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COVID 19 - PROTECTING BANKS FROM BANKRUPTCY IN THE ARAB COUNTRIES (A COMPARATIVE STUDY)

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ABSTRACT

Banks have an effective role in facilitating economic transactions, financial dealings and investment of funds and thus they are considered as pillars of the national economy. Therefore, banks may be affected in achieving their financial and investment objectives by national or international economic, social or health phenomena. Therefore, this research aimed to identify the precautionary measures that aimed to protect Banks from bankruptcy in the face of the effects of the spread of the Corona virus, in the Arab countries. The article followed the descriptive, analytical, and comparative approach. The study concluded with the most important results of which are that central banks in Arab countries have issued precautionary decisions and measures to protect banks and their customers from the effects of the epidemic. This was a reason to protect banks from bankruptcy and financial stability.

1. Introduction

Definition of banks:

It was defined as a type of financial institution whose activity is focused on accepting deposits and opening credit(Albagy,2016).

They are companies that use cash as a commercial commodity, by accumulating capital and customer savings in preparation for carrying out its primary function in distributing credit (Barbarian,1992).

It was known as the institutions whose functions and purposes of its establishment are to practice the operations of accepting deposits, granting credit facilities, carrying out exchange operations, collecting checks for clients' account, granting loans and keeping papers with the granting of letters of guarantee, bank guarantees, credits and current accounts(Nassif,1997)

It is evident from the previous definitions that banks aim to achieve financial and economic goals behind their establishment, represented in the following:

1. Realizing profits and material returns.
2. Avoid exposure to severe shortage of liquidity.
3. Achieve the greatest possible safety for depositors.
4. Investing people's money.

Banking management focuses on achieving the investors' goal of achieving the maximum financial return.

As for the depositors' objectives of liquidity and security, they are achieved by the laws regulating the work of banks, with the presence of a supervisory and control body for banking business, represented by the Central Bank.

The Corona pandemic has economic, social and political implications, the repercussions of which may affect the general objectives and financial policy of the banks, which may be the cause of the financial turmoil of the bank and its inability to fulfill its debts and forced it to an urgent stop with the difficulty of obtaining cash money to pay its current debts, which makes it in a state of bankruptcy.

Definition of bankruptcy:

It is defined as the legal system for collective execution on the funds of the merchant debtor who stops paying his commercial debts as a result of his financial condition(khaled,2013).

And bank companies are considered in failure to fulfill their obligations in any of the following cases(Alnalby,1986):

- If the bank's assets exceed its liabilities while it is able to sell its assets and assets to meet the outstanding debts.
- The insufficiency of its assets to cover the liabilities of others of all kinds.
- Increased debt on financial assets

The liquidity deficit or banking default has several forms. It may relate to shareholders, depositors, creditors, or the public interest. In all these cases, it constitutes a danger to the national economy due to the economic importance of bank companies by directing investments that depend on deposits that are debts owed by the bank that it is obligated to return upon request(kayd.2010).

Liquidity is known: the bank's ability to fulfill depositors' withdrawals and its ability to meet financiers' requests in a timely fashion without having to sell securities or fixed assets.(Esmail,2019), The liquidity deficit is also defined by the bank's inability to face daily withdrawals movements during the daily business with regard to current deposits and fixed deposits that have not yet matured(Arifi,1988), The bank's inability to fulfill its obligations or banking default is a phenomenon that may occur due to the repercussions of the Corona pandemic, given that any bank in its financial dealings is governed by four controls(Tadros,1974):

- The percentage of reserves kept in return for the deposits he is committed to.
- The ability to credit.
- Percentage of credit maintained by clients benefiting from part of it in the form of cash.
- The extent of its commitment to the central bank's policies, such as compliance with granting credit and guarantees accepted from clients.

