Seminar on Cross-border Banking Resolution Issues:

Latest Deposit Insurance Systems Developments in MENA Region

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Presentation Outline:

I. Differences among and Structural Imbalances in MENA Countries.

II. Transmission Mechanisms of Global Financial Crisis.

III. Implications of Global Financial Crisis on MENA Region.

IV. Policy Responses.

V. Evaluation of Existing DIS in MENA.

VI. Transitioning from Blanket Guarantee to an Explicit Coverage.

Differences among and Structural Imbalances in MENA Countries

MENA Countries are divided into two groups

- Oil Exporting Countries
- Non-Oil Exporting Countries

Differences among and Structural Imbalances in MENA Countries

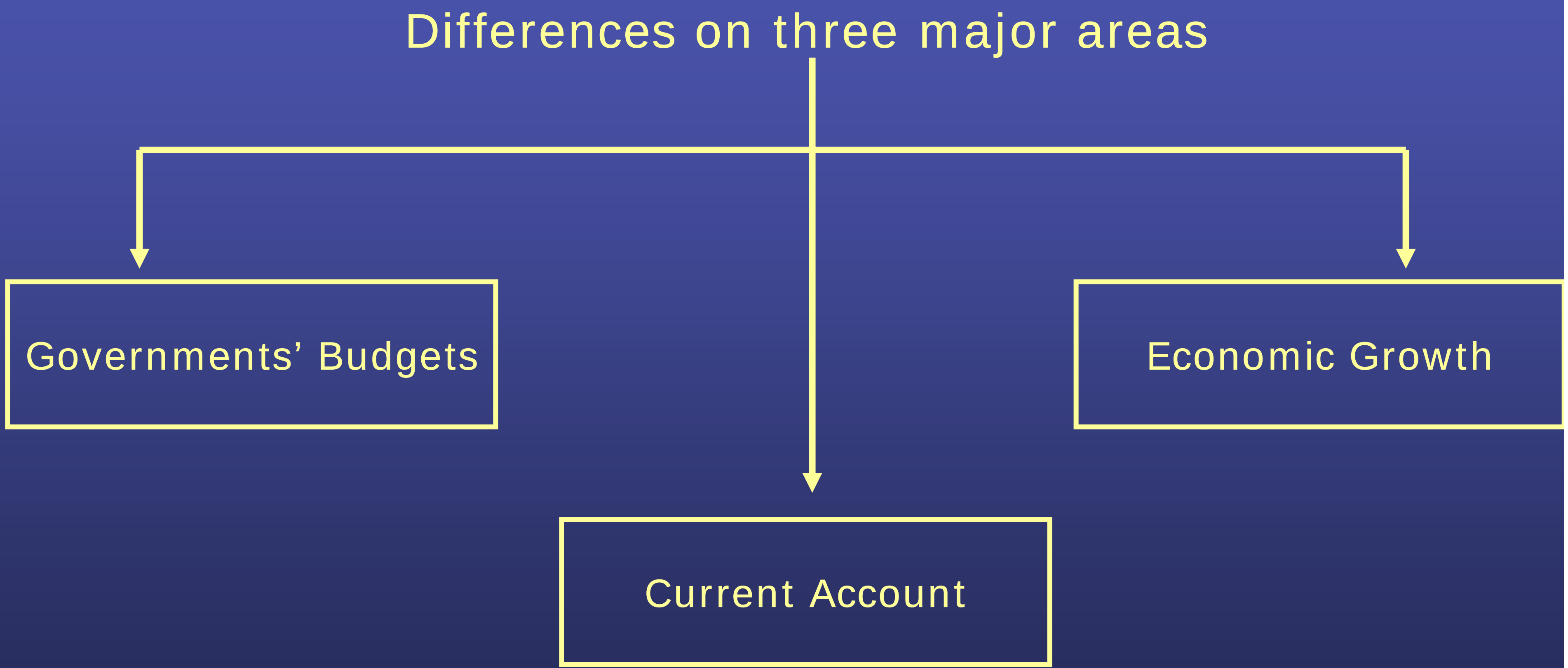
Oil Exporting Countries

Country	Per Capita GDP (Int. $)
Qatar	87,717
Kuwait	38,874
UAE	38,284
Bahrain	35,561
Oman	25,829
Saudi Arabia	23,388
Libya	14,381
Iran	11,202
Algeria	6,855
Iraq	3,588
Yemen	2,475
Sudan	2,376

