

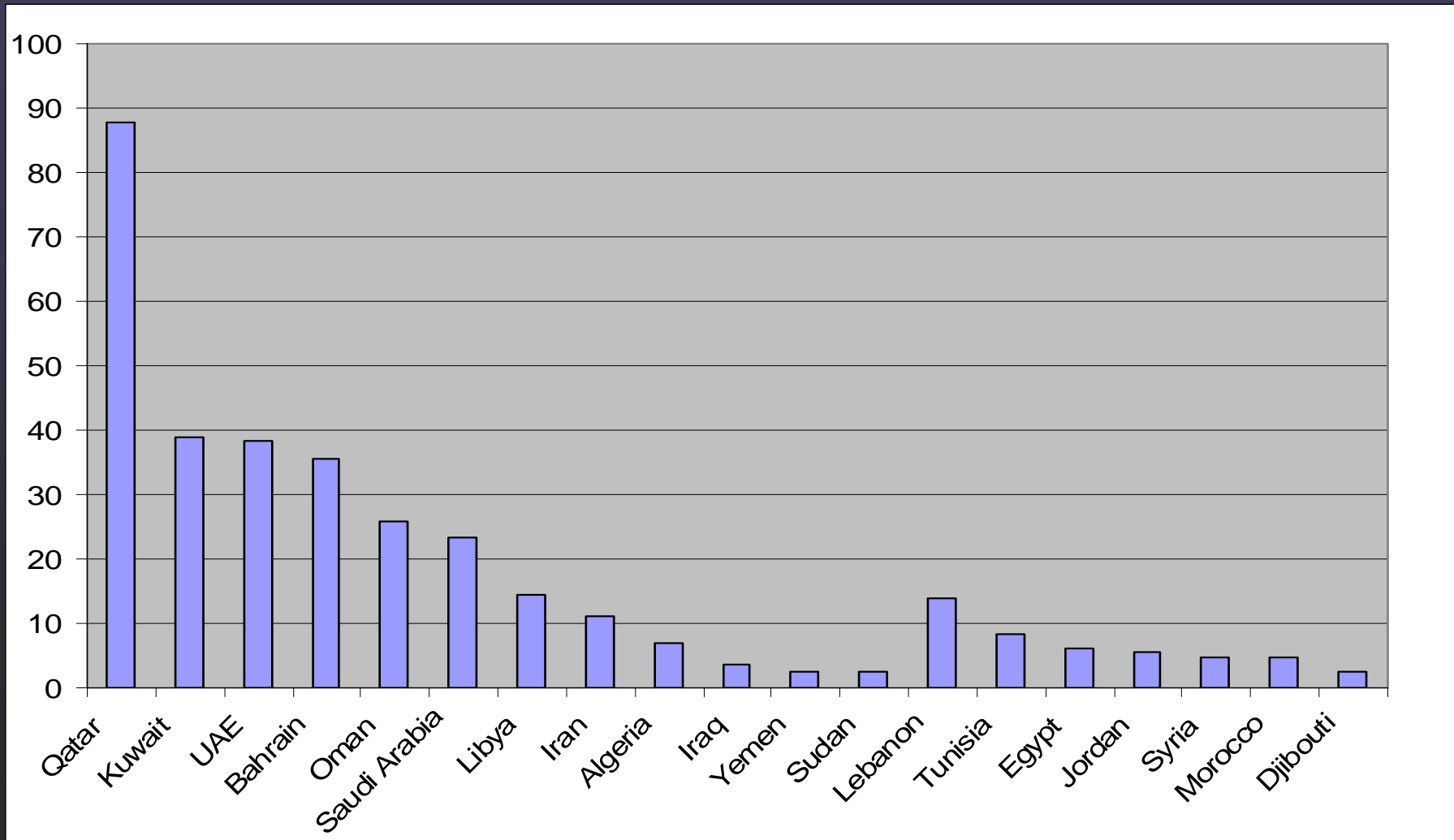
Deposit Insurance Promotes Stability: The MENA Experience

