

Palestine Monetary Authority: Striving for stable banks

Q&A with Sherin Al-Ahmad, Chief Macro-prudential supervision, Palestine Monetary Authority

This September, ICMA has had the pleasure to host at our office in London Ms. Sherin Al-Ahmad, the chief of the macro-prudential supervision division at the [Palestine Monetary Authority](#) (“PMA”). Her visit came as a consequence of a grant offered by the City of London, which covered a period of working experience in the capital of the European financial markets.

Ahead of the significant vote in the United Nations over the recognition of the Palestinian Authority as an independent and sovereign state, Ms. Al-Ahmad discusses the recent developments within the PMA together with the latest achievements in the Palestinian banking sector.

Ms Al-Ahmad, you took over as Chief of the macro-prudential supervision in 2008. Can you tell us about the structure of the banking sector in Palestine and the role of the PMA within it?

Banks are considered the key players on the Palestinian financial market. As of September 2011, the Palestinian banking sector consists of 2 Islamic banks and 16 conventional banks, 10 of which are foreign banks. None of them is an investment bank, and regardless of the weak economic situation banks total assets increased in the last 5 years by 55% to almost \$9 billion.

In Palestine, the responsibility for financial regulation and supervision is shared between the Palestine Monetary Authority (PMA) and the Palestine Capital Market Authority (PCMA). While the PMA oversees and regulates banks, money changers and microfinance institutions, the PCMA is responsible for the securities market, insurance companies and real-estate institutions. For the record, the PCMA is in the process of applying for membership of the International Organization of Securities Commission (IOSCO).

As a central bank in a fragile country, what do you think are the PMA’s main priorities?

Given the absence of a national currency, the PMA concentrates its efforts on preserving financial stability, rather than monetary stability. Thus, since its establishment in 1995, the PMA’s primary goal has been supporting a sound financial system capable of fostering the national economy through rigorous supervision and prudential regulations in line with best international practices. I believe that the sustainability of the banking sector is our first priority, thus contributing to the economic well-being of the Palestinian society.

Were banks in Palestine affected by the global financial crisis? How have they performed since 2009?

The Palestinian banking sector has been largely insulated from the global financial crisis for two reasons. First, unlike other financial systems worldwide, our main challenge is the political situation

which keeps the entire economy in a state of ambiguity in respect to future investment. Second, the banking sector is overall well capitalised, with limited exposure to global financial markets, reflecting tight prudential regulations and conservative bank lending practices. Banks, for example, have to apply strict concentration limits in terms of their lending exposure by borrower, sector and region, as well as in terms of their investment exposure by region, currency and institution. Moreover, even prior to Basel III rules on capital, an 8% common equity Tier 1 ratio was imposed on all banks.

What sort of institutional reforms have been undertaken by the PMA?

Since 2006, the PMA has continued institutional reforms that aim at transforming it into a fully-fledged and modern central bank. These reforms, with IMF, World Bank and USAID technical assistance, have enabled the application to all banks in Palestine of a rigorous supervisory and regulatory framework through regular on-site and off-site supervision, the calibration of the banking law in line with best international practices, and the introduction of a world-leading public credit registry. In November 2010, we completed the installation of an electronic payment system, including a Real Time Gross Settlement (RTGS) system. This is distinguished worldwide by the usage of four major currencies, beside the national currency when issued. All in all, the PMA's reforms, along with improved economic conditions, have supported the well-performing banking system. In the last 5 years assets have increased by 55%, paid in capital by 79%, deposits by 65%, and non-performing loans decreased from 14.5% to 2.6%. Alongside this, profits for the overall industry increased by more than 170% since the end of 2006.

Finally, what do you think are the PMA's main priorities for the future?

The implementation of Basel II & III by 2013 is the first item in our agenda, together with the calibration of our Central Bank law based on best international practices and the development of the Deposit Insurance scheme under the World Bank technical assistance. A monetary operations department is expected to be created within the PMA in order to allow for open market operations, the issuance of government 'sukuk' and certificates of deposits would be a big part of new future developments in Palestine.

The visit of Ms. Al-Ahmad is a milestone in ICMA's networking relations with other official international institutions and represents a step within the international introductory process of the Palestine Monetary Authority's important role. ICMA thanks Ms. Al-Ahmad for the interesting insight to the PMA that her visit has afforded.

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