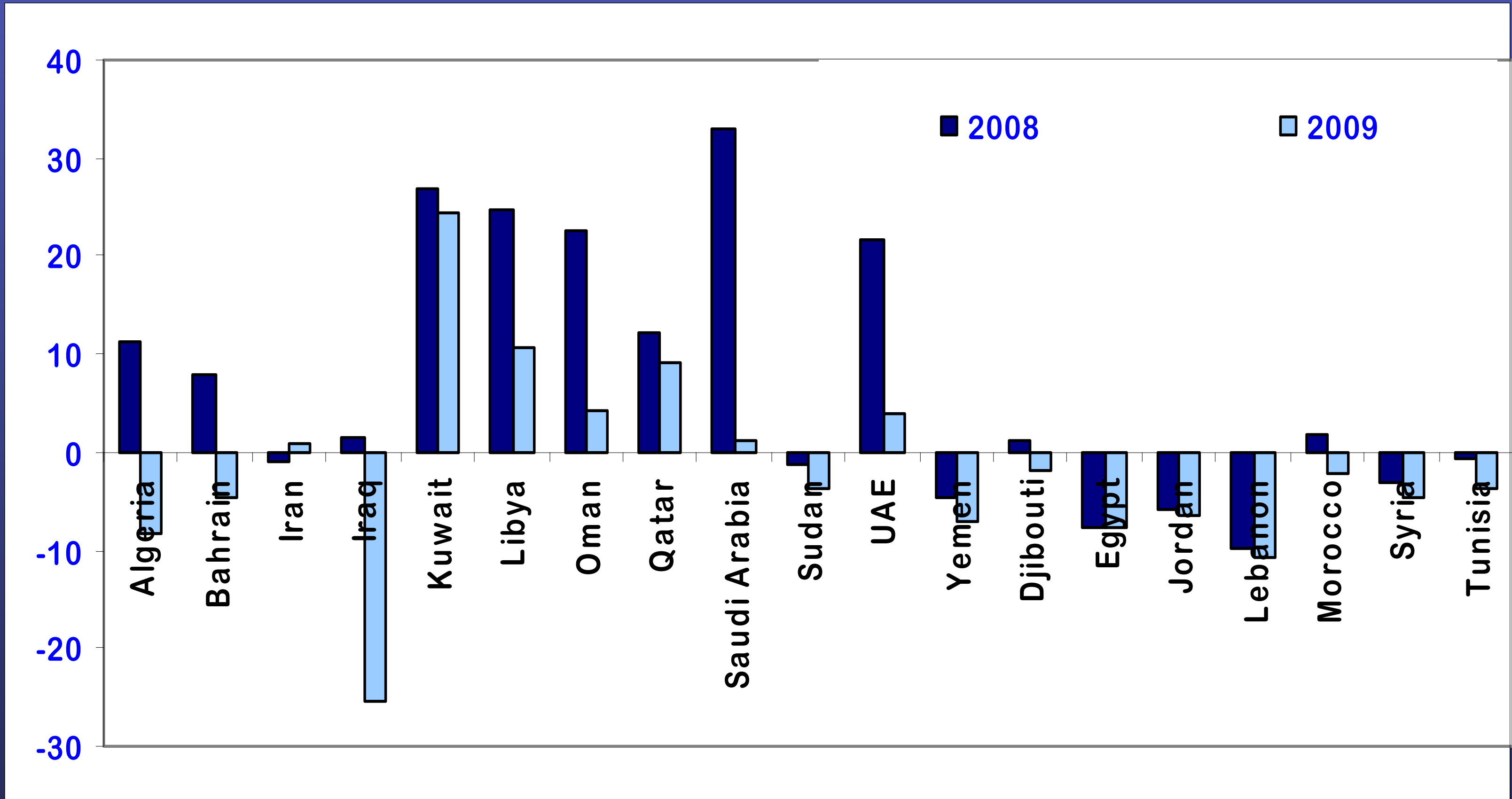
Non-Oil Exporting Countries

Country	Per Capita GDP (Int. $)
Lebanon	13,952
Tunisia	8,285
Egypt	6,147
Jordan	5,662
Syria	4,858
Morocco	4,587
Djibouti	2,496