Because of the seriousness of the bankruptcy declaration, and the consequences of that, the most important of which is lifting the bank's hand from managing its money, selling it and dividing it among creditors, and its effects on the economy. The legislator in Arab countries interferes with precautionary issuances, instructions and decisions that protect banks, In this, the annual macro-economic memo of the Business Bank of the Deposit and Management Fund (CDG Capital) stated: It is expected that the liquidity deficit in the banking system will continue to expand in 2020 at a more pronounced pace, due to the effect of the escalating curve in monetary circulation, which will expand its circle due to Disorder caused by the Covid-19 pandemic. (<https://www.assahifa.com/>).

2. LITERATURE REVIEW

Risks due to the Covid-19 pandemic on banks that may cause liquidity deficits:

The risks that affect the liquidity of the bank are:

- Low bank saving rate.
- Risks of loan default.
- The risk of liquidity deficit.
- Risks of low capital.
- Risks of administrative efficiency.
- Risks of reduced remittances.

First: The decline in the bank savings rate: The definition of bank saving is the consumer giving up part of his income and depositing it with banks(Amory,2014).

In general, saving rates have collapsed in the face of ambitious investment rates in developing countries, creating a large gap between saving and investment (<https://www.independentarabia.com/node>), This is due to the bankruptcy of a number of companies and layoffs.

Second: low credit:

The banking business is based on accepting deposits and savings on the one hand and granting credit and loans, The pandemic caused problems in bank loans and the inability to repay due to the bankruptcy of large commercial companies, tourism companies and retail stores, with the decline in bank profitability due to mortgage payments, And grandfather loans and loans reduce the rate of increase in credit card defaults due to massive layoffs. In the last month (<https://edition.cnn.com/2020/04/17/business/bank>).

Third :share capital

It is defined as the difference between the assets and liabilities of any establishment as it represents a protection for the rights of creditors to face any future losses in the absence of adequate allocations to meet those losses(Othman,1998) As Moody's credit ratings agency reported that the Corona pandemic, with the decline in oil prices, will affect the revenues of Gulf banks during the current year(Arabic News). as the capital of some banks will witness a decline due to the contraction of the economy, but this effect does not include the banks of the Arab Gulf region countries will remain strong with the high financing expenses Because of bad loans .

Fourth: Administrative Efficiency

Banks like other sectors have reduced their working hours, and in many cases they are no longer able to serve only a very limited number of customers, due to the rules of social distancing, which has added more pressure to telephone and online banking services, but this group of problems is in fact. Minor problems that can be faced and dealt with (<https://www.aleqt.com/2020/04/04/article>)

However, due to the existence of an effective electronic program for Gulf banks before the pandemic, the stoppage did not significantly affect their banking transactions, so they continued to carry out their work during the period of strongly quarantine.

Fifthly : deposits and Transfers : On the impact of the Corona epidemic on deposit activity, that the measures announced by countries to confront the virus have caused negative effects on all economic activities, and thus the volume of deposits was affected, as the rate of growth of assets in local currency decreased (<https://www.independentarabia.com/node>), As for financial transfers

The World Bank stated that global remittances are expected to decline sharply by about 20% in 2020 due to the economic crisis caused by the Corona pandemic (Covid-19) and the closure measures, especially the Middle East and North Africa 19.6% (.<https://www.albankaldawli.org/ar/news/press-release/2020/04/22>). Cyber hackers may take advantage of vulnerabilities arising from changes in the methods of banking and customer service to defraud customers for this.

Precautionary measures in the Arab countries in the Middle East region to face the repercussions of the Corona pandemic:

Jordan: Article (80) of the Jordanian Banking Law of 2000 states(A) In the event that a bank is exposed to problems of substantial effects in its financial position, one or more of the following measures may be taken: Restructure the bank's capital by reducing its subscribed capital and increasing it by subscribing to new shares or by using its voluntary reserves or profits. Or by any other means it deems appropriate. Using any of the elements of the regulatory capital to increase its capital or address its losses, merging the bank with another bank.

