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Financial stability and supervisory cooperation (SSM in Eurozone – Banking supervisory cooperation in Egypt)

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Abstract

Purpose – This study aims to analyze the impact of cooperation between banking supervisory entities on maintaining financial stability, using Single Supervisory Mechanism evolution and performance as instance. Then banking supervisory cooperation and financial stability in Egypt are reviewed.

Design/methodology/approach – The qualitative method is used to study and analyze the practices that contributed to financial instability and raised the need for supervisory cooperation. Descriptive qualitative method is used to study the interrelations between supervisory authorities on various levels and its impact on financial stability.

Findings – Findings show that maintaining financial stability through strong, consistent complete or semi unified supervisory framework faces challenges. Providing cooperation between different supervisory authorities, effective information sharing, gained experience in the long run contributes to financial stability.

Originality/value – The originality of this research paper arises from the fact that it encompasses the academic aspect through interpreting the developments that occurred to the cooperation in banking supervision in relation to the financial instability times in the Eurozone that led to the establishment of Single Supervisory mechanism, and the challenges it faced. The supervisory cooperation in Egypt is studied as well at international, regional levels and its role in contributing to financial stability. To the best of the authors' knowledge this is the first study that studies the banking supervisory cooperation between Egyptian supervisory authorities and other international and regional authorities.

Keywords Financial stability, Single supervisory mechanism, Central banks, Supervisory cooperation in Egypt

Paper type Research paper

1. Introduction

Although there is a level of consistency among various financial systems, noticeable diversities can be identified, mainly due to different regulatory and supervisory systems. Many difficulties arise due to these diversities especially in defining, monitoring and controlling financial risks (Apatachioae, 2015). Reduction of barriers to financial flows, with its benefits and costs, encounter major complications (Kose *et al.*, 2007).

To achieve consistency among various regulatory and supervisory systems, many steps have been taken by international, regional and national entities. These steps have many aspects to address different challenges, also these steps are continuous to keep in line with various upcoming challenges. This paper attempts to highlight the importance of these actions of enhancing cooperation in supervisory areas especially after the financial crises starting 2007 and the evolution of the Single Supervisory Mechanism. Also *this paper aims at* observing the supervisory cooperation and financial stability in Egypt.

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2. Literature review

Upon reviewing the relevant studies, it can be classified into three main categories. First the studies that highlighted the cycle between sovereign debt crises and vulnerable banking systems.

Blundell-Wignall (2011) studied the countries with financial problems that converted credit risk into inflation risk with its high costs. For Europe and the rest of the world the cost was large as the euro is a global currency and was facing pressures. He emphasized the importance of the structural reform and adopting policies that are consistent with a growth strategy, also he proposed strategies that include proper restructuring of bank balance sheets and recapitalization.

Noeth and Sengupta (2012) through analyzing the main causes of the financial crisis emphasized the mutual role of the sovereign debt crisis along with the growth crisis and the banking crisis. The three crises in the euro zone were: sovereign debt, economic performance and the banking system. They illustrated that poor economic performance leads to nonperforming loans and lower tax revenues. Nonperforming loans harm bank balance sheets, which in turn has negative effects on economic growth. In extreme cases, nonperforming loans can end in bank failures, leading to bailouts by the respective sovereigns. Large bailouts accompanied by lower tax revenues put extreme stress on public finances. In turn, a higher debt burden reduces economic growth because of weaker incentives like higher tax rates or reduced public investment. Public debt obligations of the countries in crisis were not only held by those countries but mostly by creditors in other parts of the euro zone. The final results were negative effects on the financial institutions with sizable sovereign debt holdings and increasing pressures on the European banking system.

Asonuma *et al.* (2015) examined the relation between public debt and borrowing costs, fiscal policy reactions and debt distress. The study's empirical findings showed that countries benefit from a higher home bias in terms of lower borrowing costs, but they became so sensitive during crisis periods. *Thus* causing sharp increase in borrowing costs. Also these countries showed a little and delayed fiscal reaction function. *They* overly rely on the ability of domestic banks to fund the sovereigns thus causing higher debt burdens.

Second the studies that elaborated challenges that face the Single Supervisory Mechanism.

Veron (2012) analyzed the reasons behind the need for a *banking* union. Ranging from interdependence between fiscal and monetary policies to the crisis of sovereign debt, he stated that the Single Supervisory Mechanism was an important step. However, more conditions need to be addressed to prevent further deterioration and to ensure more improvements. He stated that its establishment was necessary though not sufficient mentioning the further required steps. Those steps included more cooperation on decision making and supervisory levels, also more consideration to non-Euro area member states *to* address their concerns.

Ferran and Babis (2013) attempted through making an evaluation of the emerging Single Supervisory Mechanism to explore the challenges it faced. They examined the significant legal issues raised by its creation and analyzed the role of the European Central Bank as prudential supervisor. This role included its scope and powers, its interaction with national supervisory authorities, governance arrangements, independence and accountability. They concluded that there were short and long term challenges. The short-term challenge was to build up its institutional capacity. In the longer term, the Single Supervisory Mechanism performance could be affected by its own institutional design like legal constraints and political negotiations. Finally, they discussed the challenges of completing the single regulatory rulebook for the European Union.

