit. The deficit of the treasury in 2006 amounted to about 647 billion dinars (dz), of which 611 billion dinars (dz) as a budget deficit and reached about 1288 billion dinars (dz) in 2008.

Here, the revenue regulation Fund has played an important role in regulating the state budget and financing this deficit. Where the fund's balance in 2008 reached about 4280 billion dinars (dz) after allocating during the same year about 1223 billion dinars (dz) to finance the total deficit of which about 758 billion dinars (dz) to the budget deficit, and the rest to repay the public debt. Knowing that the reference oil price adopted in the general budget has become 37 \$ a barrel since 2008.

In 2009, the revenues from oil tax were reduced due to the global financial crisis, which affected to the fund, where the surpluses oil tax directed to the Fund in 2009 amounted to about 400 billion dinars (dz). Since that year, the fund's focus was mainly on financing the treasury deficit.

The year 2010 recorded an increase in the balance of the revenue regulation fund to reach about 4842.8 billion dinars (dz), representing 40.2% of GDP compared to 43% in 2009 (Algeria, Annual Report on the Economic and Monetary Evolution of Algeria, 2010, p. 78). Although the budget savings amounted to about 1695.8 billion dinars (dz) in 2010 compared to 1376 billion dinars (dz) in 2009. However, it was not allowed to finance the full investment expenditure of the State in 2009 and 2010.

As a result, the savings / public investment balance was 133.2 billion dinars (dz) in 2010. But the balance of the RRF remained high to reach about 4842.8 billion dinars (dz) in 2010 against 4316.5 billion dinars (dz) in 2009 in the form of financial savings for the treasury at the Bank of Algeria. (Algeria, Annual Report on the Economic and Monetary Evolution of Algeria, 2010, p. 83)

With the recovery of the oil market in 2011, the proceeds of petroleum revenue increased and the balance of the RRF rose to about 7143 billion dinars (dz), which about 1761 billion dinars (dz) was a deduction to finance the budget deficit. Knowing that the public savings in 2011 amounted to

1906.2 billion dinars (dz), which represents 28.5% of the total internal savings, and this allowed the financing of investment expenditure of the state in 2011.

In 2012, the balance of RRF reached to the highest level, it was 7917 billion dinars (dz), of which about 2283 billion dinars to finance the budget deficit. In this year, it was a very large expenditure to reflect the various development programs. We find that the capital expenditure increased to 2275 billion dinars (dz), of which more than 611 billion dinars (dz) for the housing sector which increased by 125.2% compared to 2011.

In addition, we note that an increase in the proportion of current expenditure to GDP to reach 31.2% compared to 26.7% in 2011. The balance of the fund at the end of 2012 remained about 5633.4 billion dinars (dz), which represents 35.6% of GDP, 87.9% of total revenues and 78.6% of public expenditure.

In 2013, a decline in the budget deficit was noted, and the financial capacity of the public treasury was maintained because of the accumulated financial savings and the low level of external debt. The public savings in 2013 amounted to 1736.6 billion dinars (dz). And through it, the State investment expenditures were financed by 92%. While the balance of the RRF reached the limit of 5563.5 billion dinars (dz).

In 2014, the oil market recorded a decline in prices, which was reflected in the oil collection in Algeria and then on various economic indicators. As the RRF depends mainly on the oil revenue, the Fund's balance was affected by the decline in oil prices. Also the impact was on the financing of budget deficit on another side. The Fund's balance in 2014 reached 4408 billion dinars (dz), after financing the budget deficit of about 2965 billion dinars (dz). Therefore the fund balance recorded a decrease of 20.67% compared to 2013. This is due to the increase of the budget deficit resulting from the continuation of expansionary expansion policy and the implementation of various development programs, where the ratio of budget deficit to GDP in 2014, was 7.3%.

While the oil prices continued to fluctuate at a low level at the end of 2015 and amounted to about 38 \$ a barrel, the decline continued in the beginning of 2016 to about 32 \$ a barrel. So the impact of this situation was directly on the RRF. Thus, the fund's balance continued to decline to reach 2073.8 billion dinars (dz) at the end of 2015 and 784.5 billion dinars (dz) at the end of 2016 (GDT). Because of the low oil tax revenues, and the high budget deficit which reached about 3103 billion dinars (dz) in 2015. And with the measures taken to rationalize public expenditure and increase the income of regular resources, the budget deficit for the year 2016 amounted to about 2285 billion dinars (dz).