Mohammed Al-Jafari
Director General
Jordan Deposit Insurance Corporation

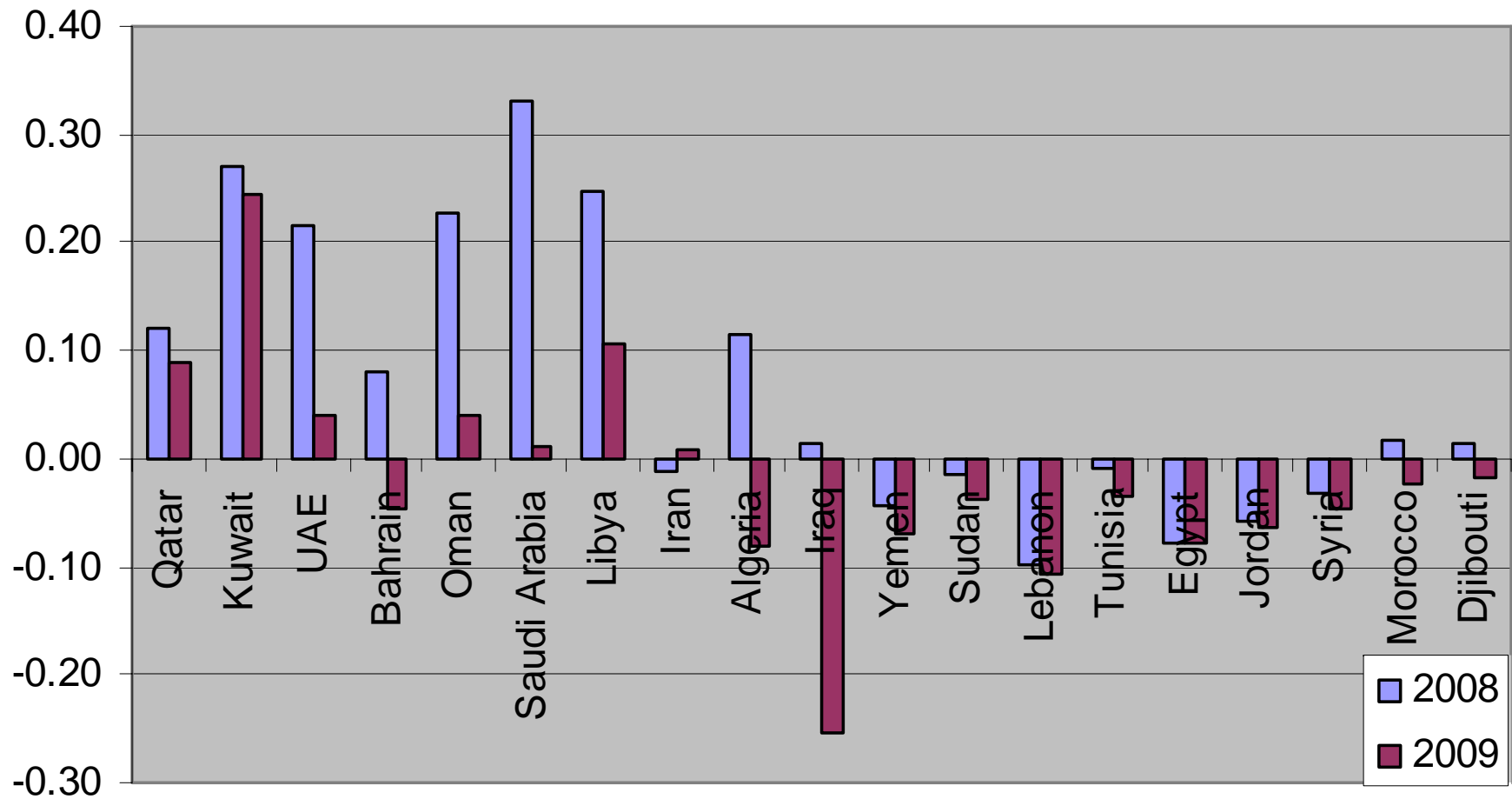
Areas to be Addressed

- MENA Economies
- Banking Sector in the Region: Overview
- Deposit Insurance Systems in the Region
- Spillovers of the Global Financial Crisis on MENA Economies
- Policy Responses and the Need to Balance the Act
 - No signs for robust recovery yet
- The Way Forward: Unwinding Blanket Guarantees and Wiping Out Longstanding Beliefs

MENA Economies: Structural Differences Per Capita GDP at PPP (000 US\$)