Differences among and Structural Imbalances in MENA Countries



Governments' Budgets

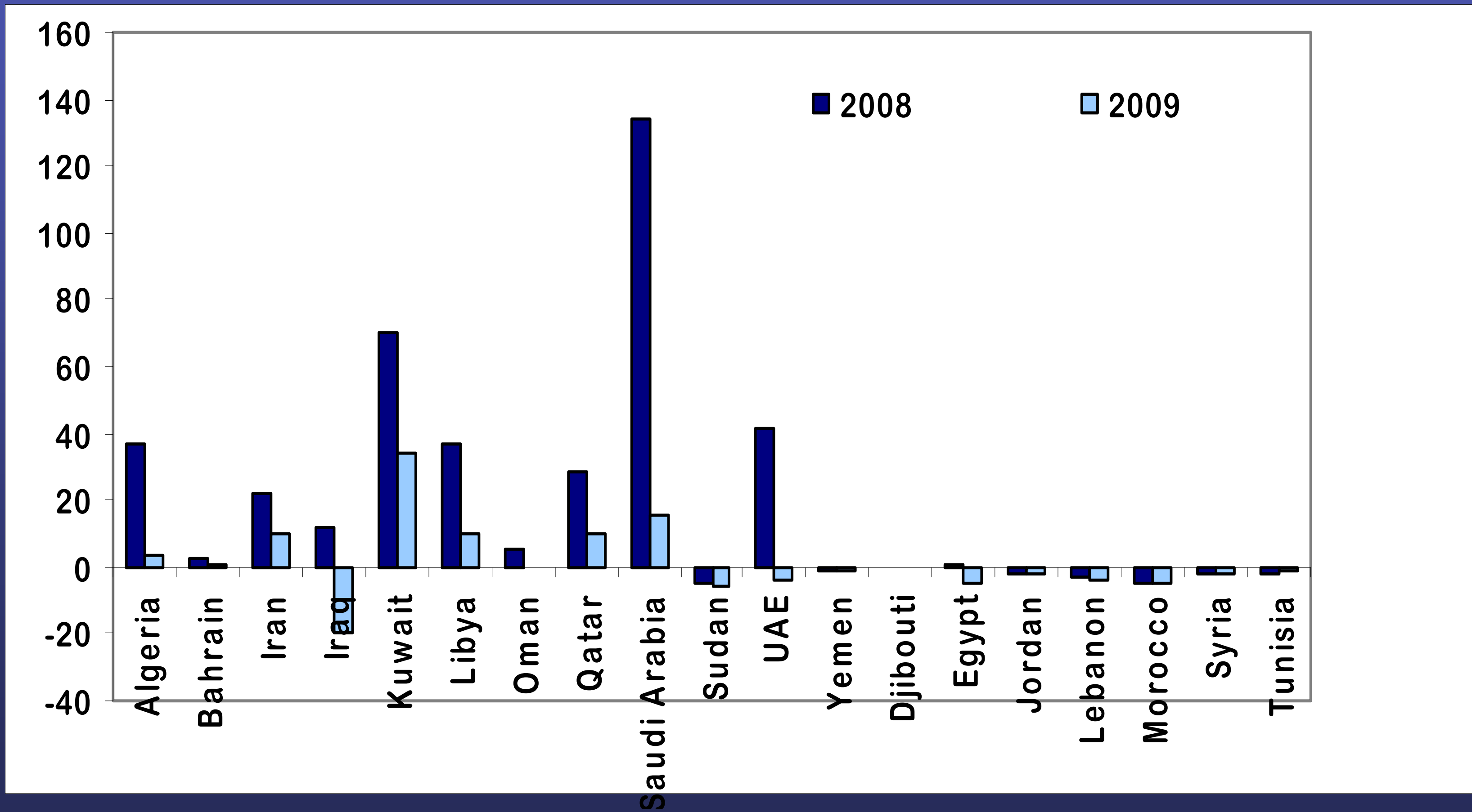


Governments' Budgets

Oil Exporting Countries		
Country	**2008**	**2009**
Qatar	12.2%	9%
Kuwait	26.9	24.4
UAE	21.7	4
Bahrain	8	-4.7
Oman	22.6	4.1
Saudi Arabia	33	1.2
Libya	24.6	10.6
Iran	-1.1	0.8
Algeria	11.4	-8.2
Iraq	1.5	-25.4
Yemen	-4.5	-7
Sudan	-1.4	-3.8