Troger (2014) analyzed the *effectiveness of the* Single Supervisory Mechanism *as a supervisory institution, that aims* at improving financial stability. Troger saw that the

institutional design of the Single Supervisory Mechanism suffered from structure shortcomings and that it *needed improved* arrangements *like* adding political accountabilities of different kinds.

Howarth and Quaglia (2015) argued that member states in the euro area faced four inconsistent issues they could not handle at the same time: financial stability, financial integration, national financial policies and the single currency. As a result, they had different preferences concerning the Single Supervisory Mechanism. This study examined these national variations and their effects on the supervisory practices and on the banking union as a whole.

Third the studies that predicted *the competency* of the Single Supervisory Mechanism. These studies assume that *its tasks* will be performed efficiently along the lines of competence as defined by its regulations. This trend argued that entry into this mechanism, plus harmonized bank-resolution regimes and a growing acceptance of the need of burden-sharing with senior unsecured creditors, can make a significant improvement in the quality of Europe's banking policy framework. *Accordingly, this will* lead to a more proactive approach to Europe's banking problem.

Rompuy (2012) put a timeframe for the completion of the Economic and Monetary Union. He aimed to cover all the essential elements and offered more mechanisms towards an integrated budgetary framework. This framework included an appropriate fiscal capacity for the union. He suggested that euro area member states enter into arrangements with the EU institutions concerning the reforms that should be adopted and their implementation stages. He identified the actions required to ensure the stability and integrity of the EU and called for a political commitment to implement it. He stated that the establishment of an effective Single Supervisory Mechanism and the implementation of the capital requirements is the first stage towards economic and monetary union.

Beck *et al.* (2018) analyzed data on supervisory cooperation. A big sample of countries was used in the time between 1995 and 2013. Results showed that cooperation among bank supervisors was optimal only among countries that had same high cross-border externalities (i.e. cross-border activities of banks) and lower heterogeneity (i.e. differences in structures of the banking systems, political structure of countries). However, there were some exceptions that had to be taken into consideration as for some countries the costs of cooperation offset the benefits.

Finally, literature review on the financial stability highlighted the importance of a comprehensive supervisory system. Credible supervisory system minimizes disruptions to the rest of the financial system and the real economy. It also provides essential inducements against taking excess risks in normal times. This study further elaborates the evolution of the Single Supervisory Mechanism and the challenges it faces in maintaining the financial stability. Then elaborates banking supervisory cooperation and financial stability in Egypt.

3. Financial stability and the establishment of Single Supervisory Mechanism in the Eurozone

Global financial crisis in 2007 and its consequences on the European members was very challenging to policy makers. European Banking Union, governments and Central Banks adopted measures to recover negative effects and to safeguard the financial system from future potential crisis.

The European Union members took steps to guarantee equal regulatory treatment and to facilitate open provision of financial services across borders (Berger and Smith, 2003). *Meanwhile* private expenditures increased, these expenditures were financed by various banking sectors of lending and borrowing countries, and it caused some imbalances. When the international crisis, that begun in the US, occurred it caused these imbalances to be

unsustainable. The overall level of private debt increased especially in Greece, Ireland and Spain (Constancio, 2013; Angeloni, 2016).

Rapid increase in public debt happened after the crisis and was mainly due to the collapse in taxes revenue and increase in social expenditures. The later increased during recession. Furthermore, the relationship between the sovereign debt and banking system worsened the situation. National Banks carried large amounts of their government bonds. Deterioration of these governments bonds negatively affected the soundness of its banking systems and vice versa (Constancio, 2013; Huttl and Schoenmaker, 2016).

The European Central Bank was put in charge in order to break this interdependence between governments and banks. In June 2012 a precondition for direct bank recapitalization by the European Stability Mechanism was set. Setting this precondition was a transfer of the responsibility of banking supervision from national banking supervision entities to the euro-area level, so supervision was also centralized. The main reason behind this was to organize the rescues provided by the European Central Bank to the banks at crisis. Another reason was to minimize further imbalances and thus decreasing the need for further rescues. Therefor the principles of the Banking Union were supervision and resolution of banks at the euro-area level (European Stability Mechanism website, 2020a).

Presence of supervisory externalities that may spillover to other countries led to centralizing the supervisory process. National supervisors consider the consequences of supervisory measures on their national financial systems. In decentralized supervisory system the cost of externalities of supervisory measures will be high. Higher supervisory standards make banking systems more stable but are perceived as burdens for banks, as at least in the short run their profitability is reduced. National supervisors tend to lower these supervisory standards to provide their banks with competitive advantages. There was a need for a centralized supervisory to avoid negative impacts on financial stability. This centralized supervisory framework is more likely to be beneficial among countries with a greater foreign bank presence, cross-border flows and relatively similar financial structures (Beck *et al.*, 2018; Ariccia, 2015).