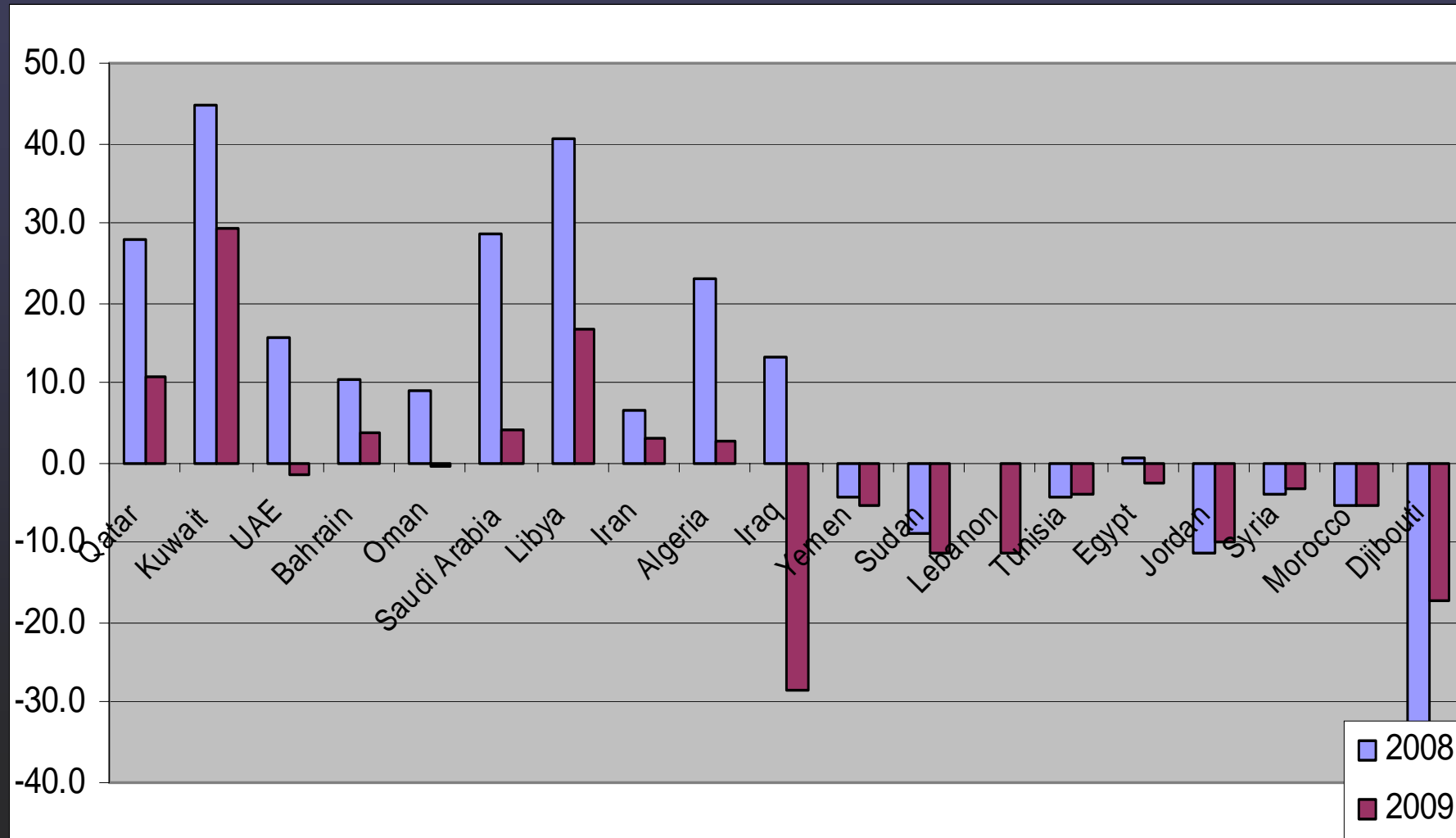


MENA Economies: Structural Differences: Budgetary Position (% GDP)

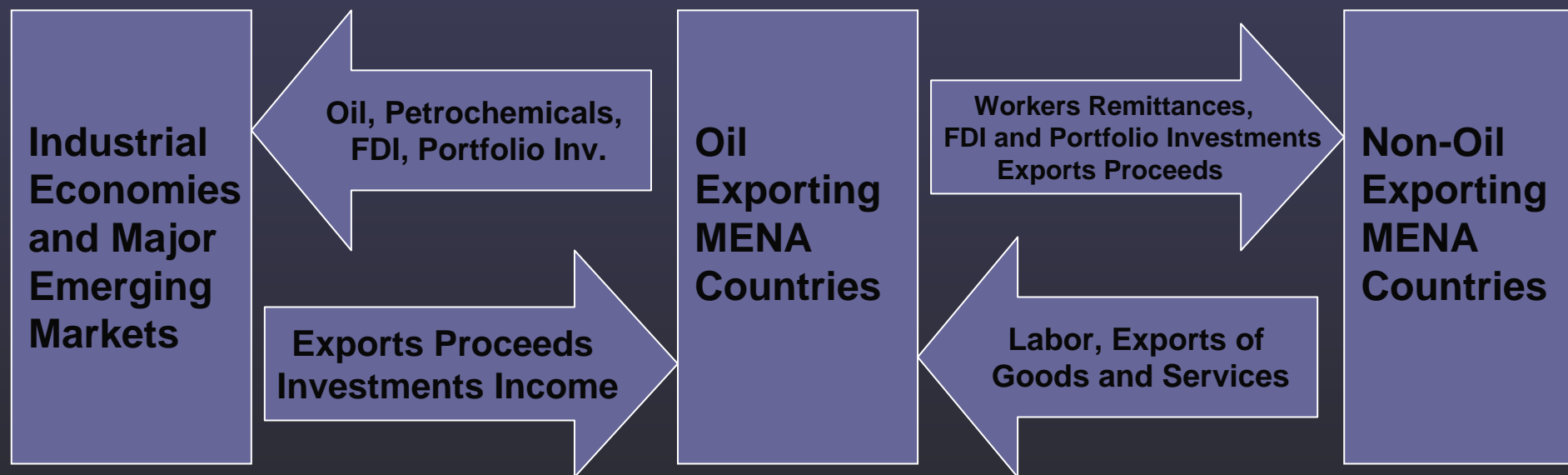


MENA Economies: Structural Differences

Current Account Position (% GDP)



Synergies for Growth in the MENA



Banking Sector in the MENA Region: Overview

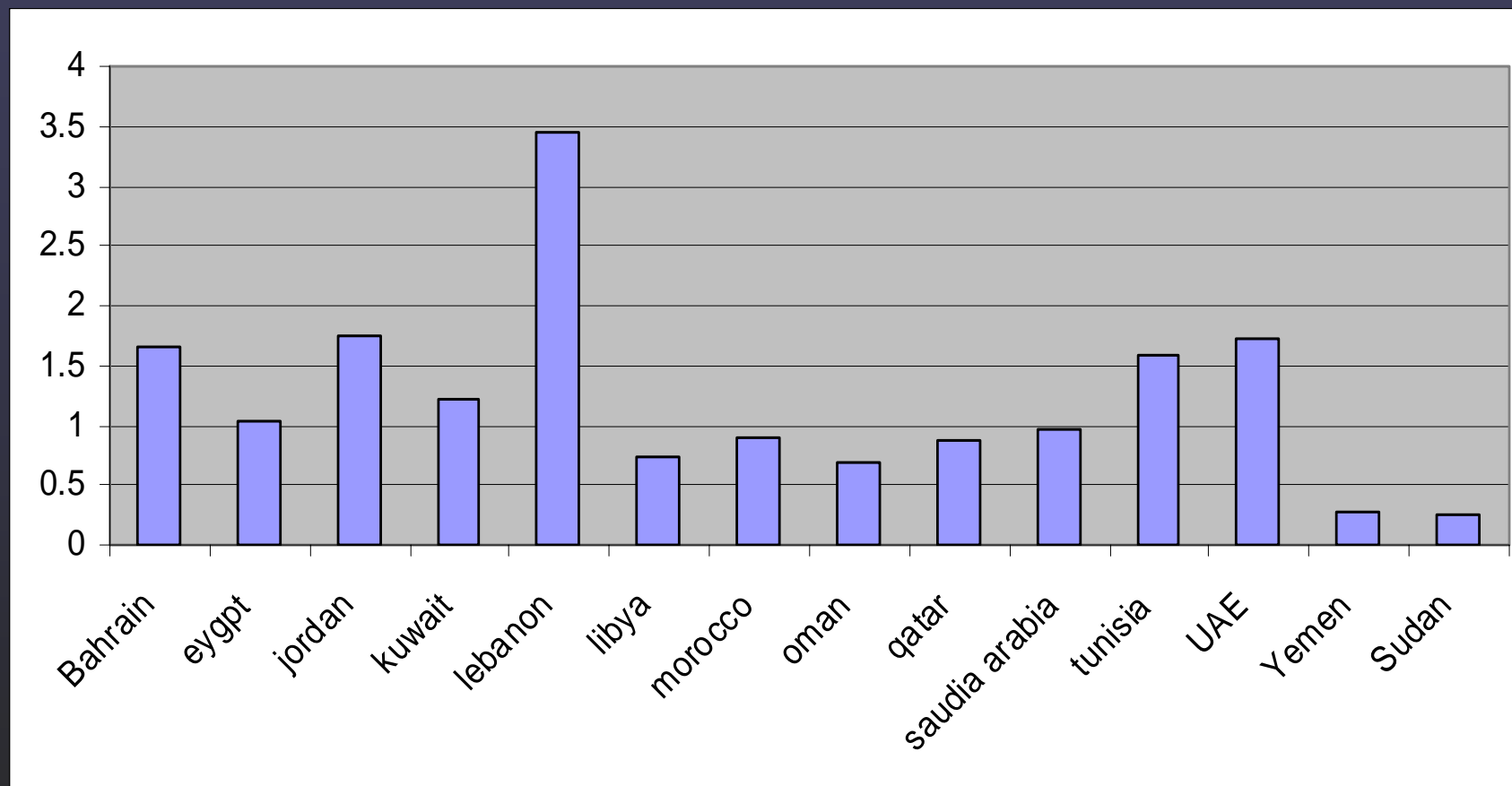
Banks
Total Assets
Exceeds
GDP (121%)