The Central Bank of Jordan has issued instructions to counter the effects of the covid-19 on the economy, The Jordanian Strategy Forum has estimated a rate of 16.9%, which is the ratio of capital adequacy of Jordanian banks during the Corona pandemic, and it is considered a comfortable margin over the percentage specified by the Basel Committee of 10.5%, which indicates the ability of Jordanian banks to bear credit risks compared to other countries, The most important measures taken by the Central Bank of Jordan are to reduce interest rates by a total of 15% in addition to reducing the compulsory reserve ratio for the capital, which led to the provision of liquidity worth 550 million Jordanian dinars. These measures led to the stability of the capital of Jordanian banks and the preservation of financial stability.

Lebanon :

Banks in Lebanon have been exempted from making provisions against bad loans due to the Corona crisis (Al Arabia News 20 August 2020). The Bank of Lebanon also allowed commercial banks to borrow from it amounts in US dollars at zero interest in return for using these sums to delay customers 'loans for a period of five years

Egypt :

The Banking and Credit Law promulgated by Law No. 163 of 1957 states: Article 30: The Board of Directors of the Central Bank of Egypt, in the event that a bank encounters financial problems affecting its financial position, may request the management of that bank to provide the necessary additional financial resources in the form of increasing the paid-up capital or Deposit

funds with the bank according to the conditions set by the Board of Directors of the Central Bank of Egypt, The Central Bank of Egypt launched an initiative to support the banking sector, including reducing the interest rate by 300 points while reducing the return of the treasury and the rate of return on bank deposits, while postponing the payment of lending with the increase in bad debt allocations. These measures led to the stability of capital for Egyptian banks(<https://www.skynewsarabia.com/business>).

Syria:

The Monetary and Credit Board of the Central Bank of Syria issued a moratorium on granting loans and limiting the financing process to basic commodities and a decision to postpone loan installments owed by customers for a period of three months snackysyrian.com

Kingdom of Saudi Arabia:

The financial performance of Saudi banks was not affected by the Corona pandemic, as they benefited from a two billion government program to avoid the repercussions of the (COVID - 19, The "Monetary Agency" revealed a program whose value currently reaches about 50 billion riyals (13.3 billion dollars), which aims to support the private sector to enhance its role in economic growth and mitigate the expected financial and economic impacts of COVID-19, especially on the small and medium enterprises sector. The program recently announced by the Monetary Agency consists of mechanisms aimed at easing the burden of fluctuating cash flows, supporting working capital for this sector and enabling it to grow during the coming period.

(<https://aawsat.com/home/article/218199>) The Saudi Monetary Agency has issued several measures to follow up on banking institutions, represented in the following (circular issued by the Saudi Monetary Agency on 5/8/1441) with the number 41051339;

- 1- Postponing supervisory visits to banks and capital adequacy assessments for the year 2020
- 2- Basel reforms are postponed
- 3- Restructuring financing for clients
- 4- Postponing payment of due installments for a period of 6 months
- 5- Exemption from electronic banking services fees and review and reassessment of the interest rate

Sultanate of Oman :

The Central Bank of Oman issued a package of control and precautionary measures: (Circular issued by the Central Bank of Oman BSD / CB / 2020/001 on March 18, 2020) to protect banks and assist it in overcoming the current crisis on the economy, represented in:

- 1- Reducing the protective capital ratio by 50%, from 2.5% to 1.25%.

2- Increasing the loan ratio by 5% from 87.5% to 92.5% and facilitating lending to the productive sectors.

3- Responding to requests to postpone financing.

4- Reducing the interest rate on repurchase operations and commercial paper ,
Governors of monetary institutions and central banks in the countries of the Gulf Cooperation Council said that the incentive measures taken by the GCC countries to confront the repercussions of the Corona virus crisis (Covid 19).(<https://www.albayan.ae/economy/>), especially the provision of support programs to reschedule the facilities and some postponing the payment of the installments due without costs, fees, benefits or additional profits. It will not automatically increase credit (lending) risk.