Non-Oil Exporting Countries		
Country	**2008**	**2009**
Lebanon	-9.8	-10.6
Tunisia	-0.8	-3.6
Egypt	-7.8	-7.8
Jordan	-5.7	-6.5
Syria	-3.2	-4.6
Morocco	1.8	-2.3
Djibouti	1.3	-1.8

Current Account



Current Account (Billions of US dollars)

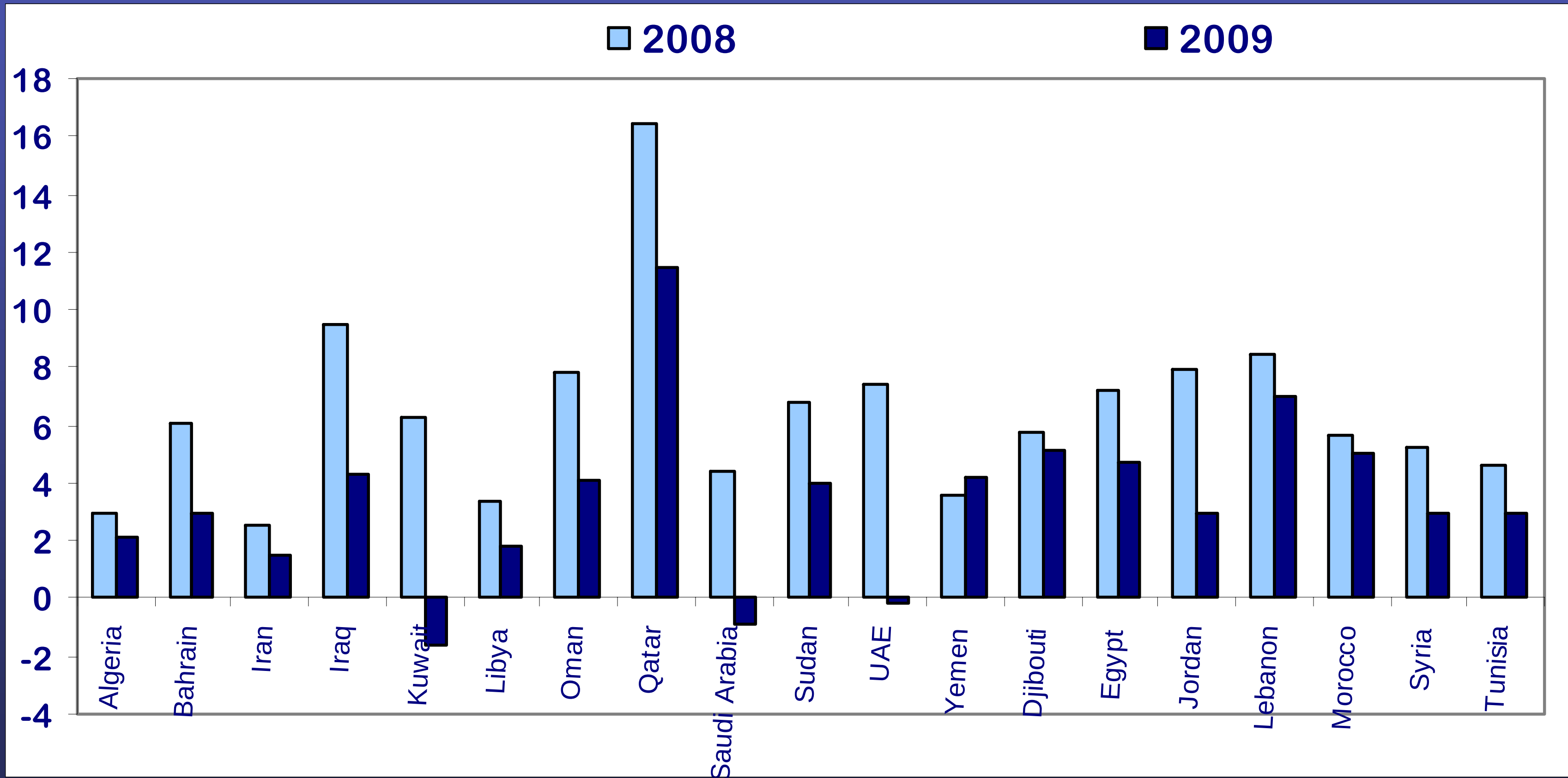
Oil Exporting Countries

Country	2008	2009
Qatar	28.6	10.0
Kuwait	70.6	33.7
UAE	41.1	-3.6
Bahrain	2.3	0.7
Oman	5.5	-0.2
Saudi Arabia	134.2	15.4
Libya	36.6	10.1
Iran	22.5	10
Algeria	37.1	3.7
Iraq	12.2	-19.9
Yemen	-1.2	-1.4
Sudan	-5.2	-6.1

Non-Oil Exporting Countries

Country	2008	2009
Lebanon	-3.4	-3.7
Tunisia	-1.7	-1.5
Egypt	0.9	-4.4
Jordan	-2.4	-2.3
Syria	-2.2	-1.7
Morocco	-4.8	-5
Djibouti	-0.4	-0.2

Economic Growth



Economic Growth

Oil Exporting Countries

Country	2008	2009
Algeria	3%	2.1%
Bahrain	6.1	3
Iran	2.5	1.5
Iraq	9.5	4.3
Kuwait	6.3	-1.6
Libya	3.4	1.8
Oman	7.8	4.1
Qatar	16.4	11.5
Saudi Arabia	4.4	-0.9
Sudan	6.8	4
UAE	7.4	-0.2
Yemen	3.6	4.2

Non-Oil Exporting Countries

Country	2008	2009
Djibouti	5.8%	5.1%
Egypt	7.2	4.7
Jordan	7.9	3
Lebanon	8.5	7
Morocco	5.6	5
Syria	5.2	3
Tunisia	4.6	3

Differences among and Structural Imbalances in MENA Countries

Economies of Non-Oil Exporting Countries

Depends on

Economies of Oil Exporting Countries

F a c t o r s

1. Workers Remittances'
2. Direct Foreign Investments (Petro-dollar)
3. Exports & Imports
4. Assistants & Grants
5. Services

Transmission Mechanisms of Global Financial Crisis

Financial Crisis

↓

US

↓

European & Asian Countries

↓

Oil Exporting Countries

↓

Non-Oil Exporting Countries

Transmission Mechanisms of Global Financial Crisis

The collapse of the US sub-prime mortgage market
Largest financial institutions have collapsed and others have been bought with low prices
Many banks were holding insufficient liquidity buffers
Banking sector of many countries had built up excessive on- and off-balance sheet leverage
$14.5 trillion, or 33%, of the value of the world's companies has been wiped out
Dow Jones & NASDAQ indices declined by 34% (between Aug, 08 and March, 09)
CAC & DAX indices declined by 36%
S&P500 declined by 38%
Oil Exporting Countries are integrated in the global economy and its financial markets so its affected by the crisis before non-oil ones