High
Deposits
to GDP
Ratio

Low
Private Credit
to GDP
Ratio

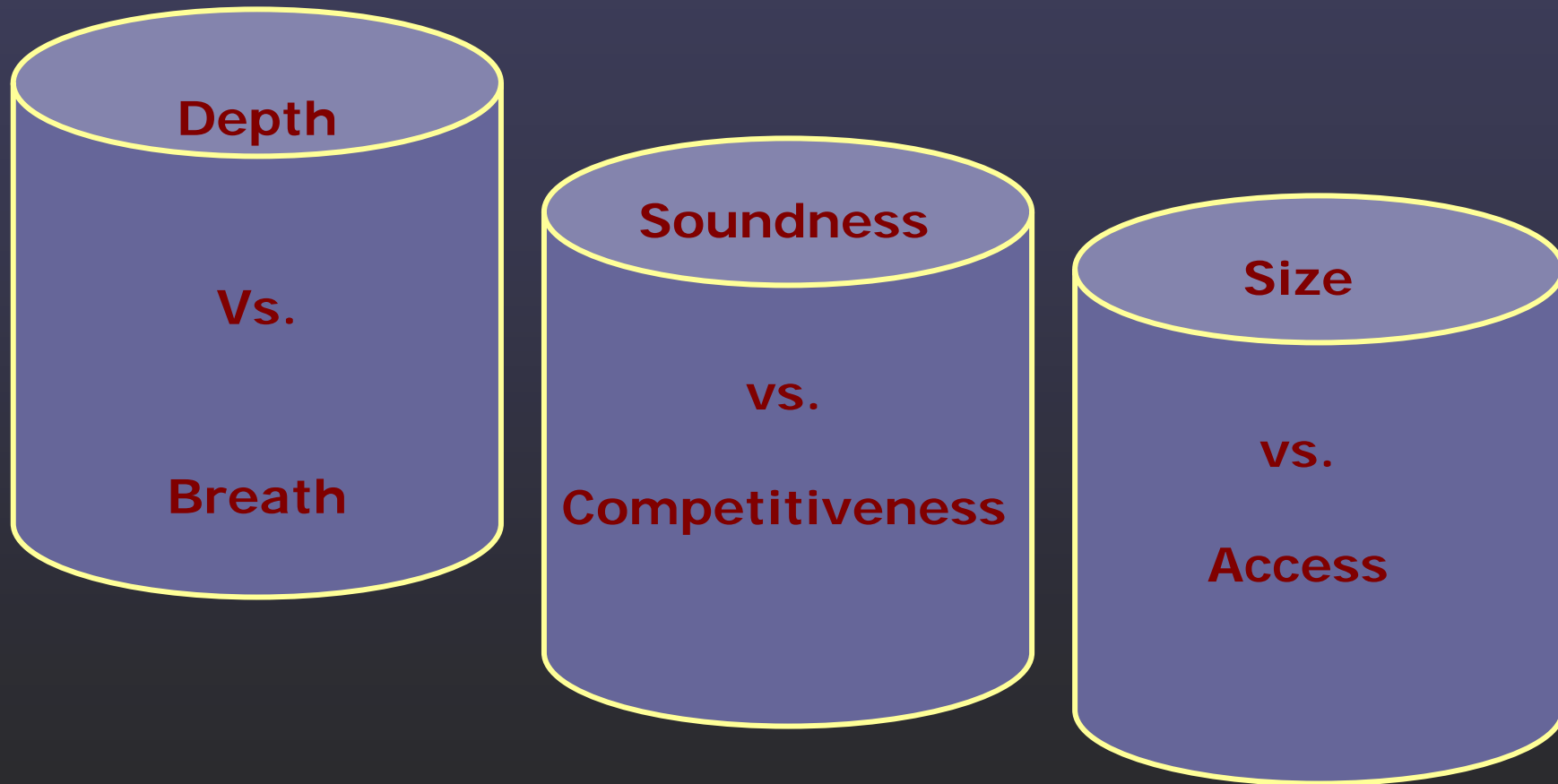
Limited
Exposure to
International
Financial and
Derivatives
Markets