UAE:

The Board of Directors of the UAE Central Bank approved the reduction of the compulsory reserve ratio of demand deposits by half for all banks, as it was reduced from 14% to 7% , "The UAE Central Bank added that this" will contribute to enhancing liquidity and pumping an estimated 61 billion dirham's of liquidity into the sector. Banker. (<https://arabic.cnn.com/business>)The Central Bank also approved in its statement(<https://www.cnbcarabia.com/news/view/64420>). "an extension of the zero-cost financing facilities covered by a guarantee for banks and financing companies participating in the plan until December 31, 2020, and the value of the zero facilities available amounts to 50 billion dirham's." The Central Bank has allowed all banks to use the equivalent of 60% of the additional protective capital, and the banks identified by the Central Bank as local banks of systemic importance will be able to use 100% of the additional protective capital set for them as banks of systemic importance.

Kuwait: The Central Bank announced that, in line with the reduction of interest on the US dollar by 1% by the Federal Reserve on March 15, 2020, the Board of Directors of the Central Bank of Kuwait decided on March 16, 2020 to reduce the discount rate 1% (from 2.5% to 1.5%). <https://almalnews.com>.

In England, capital requirements and conditions for English banks were reduced, with interest rates reduced by fifty points, bringing interest rates to a quarter of a percentage point(<https://www.skynewsarabia.com/business>).

As for America: The US Federal Reserve cut interest by 50 points in March, in a surprising move not recorded since 2008

As for China: where it was and. Lowering the lending rates to 4.05% American banks:

Since the Corona virus began spreading in the United States, two banks have failed and government banking authorities have closed them. One was a bank in West Virginia and the other in Nebraska.

The governor of West Virginia has already issued a stay-at-home order due to the high incidence of COVID-19 (<https://news.bitcoin.com/us-banks-failed-coronavirus/19>). Major American banks have allocated 35 billion dollars to be an impregnable fortress to protect against bankruptcy and collapse due to the economic repercussions of the spread of the renewed Corona virus. Banks including Bank of America, GB Morgan Chase, Citigroup, Wells Fargo, US Bancorp allocated an additional \$ 35 billion during the first quarter to ease loans that collapsed, according to a tally by the financial services firm, Edward Jones. GB Morgan (<https://www.maaal.com/archives>), America's largest bank, announced a 69% drop in first-quarter profits because it had allocated massive reserves of \$ 6.8 billion, largely to deal with defaults related to the Corona virus

The Basel Committee sets additional measures to mitigate the impact of Corona on the global banking system:

The Basel Committee has published guidelines to reduce the risks of the Corona virus to banks, which are:

- Capital processing of deferred payment loans initiated in response to COVID-19;
- The Basel Committee has modified its transitional arrangements for the regulatory treatment of capital to account for ECL. In doing so, the committee intends to provide greater flexibility for governments "to decide whether and how to incrementally impact expected credit losses on regulatory capital."

The Basel Committee and the International Organization of Securities Commissions have extended the deadline for completing the last two implementation phases of the margin requirements for non-centralized derivatives by one year (<https://www.lexology.com/library>)

. The final implementation phase will now take place on September 1, 2022.

3. CONCLUSION

As soon as the Corona virus spread, the governments of Arab countries, represented by their central banks, began to issue precautionary decisions to protect banks from the effects of Covid 19 by supporting the banking sector with money. Reducing the compulsory reserve ratio for the capital and reducing the interest rate and following up on loans, even if there is no regional standardization of these measures, It is clear that these precautionary measures issued by central banks have reduced and absorbed the effects of the banking system in Arab countries from the spread of the virus 19, so no bank has been declared bankrupt or has reached a liquidity deficit despite the oil crisis at the beginning of the virus's spread, and the study recommends extending banks. The Arab League offers exceptional loans in the event of liquidity deficit and

the need to develop an international model law for precautionary measures, to protect banks from bankruptcy during the crisis of the spread of the Covid.

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