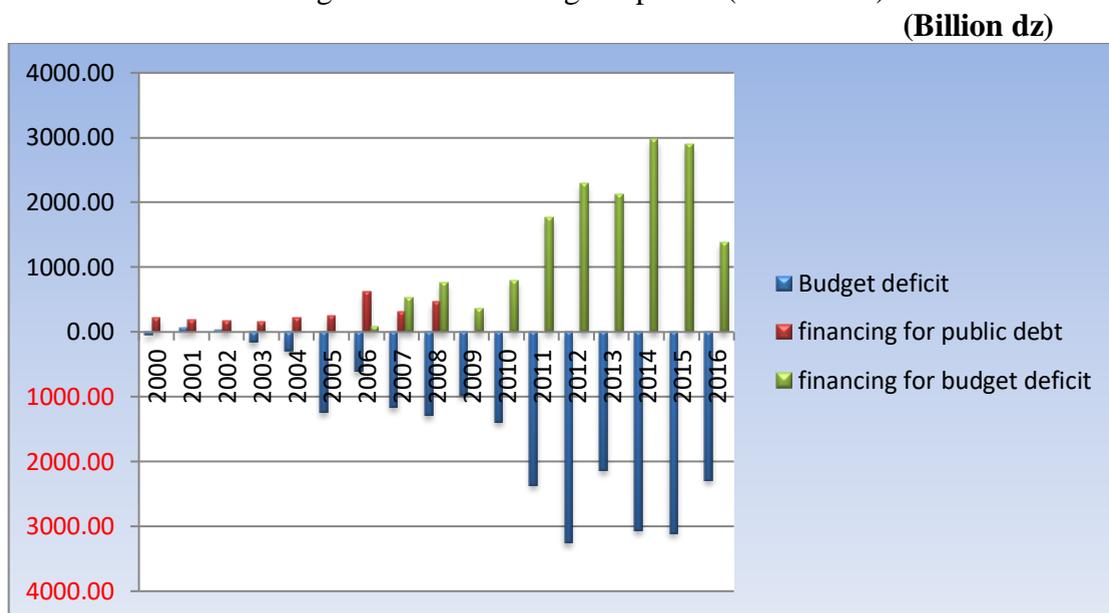
The Fund financing for treasury deficit has fallen, and recorded a value of 2886.5 billion dinars (dz) and 1387.9 billion dinars (dz) in 2015 and 2016, successively. While 58.1% of the treasury deficit for 2016 was financed by the Fund's resources, and the rest was covered by other sources of financing, especially the savings of other economic traders. (Algeria, 2016, p. 69)

In 2016, the flow of public savings (= Total revenues - management expenses) amounted to 450.8 billion dinars (dz), compared to 486.1 billion dinars (dz) in 2015, which means savings of 8.9%, despite that the savings rate was 21.7% in 2014. The State's investment expenditures in 2016 were financed by 16.1% of public savings, almost the same percentage in 2015, compared to 49.7% in 2014 and 96.5% in 2013.

Therefore, the public treasury's capacity to finance declined by 1387.9 billion dinars (dz) of its financial savings at the Bank of Algeria (Revenue Regulation Fund), so the balance of RRF was 784 billion dinars (dz) at the end of 2016 compared to about 2073 billion dinars (dz) at the end of 2015. Thus, the financial saving of the public treasury represented only 10% of the total expenditure in 2016, after it reached 93.7% in 2013. (Algeria, 2016, p. 77)

The following figure shows the financing of the revenue regulation Fund, either to repay the debts or to finance the budget deficit.

Fig.3. Evolution of financing of the budget deficit and public debt through the revenue regulation fund during the period (2000-2016)



Source: Prepared by the researcher, based on the statistics of the Ministry of Finance.

Website: www.mf.gov.dz

In 2017, and until the middle of the year, 5784 billion dinars (dz) was deducted from this fund to finance the budget deficit. Note that the reference price in 2017 is 50\$ a barrel, and the expected budget deficit is 1247 billion dinars (dz).

The RRF's accumulated funds from 2000 to 2016 amounted to about 19,109 billion dinars (dz), equivalent to about 234 billion dollars.

The government has taken new measures to finance the budget deficit, such as voluntary fiscal compliance, a loan for economic growth, and unconventional financing.

4. CONCLUSION:

Algeria has benefited greatly from the surpluses in the Revenue Regulation Fund due to high oil prices before 2014, which allowed it to pay

its debt and finance the budget deficit and the implementation of many development programs within the various government plans.

The decline in oil prices after 2014 was a major challenge to Algeria's economic stability. So the budget which depends on oil tax has been affected. And the budget deficit has increased, in addition to the deterioration of the resources of the revenue regulation fund.

The decline in oil prices after the middle of 2014 have been reflected in financial policy. Consequently, there were pressures on some spending programs, which forced the government to reconsider the expansionist policy adopted and take other measures to finance the budget deficit.

Despite that the funding capacity of the revenue regulation fund has allowed the Treasury in recent years to stimulate public finances from oil price fluctuations as well as from external shocks. But this situation showed the fragility of the tax structure outside hydrocarbons In front of the new structure of budget expenditures.

In this context, with regard to the Revenue Regulation Fund, it is necessary to give some recommendations:

- Adoption of financial governance for the management of the Fund;
- Activate the role of regulatory institutions to enhance transparency of public finances;
- Establishing of an independent authority to manage the fund;
- Give an investment role to the fund as the sovereign funds;
- Reviewing the resources and objectives of the Fund in line with the policy of economic diversification.

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