Transmission Mechanisms of Global Financial Crisis

Financial Crisis

↓

Banking Sector

↓

Financial Market

Absence of ↓ **Confidence**

All Economy Sectors

↓

Global Wealth

Transmission Mechanisms of Global Financial Crisis

Exports

Worker's Remittances

FDI

Official grants

Tourism

Real Estate Investments

Financial Markets

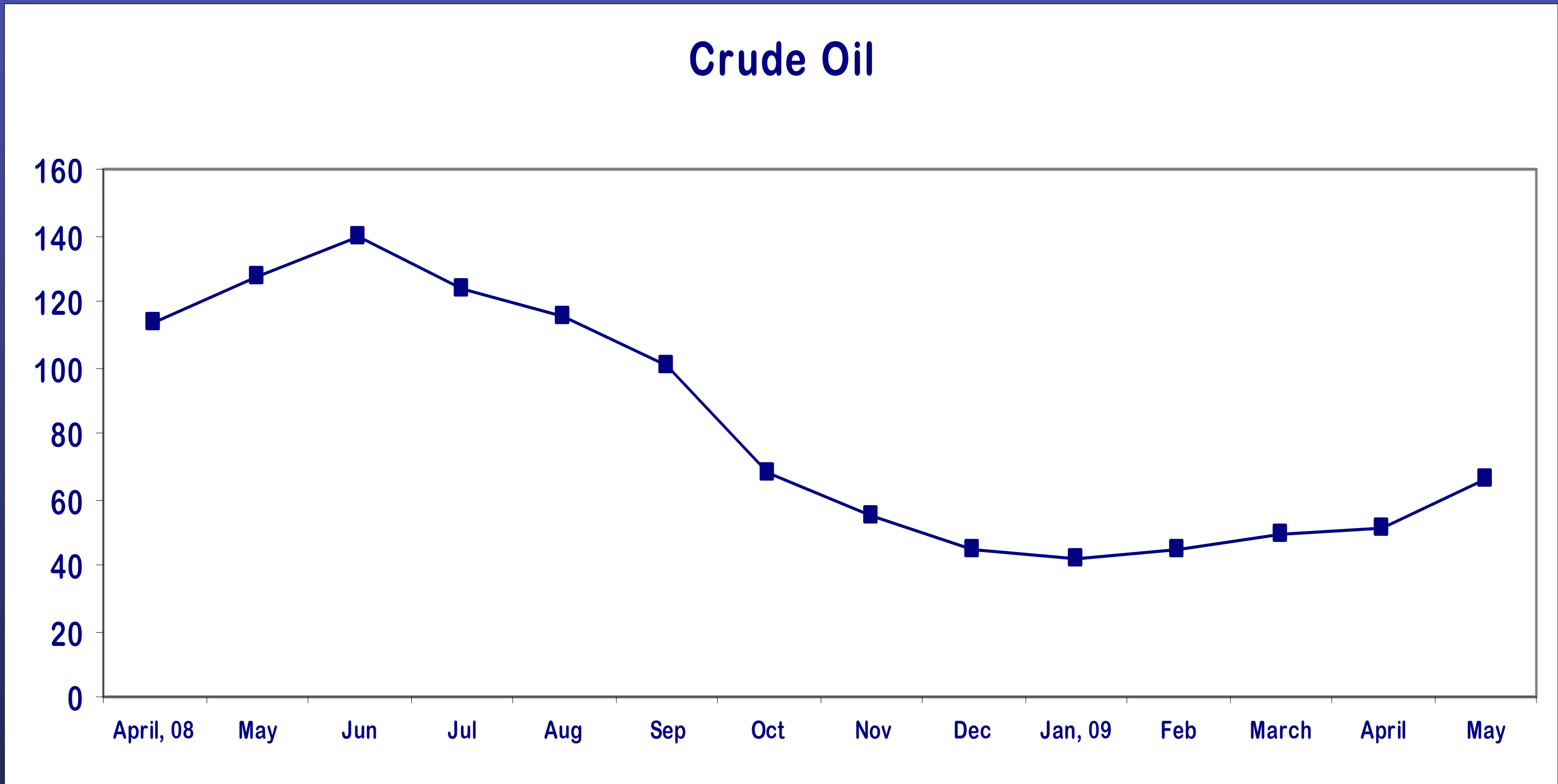
Implications of Global Financial Crisis on MENA Countries

All the countries of the world had been affected by the global financial crisis to varying degrees. However the Middle East and North Africa is the least affected by the global crisis because of their fiscal and monetary policies and the limited use of hedging financial instruments.

As well as the ability of the Oil Exporting Countries in the region to take advantage of the large reserves which have reduced their exposure to global financial markets in addition to the lack of investment banks as is the case in the United States of America.

Crude Oil

Crude oil declined by 56% between Aug,08 and March,09.



Arab Countries Market Performance

Country	Aug,08-March,09	March-Dec,09
Saudi	-46.29%	30.15%
Kuwait	-53.6%	4.51%
Dubai	67.25%	15.58%
Bahrain	-40.68%	-8.62%
Jordan	-38.04%	-6.45%
Qatar	-53.2%	43.3%
Egypt	49.29%	46.18%
Oman	40.82%	9.81%

Policy Response in General

In response to the current global financial crisis, Arab countries have adopted different fiscal, financial and monetary policies to spur economic growth and mitigate the effects.