Banking Sector in the MENA Region: Overview



Banks Total assets to GDP Ratio (1.2 Multiples)

Banking Sector in the MENA Region: Overview



Banking Sector in the MENA Region: Overview



Explicit Deposit Insurance Schemes in the Region: Facing the Challenge

Nine Explicit Deposit Insurance Systems

Five Operationally Independent Systems
(Lebanon, Sudan, Algeria, Jordan and Yemen)

Four Systems Managed by the Central Bank
(Bahrain, Oman, Morocco and Libya)

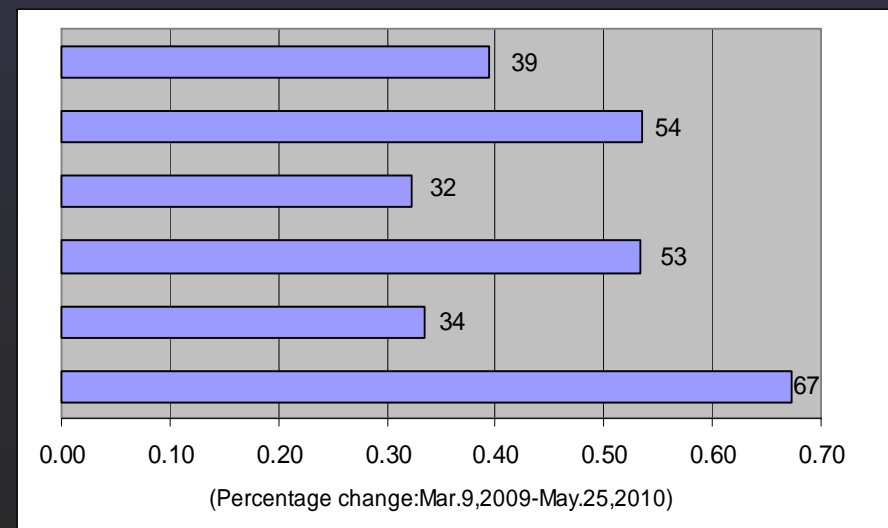
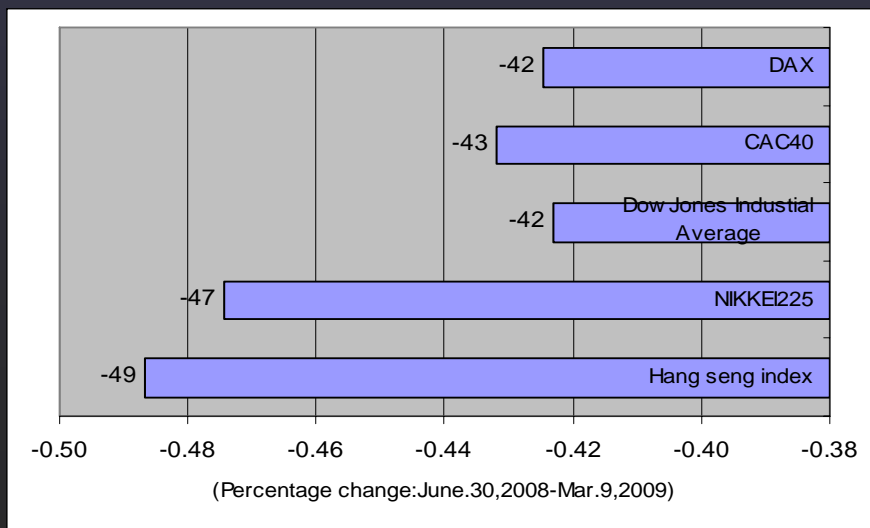
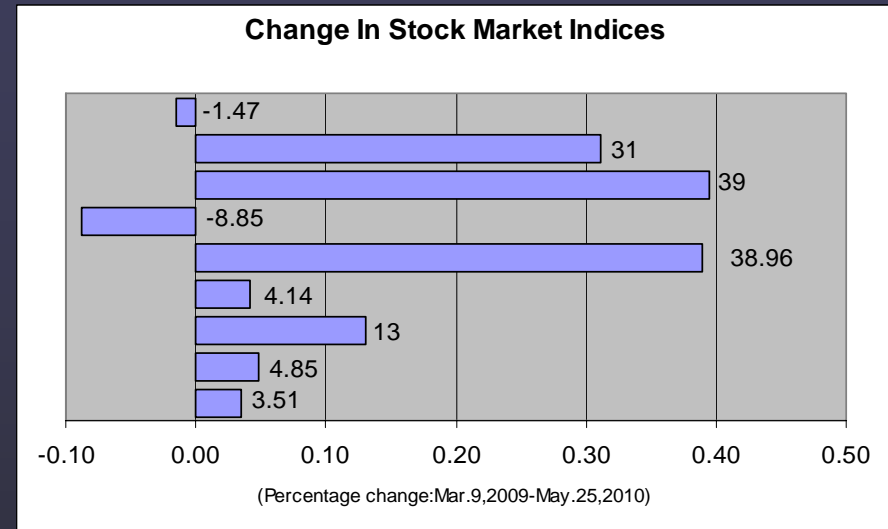
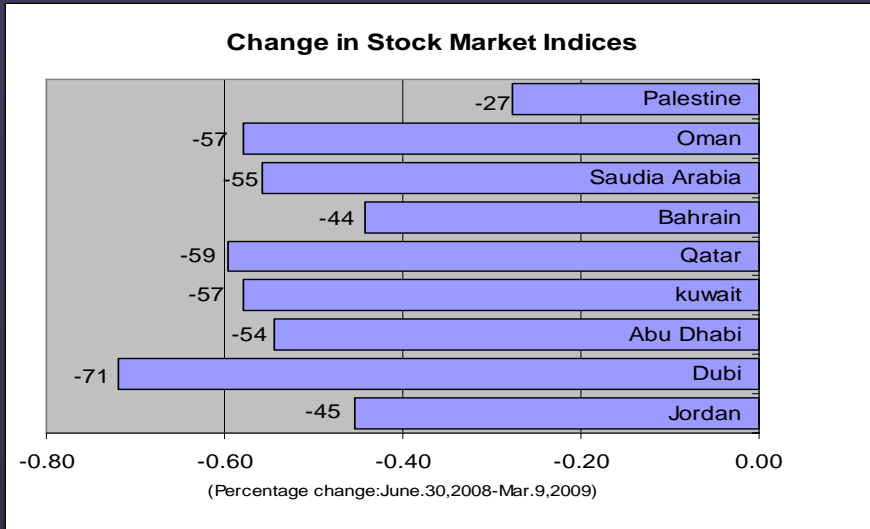
Three countries considering the adoption of explicit system:
Syria, UAE and Kuwait

