

Jean-Claude Trichet: A new banking supervision programme for Egypt

Introductory statement by Mr Jean-Claude Trichet, President of the European Central Bank, at the press conference on the occasion of the signing a Memorandum of Understanding with the Central Bank of Egypt on a new banking supervision programme, Cairo, 26 November 2008.

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Dear Governor, Minister, Ambassador
Dear colleagues
Ladies and Gentlemen

It is a pleasure for me to be in Cairo today to sign the Memorandum of Understanding with Governor El Okdah. This signing confirms the close cooperation between the central banking community of the European Union and the Central Bank of Egypt. We are also committed to working very closely together over the next three years, to implement a technical assistance programme that aims to design a new set of Egyptian banking supervisory standards and principles inspired by international best practices. The programme will start on 1 January 2009 and will be financed by the European Commission in the framework of relations between the European Union and the authorities in Egypt. I should like to thank Mrs Fayza Abu El Naga, Egyptian Minister for International Cooperation, and Dr Klaus Ebermann, Head of the Delegation of the European Commission to Egypt, for witnessing the signature of the Memorandum of Understanding and for committing to undertake all necessary steps to have the programme in place by the end of 2008.

I will first say a few words on our cooperation with the Central Bank of Egypt over the last couple of years before addressing what we aim to do together during the next three. Finally, I will share with you some thoughts on the present financial market turmoil, its implications on global financial stability and the lessons that we can draw from this.

The Eurosystem, i.e. the European Central Bank and the national central banks of the euro area, has enjoyed close relations with the Central Bank of Egypt for many years. Since 2004 we have been holding high-level meetings at our Mediterranean seminars, where central banks from the euro area meet their counterparts from the southern and eastern shores of the Mediterranean to exchange views on issues of common interest. The fifth such seminar will be held tomorrow in Alexandria and will be hosted by Governor El Okdah and his colleagues from the Central Bank of Egypt. I am convinced that the discussions tomorrow will be very interesting – we will also be holding a press briefing afterwards.

Our cooperation with the Central Bank of Egypt reached a new dimension in 2005 when we started a programme of cooperation in the area of banking supervision. Over two years, many banking supervisors from Germany, Greece, France and Italy shared their knowledge and experience with their Egyptian counterparts to reform the internal procedures and policies of the Central Bank of Egypt towards a greater focus on risk-based supervision. This programme ended in November 2007 and was considered a success by all those involved.

The new programme on banking supervision will begin on 1 January 2009 and will build on the capacity of the staff of the Central Bank of Egypt in terms of risk-based supervision. As I have already mentioned, it will run for a period of three years and will be funded by the European Union. The aim of the programme is to support the Central Bank of Egypt in drafting new rules, policies and practices that will effectively create an appropriate Egyptian version of the internationally accepted banking supervision standard known as Basel II. In this process we will also take account of the most recent European experiences from the financial market turmoil.

More specifically, we will assist the Central Bank of Egypt's banking supervisors in developing a specific Egyptian guideline for the implementation of Basel II, as well as a new

regulation that will apply to banks in the country and a new reporting scheme for banks in order to provide the Central Bank of Egypt's banking supervisors with the information they need to carry out their job.

Before this goal is reached, many steps need to be taken and many publications will be printed. As always, it will be very important to design the new framework in such a way that it is suitable for local market conditions. With this aim in mind the European Union's banking supervisors will support the Central Bank of Egypt in its key dialogue with Egypt's commercial banks to begin in the first half of 2009.

From the side of the European System of Central Banks, or the ESCB, i.e. the European Central Bank and the national central banks of the European Union, the programme will be implemented by the European Central Bank in partnership with seven national central banks, namely those of Bulgaria, the Czech Republic, Germany, Greece, France, Italy and Romania. The banking supervisors from these countries will support and assist their Egyptian colleagues in the challenging tasks that they have set out to achieve. I would like to welcome the representatives from the ESCB that are here today.

From our side there will be a need to coordinate these efforts and to be continuously available to support the work of our Egyptian colleagues. This will be the main task of Mr Hervé Leclerc, Inspector of the Banque de France, who will be our Resident Programme Coordinator here in Cairo from 1 January for three years. He is here today, and I would like to wish him every success in his new post.

Let me finally make a few remarks on the global financial situation and the lessons we can draw from this. We are currently experiencing an extraordinary and very challenging period, characterised by severe financial market turmoil that originated in advanced economies. Recently, the tensions in the financial sector have spilled over into the real economy and have dampened significantly global growth.

Since the start of the turmoil in August 2007, the European Central Bank, like other central banks around the world, has acted decisively to provide sufficient liquidity. In the euro area we have been flexible in our use of operational instruments and procedures in order to contribute to a smooth functioning of the money market. This has been crucial in order to ensure that solvent banks continue to have access to liquidity, notwithstanding the difficulties in the interbank market.

It has been encouraging to see the decisiveness with which European governments have worked together, as a second line of defence, to address the turmoil. In this month the G20 – at the level of the Ministers and Governors in São Paulo and then at the level of the Heads of State or Government in Washington – has adopted a concerted action plan with several dimensions, such as strengthening transparency and accountability, enhancing regulation, promoting integrity in financial markets and strengthening international cooperation.

Global and close cooperation between central banks has been the first line of defence in addressing the challenges. The second line of defence has now been put up by governments to address the solvency issues of financial institutions affected by the crisis.

The lessons that can be drawn from these events represent what I would call work in progress along the following lines: we need more transparency; less short-termism; less procyclicality in the functioning of the global financial system; and better risk management by individual institutions. This has to be accompanied by more discipline in macro policies at the level of all major participants in the global economy.

To sum up, I would like to assure you, Governor El Okdah, that from our side it will be a pleasure to renew the cooperation between the European Central Bank and the partner national central banks of the ESCB with the Central Bank of Egypt. I also welcome the support of and commitment from the European Commission and the Ministry of International Cooperation and look forward to the finalisation of procedures that will allow us to sign the

contract with the Delegation of the European Commission to Egypt before the end of this year.

I will be ready to answer questions once the other speakers have made their remarks.

Thank you very much for your attention.