Varying patterns of policy response across the oil exporting countries and non-oil exporting ones depending on:

1. The political context that greatly influences the speed with which states respond to emerging difficulties and shapes the measures they opt for.

2. The financial wealth of countries has decisive implications for their policy choice flexibility.

3. Countries face different social challenges in varying degrees.

Policy Response in General

Since oil exporting countries were the first to feel the heat of the financial crisis, they responded much earlier than other non-oil exporting countries.

At the national level, countries relaxed monetary policy, at one hand, and opted for an expansionary fiscal policy, at the other. The policy agenda to include social policies in addition– through emphasis on education and health services, subsidizing basic commodities, etc…

At the regional level, they have agreed to coordinate fiscal, monetary, and financial policies as well as to adopt measures to help ease inter-bank lending rates and introduce new regulations to their stock markets. This consensus has been further emphasized in the Arab economic and social summit held in Kuwait last January and in other meetings of their finance ministers.

Policy Response in General

	Financial Sector				Macroeconomic	
country	Deposit Guarantees	Liquidity Support	Capital Injections	Equity Purchase	Monetary Easing	Fiscal Stimulus
Bahrain		√			√	
Kuwait	√	√	√	√	√	
Oman		√		√	√	
Qatar		√	√	√		
Saudi Arabia	√	√			√	√
UAE	√	√	√		√	√
Algeria					√	√
Iran		√				
Libya	√			√	√	√
Yemen					√	

Policy Response Related to Deposit Insurance

Country	Initiating temporary blanket deposit insurance coverage	Increasing deposit insurance coverage limit	No action
Saudi Arabia	✓ (no term length)		
Kuwait	✓ (no term length)		
United Arab Emirates	✓ (end of 2011)		
Jordan	✓ (end of 2010)		
Bahrain		✓ (from BHD 15.000 to BHD 20.000)	

Evaluation of Existing DIS in MENA

- Nine deposit insurance systems:
  Lebanon, Bahrain, Oman, Morocco, Sudan, Algeria, Jordan, Yemen and Libya.

- Six independent deposit insurance systems; (Lebanon, Sudan, Algeria, Jordan, Libya and Yemen).

- The Lebanese system was the earliest deposit insurance systems in the MENA region; (1967).

- The Libyan's Deposit Insurance System is the most recent system in the region; established in 2009.

Evaluation of Existing DIS in MENA

Public Policy Objectives

- State and structure of the banking system beside public attitude and expectations were important determinants of the adopted policy objectives.
- All existing deposit insurance systems in the (MENA) region share the same public-policy objectives

To contribute to the Stability of the financial system

To protect less-financially - sophisticated depositors

Evaluation of Existing DIS in MENA

Mandates and Powers

- Existing deposit insurers in the (MENA) region have mandates ranging from narrow "pay-box systems", 4 systems, to pay-box systems with extended powers and responsibilities, but there are actually no risk minimizing systems in the region with clear powers related to supervision and risk assessment.

- Liquidation responsibility but limited resolution authority.

Evaluation of Existing DIS in MENA

Coverage

Coverage Limits:

- Prevailing coverage limits vary significantly across countries in the region, given the significant variations in income levels and per capita GDP.
- Ranges from 8.4 multiples of per capita GDP in Yemen to 0.4 in Lebanon.
- In general, they cover adequately the large majority of depositors with minimal moral hazard implications.
- Local currency deposits: Sudan, Jordan and Yemen
- Both local and foreign currency deposit with identical coverage limits : Bahrain, Algeria, Morocco, Lebanon and Oman.