Explicit Deposit Insurance Schemes: Basic Design Features

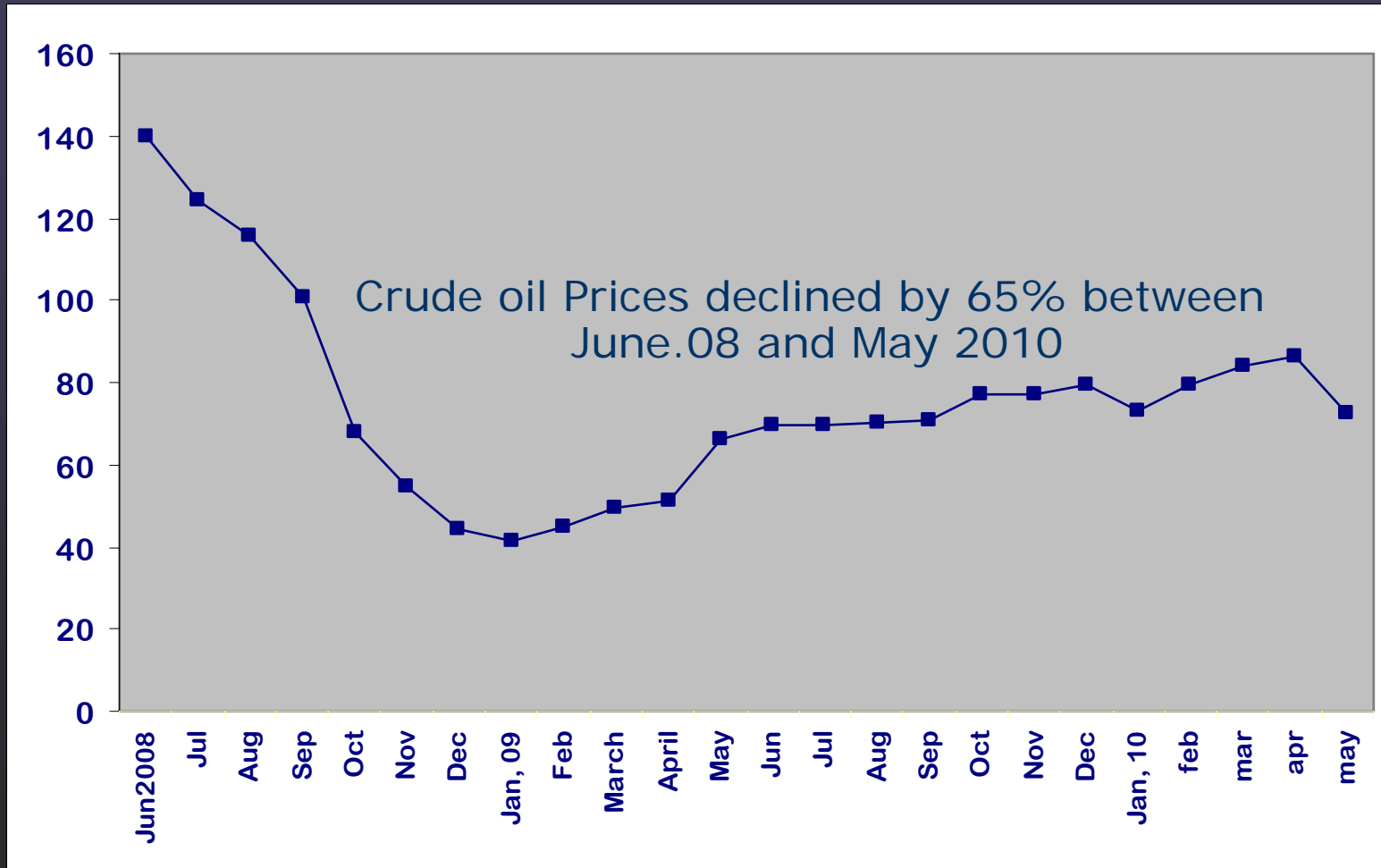
- Same public-policy objectives:
 - To protect less-financially - sophisticated depositors
 - To contribute to the stability of the financial system
- Membership is confined to banks
- Relatively generous coverage limits
(from 8.4 multiples of per capita GDP in Yemen to 0.4 in Lebanon)
- Limited mandate: mostly pay boxes with Liquidation responsibility but limited resolution authority
- With the exception of Oman and Bahrain, all systems in the MENA region adopt Ex- ante, flat premium, funding policy

Operational independence need to be enhanced

Spillovers of the Global Financial Crisis on MENA Economies: Stock Markets Performance



Crude Oil (June 2008 - May 2010)



Economic Growth (Real GDP % Growth Rates)

