

Report on
THE FIRST MEETING OF THE CENTRAL BANKS
COMMITTEE
OF THE D-8 COUNTRIES
CAIRO, JANUARY 29, 2003

Opening Session:

Highly distinguished representatives of the D-8 central banks held their first meeting of the D-8 Central Banks Committee in Cairo, Egypt on January 29, 2003. In the opening session, H.E. the Assistant-Minister of Foreign Affairs for International Economic Relations and the D-8 Commissioner of Egypt delivered a speech, stressing the role of central banks in fostering economic relations among D-8 countries, and briefing the Egyptian experience in banking reform. In the same vein, the Assistant Sub-Governor of the Central Bank of Egypt, on behalf of the Deputy Governor, has, in his overture speech, highlighted the crucial role of the D-8 countries and the very important topics to be addressed during the meeting. The D-8 central banks' representatives adopted the proposed agenda.

The Working Session:

Central bank representatives from Bangladesh, Egypt, Iran, Indonesia, Malaysia, Nigeria, Pakistan and Turkey have attended the first meeting of the central banks. The delegation of the Central Bank of Egypt highlighted the main aspects of the topics in the adopted agenda. All delegates have participated effectively and deeply in the discussion, introducing new ideas about: using the D-8 website in disseminating the required data and information; and encouraging member countries to have bilateral memorandum of understanding in order to foster cooperation in the area of financial services, particularly for regulatory and supervisory purposes.

The Nigerian delegation proposed discussing the issue of establishing a clearing house for the D-8 countries. All delegations, however, have agreed that establishing such clearing house is still non-viable and deemed premature, given the current modest level of intra D-8 trade.

The delegation of Turkey made country presentation that reviewed the recent experience of Turkey with financial and currency crises, and the economic adjustment and structural reform programs. The presentation included, as well, the reform program currently adopted, especially in the areas of exchange rate regime and banking and financial sectors. The working session has witnessed also two more country presentations by the delegations of Malaysia and Nigeria. The first presentation briefed the experience of Malaysia in overcoming the consequences of the Asian crises and restoring economic growth and stability. The presentation also shed light on the recent indicators of the economic performance of Malaysia. The Nigerian delegation, in their presentation, concentrated on the stability of the exchange rate; the current system of monetary policy management in Nigeria; rural development; as well as the latest developments in the West African Monetary Cooperation.

The General Manager of the Federation of Egyptian Banks introduced some proposals to promote cooperation among D-8 banks through their national bank associations. In this respect, national bank associations can address any identified problems, obstacles or discrepancies impeding the enhancement of intra D-8 banking cooperation. Equally important is to exchange guidelines of the applicable regulations and rules governing banking business in member countries. The General Manager also proposed that national bank associations jointly organize training programs and seminars to allow for mutual benefits from their relevant experiences.

Recommendations:

Central banks' representatives, after deep and fruitful discussions, have reached the following recommendations:

(I) Exchange of Banking, Financial and Economic Information and Data among Central Banks in Member Countries:

Central banks in member countries should exchange adequate information and data in the areas of:

- Banking laws, regulations and practices.
- All applied prudential regulations that assure banking soundness.
- Updated economic, financial and banking data and indicators that cover: the performance of the real sector; government sector and public debt; external sector and external debt; monetary aggregates and interest rates; and inflation rate.
- Foreign exchange regulations.

In this respect, the Committee encourages member countries to place best efforts to publish adequate/available data on the websites of central banks and other relevant authorities. In the same context, the Secretariat in Istanbul may be considered as the best appropriate means to arrange for such efforts, and facilitate access to such data and information. The D-8 website could be used for achieving such purposes.

The Committee also encourages the members to have bilateral memorandum of understanding in order to improve the cooperation in the area of financial services, particularly for regulatory and supervisory purposes.

(II) Applying International Standards and Rules Relevant to a Bank's Capital Adequacy and the Soundness of Banking Sector.

Central banks and other relevant institutions in member countries are required to assure the compliance of banks - under their supervision - with the internationally recognized prudential rules specially in the following areas:

- Capital adequacy to be at least in line with Basle I, with further steps towards compliance with Basle II in due time.
- Applying acceptable system of asset classification and provisioning.
- Preventing asset concentration, currency-wise and client-wise, taking into account the related parties.
- Avoiding concentration in ownership.
- Enhancing good governance in banks through:

- Reliable reporting system to the supervising authority.
- Assuring a well-designed internal auditing system and well-defined authorities and responsibilities of internal auditors.
- Well-defined responsibilities of the external auditors.
- Increasing the number of the independent board members (Internal Auditing Committee) and enhancing their roles.
- Assuring the transparency of banks' activities and financial statements.
- The pre-required central bank approval before the appointment of the Chief Executive Officer and some other high officials of the bank.

(III) The Role of Central Banks in the Area of Simplifying the Commercial Aspects of Banking Procedures.

- Banks in member countries adhere to the international standards and practices in all banking operations (e.g. International Chamber of Commerce Uniform Customs and Practice for Documentary Credits).
- Central banks, in seeking to lower bank risk exposure, always insist that banks follow the internationally accepted practices and standards.
- The simplification of banking practices and procedures should be left to banks and /or to their associations and federations.
- Member countries are invited to establish and/or develop (if they exist) reliable institutions for export financing and/or export credit guarantee, while effectively use the available facilities introduced by multilateral organizations that serve fostering international trade among their member countries.

(IV) Enhancing the Role of Bank Associations Which May Address Issues of Common Interests for the D-8 Countries.

Enhancing the role of bank associations at the national level will help develop banking industry in member countries. Within this context, central banks are encouraged to establish bank associations if lacking in their countries. Such associations are expected to convene regular meetings for banks to exchange expertise and to address all the problems,

obstacles and discrepancies impeding the enhancement of intra D-8 banking relations. Equally important is to jointly organize training programs and seminars on a regular basis.

The Committee agrees -in principle- on holding regular meetings. In this respect, details are to be left to the D-8 Secretary, according to proposals sent by member countries. The first meeting highlighted the importance of presenting country position reports in coming meetings so as to avail for the exchange of experiences.

All delegations in the first meeting of the D-8 central banks committee have expressed their deep appreciation to the Government of Egypt and the Central Bank of Egypt for hosting the meeting and for the warm and sincere hospitality.

February 4, 2003.