Evaluation of Existing DIS in MENA

DI System	Lebanon	Bahrain	Morocco	Oman	Sudan	Algeria	Jordan	Yemen
Maximum protection level (in the currency of origin)	LBP 5,000,000	BD 20,000	MAD 80,000	OMR 20,000	- SDG 4,000 for investment deposits - SDG 3,000 for Current deposits.	DZD 600,000	JOD 10,000	YER 2,000,000
Maximum protection level (in USA dollars)	3.330	53,100	10,200	52,000	- 1700 for Investment deposits - 1300 for Current deposits	8,410	14.100	9,930
Maximum protection level/ GDP per capita	0.43	1.94	3.7	2.5	1.11 (Investment deposits) 0.85 (Current deposits)	1.83	4.12	8.4

Evaluation of Existing DIS in MENA

Funding

- Ex-ante funding is preferred over ex-post funding with respect to insuring prompt reimbursement, maintaining public confidence and avoiding pro-cyclical effects of deposit insurance assessment.
- With the exception of Oman and Bahrain, all systems in the MENA region adopt Ex- ante funding and build gradually financial reserves to meet their probable future obligations.
- Bahrain: Ex-post bank funding (funds obtained once a bank has failed)
- Oman: Ex-post funding beside the ex-ante funding

Evaluation of Existing DIS in MENA

Premium assessment → Premiums are flat

Reserves → Reserves are supplemented by annual contributions from either the Treasury or Central Bank in some cases:

- Lebanon: 100% of annual premiums is paid by the Treasury
- Oman: 50% of total value of premiums collected is provided by the Central Bank
- Sudan and Yemen: 10% of the annual premium is paid by the Treasury and the Central Bank; 5% from each
- Bahrain: The system is fully funded by annual contributions by the Treasury (25 m .Dirham)

Evaluation of Existing DIS in MENA

DI System	Lebanon	Bahrain	Morocco	Oman	Sudan	Algeria	Jordan	Yemen
Premium Ratio (Basis Points)	5-15	------	20 with a maximum of 25	10-50 Currently 30	25	25	25	20
Funding	Ex- ante	Ex- post	Ex- ante	Ex- ante Ex- post	Ex- ante	Ex- ante	Ex- ante	Ex- ante

Evaluation of Existing DIS in MENA

Membership

- Membership of banks is compulsory in all exiting deposit insurance system in (MENA) and all banks are subject to prudential regulation and supervision by the respective central banks.
- Membership is confined to banks.

Evaluation of Existing DIS in MENA

Relationships with other safety net members

- Although a deposit insurer's interrelationship varies according to its mandate and powers, *the need for close coordination and information sharing among financial safety-net participants is highly important as the majority of deposit insurance systems in the MENA region have narrow mandate with no direct access to banks' records*.
- Liquidation responsibility requires clear formal institutional arrangements for information-sharing and policy-coordination

Explicit Vs. Implicit Deposit Insurance Schemes

Long term stability of the financial system when avoiding moral hazard
Promoting sound financial practices and fair competition among Banks
Enforcement of market discipline by providing protection only to less-financially-sophisticated depositors
Encouraging banks to better manage their risks
Containing, reducing and redistributing the cost of bank failures
Avoiding the contagion effect of financial Crises
Providing formal mechanisms for resolving failed institutions
Enhancing the confidence in the system at large to encourage national savings and promoting economic growth

Explicit Vs. Implicit Deposit Insurance Schemes

In general, MENA countries that do not adopt an explicit limited-coverage deposit insurance system provide implicit coverage

Justifications

Responsibility towards the public
Financial stability enhancement
Sufficient budgetary resources, particularly in the GCC
Government dominance in banking sector, direct participation or sole ownership
Stringent regulations beyond the conventional prudential regulations, direct controls on capital movements, foreign exchange transactions and investments

Explicit Vs. Implicit Deposit Insurance Schemes

Implications

Resistance to the introduction of explicit systems (e.g. Egypt)
Increased Moral Hazard and deteriorated efficiencies
Explicit systems, when established, face challenges in whipping out long standing public beliefs
Forbearance and continuous government support through open bank assistance by monetary authority or the Treasury

Transitioning from a Blanket Guarantee to an Explicit Coverage

- Transition should be as rapid as a country's circumstances permit
- Plans are needed to orderly transition to limited coverage
- Preconditions should be met to minimize the risk of instability during the transition period
- Economic and financial stability
- Sound banking system
- Strong prudential regulations and supervision
- Properly designed deposit insurance system (some of the already existing system need to be improved)
- Sufficiency of system resources
- Detailed communicated timeline
- Public awareness campaign
- Coordination with safety net members
- Cross boarder coordination

Thank you