Oil Exporting Countries					
Country	2005	2006	2007	2008	2009
Qatar	9.2	15.0	15.3	16.4	11.5
Kuwait	10.6	5.1	2.5	6.3	-1.6
UAE	8.2	9.4	6.3	7.4	-0.2
Bahrain	7.9	6.7	8.1	6.1	3
Oman	4.9	6	7.7	7.8	4.1
Saudi Arabia	5.6	3.2	3.3	4.4	-0.9
Libya	10.3	6.7	7.5	3.4	1.8
Iran	4.7	5.8	7.8	2.5	1.5
Algeria	5.1	2	3	3	2.1
Iraq	-0.7	6.2	1.5	9.5	4.3
Yemen	5.6	3.2	3.3	3.6	4.2
Sudan	6.3	11.3	10.2	6.8	4

Economic Growth

Non-oil Exporting Countries					
Country	2005	2006	2007	2008	2009
Lebanon	2.5	0.6	7.5	8.5	5
Tunisia	4.1	5.3	6.3	4.6	3
Egypt	4.5	6.8	7.1	7.2	4.7
Jordan	8.1	8	8.9	7.9	2.8
Syria	4.5	5.1	4.2	5.2	3
Morocco	3	7.8	2.7	5.6	4
Djibouti	3.2	4.8	5.1	5.8	5.1

Policy Responses: The Need to Balance the Act

- The political context influenced the speed of responses and the shapes of the measures taken
- Varying degree of government involvement in the economy
- Different financial architecture
- Countries face different social challenges in varying degrees.
- Different monetary, fiscal and financial policies to restore economic growth and mitigate the implication of the global financial crisis

Policy Responses: The Need to Balance the Act

•Monetary Policy

limited room for maneuvering

Single anchor-currency exchange systems

Clear pressure on the capital accounts

•Fiscal Policy

Primary choice for oil exporting countries

Not the choice for the other MENA countries

Policy Responses: The Need to Balance the Act

Financial Sector

- Supporting Inter-bank Lending
- New Lending Programs
- Capital Injection Programs
- Blanket Government Guarantee for Bank Deposits
- Top-up of Existing Deposit Guarantee Scheme
- Loan Guarantees
- Guarantees of Bank Bond Issuance
- Troubled Asset Relief
- Recapitalization Using Public Funds

Policy Responses: The Need to Balance the Act

Prudential Regulations

- Revisions to Supervisory Guidelines
- Improving Transparency
- Enhancing Risk Management and Disclosure
- Early Warning System
- Prompt Corrective Actions (PCA)
- Stress Testing

Policy Responses: The Need to Balance the Act

Deposit Insurance

- Blanket government guarantees were provided in four countries
- New DIS were created (Yemen, Libya)
- Revision of existing systems
- Other countries plan to introduce DIS
- Bahrain increased the deposit insurance level

Explicit Blanket Guarantees and Moral Hazard

Explicating the Implicit Blanket Guarantees

Avoiding
Public
Panic

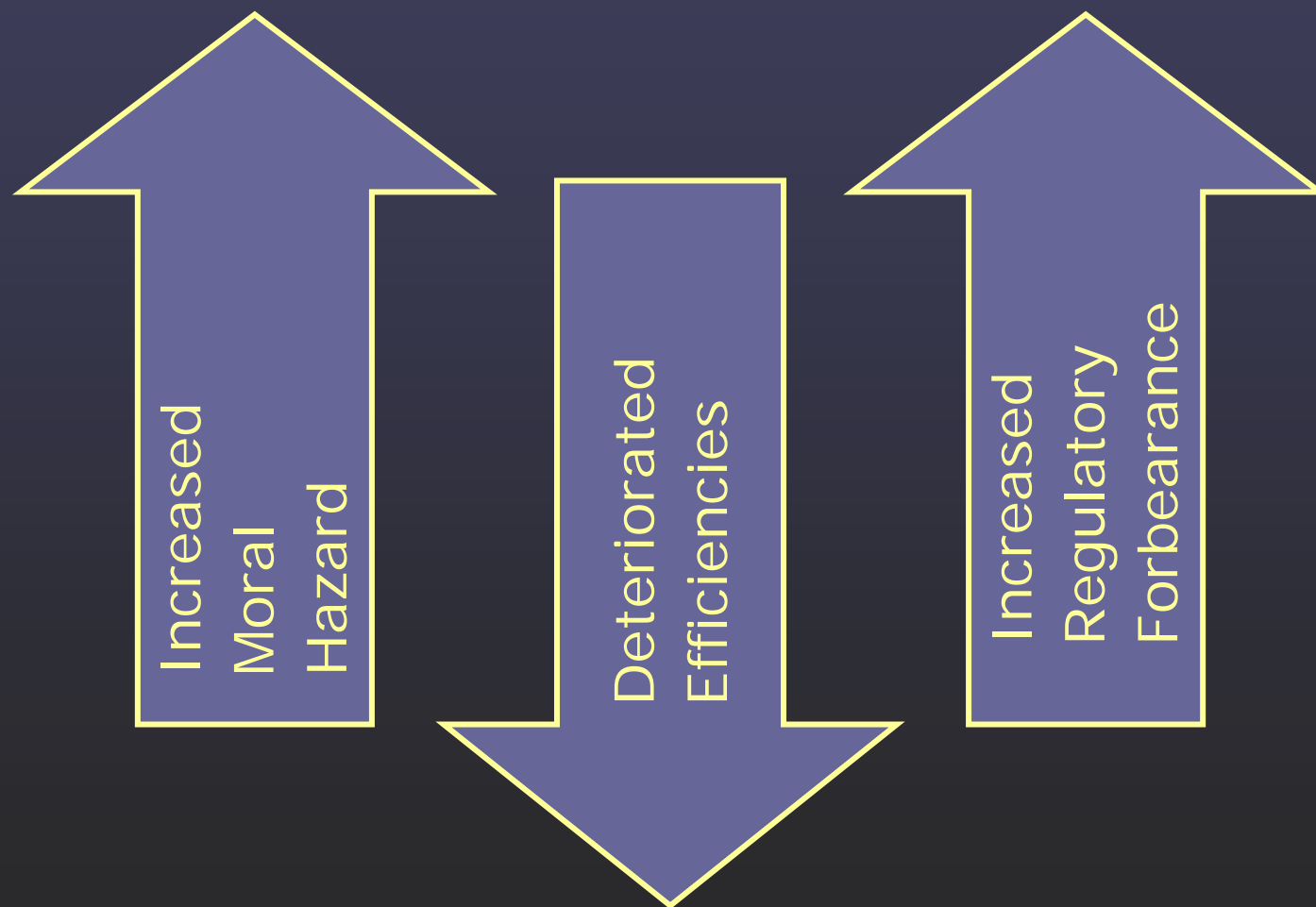
Sufficient
Budgetary
Resources

Responsibility
Towards
the Public

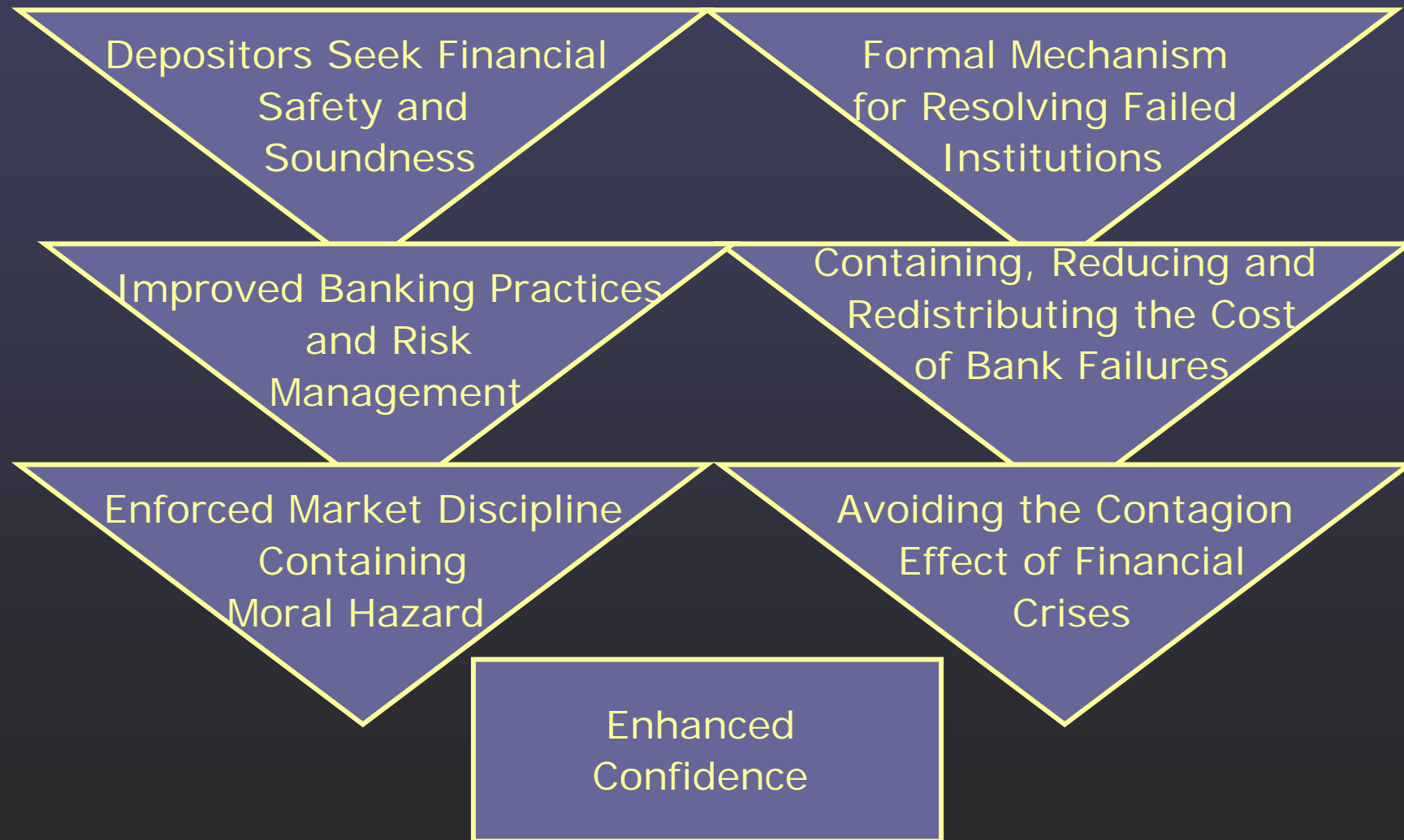
Stringent
Regulations

Government
Dominance
in Banking
Sector

Explicit Blanket Guarantees and Moral Hazard



Explicit Limited Coverage Enhances Confidence



The Way Forward: Unwinding Blanket Guarantees and Wiping Out Longstanding Beliefs

Blanket guarantees exist all over the region, they are very costly as they jeopardize market discipline

Enforcement of market discipline is the guarantee

Plans are needed to orderly transition to limited coverage

Preconditions should be met to minimize the risk of instability during the transition period

The Way Forward: Preconditions for Effective Transition

Economic and financial stability

Sound banking system

Strong prudential regulations and supervision

Sufficient Resources

Properly designed deposit insurance system

Public awareness

Cooperation and coordination with safety net members

Cross boarder coordination

Thank You

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