Transferring supervisory responsibility to a centralized level, that would care for all involved countries and address externalities, became necessity. *Thus the issue was addressed from the roots*. Many steps were taken by the European Central Bank, National Central Banks, European Banking committee and the European Banking Authority. First "The European Financial Stability Facility" was created as a temporary crisis resolution mechanism in June 2010. It aimed at preserving financial stability in Euro-zone through providing financial assistance to Euro countries. It provided assistance to Ireland, Portugal and Greece (Kuepper, 2018).

Then the "European Financial Stabilization Mechanism" was established in October 2012 as a successor to the "European Financial Stability Facility". In December 2012 Spain was the first to get payment from this mechanism to recapitalize its banking system, then Cyprus was the second. Both the European Financial Stability Facility and the European Financial Stabilization Mechanism imposed, on the countries receiving these assistances, financial and structural reform programs. These two institutions succeeded in improving performance of the countries that requested help. Cyprus (March 2016), Ireland (December 2013), Spain (December 2013) and Portugal (May 2014), successfully exited their programs without follow-up arrangements. *They* emerged after these programs stronger. Establishing these two institutions paved the way to stabilize the financial system of the euro-area. *This was accomplished* through supporting four beneficiary member countries in recovering and stabilizing their financial sectors (European Stability Mechanism website, 2020b).

After that there was the establishment of the European Banking Union in response to the global financial crisis and the sovereign debt crisis. In 2013, the Single Supervisory Mechanism was formally set as the first pillar of the Banking Union and started operations in

November 2014. The Banking Union was set up to enhance the financial system stability and to promote integration. It is based on set of rules called the "Single rule book". These rules, address in particular the banking supervision, banks resolution and deposit guarantee schemes. Single Supervisory Mechanism (SSM) as one of the three pillars of the European Banking Union, was established mainly to enhance, unify and improve the banking supervisory framework in Europe. It has a legal basis for the cooperation between national supervisory authorities within its framework and this is set in the Council Regulation. As a result, the European Central Bank became in charge of authorizing credit institutions, validating their compliance with existing capital requirements, leverage and liquidity, and undertaking early intervention measures (German Ministry of Finance website, 2018).

These procedures, that aimed at achieving financial stability through consistent supervisory practices, faced some difficulties. First: Diversity in the supervisory and the regulatory conditions that may limit the harmonization between them. *Regulatory* framework applies at the EU level while the supervisory decision at the ECB level. There is a separation between regulation and supervision thus the supervisory decisions are restrained. Resolving conflicts relies on coherent supervisory coordination with the national authorities (Ferrarini, 2015).

Second: Concerns raised due to conflicts between micro and macro prudential regulation. The main aim is ensuring the safety and soundness of European banks on both levels individually and as a system, also through both microprudential and macroprudential policies. Macroprudential powers are shared between the European Central Bank and the national authorities of the member states. This also implies complete coordination that would guarantee effective functioning of the SSM. Microprudential decisions that aim at addressing institution specific concerns may go in opposite direction with macroprudential goals, that is the trade-off between capital and credit. A clear recognized setting and strong coordination between the European Central Bank and the national authorities is fundamental (Navaretti *et al.*, 2016).

Third: Not the entire banking system is under the direct supervision. Banks are categorized according to certain criteria into more and less significant. More significant banks are under the direct supervision of the European Central Bank while the less significant are under the supervision of the national authorities. Around 80% of euro banks assets are under the direct supervision. In the appropriate balance between coordination and proportionality, regional noncomplex banks should not have to apply the same requirements that apply to large international banks. Supervisory measures that is accustomed to the size and degree of complexity is considered in SSM methodologies (German Ministry of Finance website, 2018).

Fourth: Information sharing between the central supervisor at the SSM and the national supervisors is a fundamental issue. Supervisory framework implies three main stages: collecting information, processing the information and accordingly acting or not. Having all these activities centralized at the European level is better than leaving all or part of them decentralized. A key issue is information sharing and the national implementation of the instructions from the central supervisor. The central supervisor performs its supervisory tasks within the SSM but he is still relying on the information from the national authorities, that keep control on information collection. Since there are no supervisory powers on large banks the national supervisors may limit incentives to obtain information effectively or timely (Haas, 2016). As experience is gained and deeper infrastructure is developed, the ability to monitor banks directly increases. *On* the long run more corrective mechanisms *will be* enforced based on reliable information. One of the main used methodologies is the Supervisory Review and Evaluation Process (SREP). It ensures that euro area banks are supervised on the same basis of standards. As part of the SREP, supervisory authorities review whether banks use adequate internal evaluations of risks and *whether the* risks are managed properly. *Accordingly,* certain banks may be required to increase capital and

liquidity. There is continuous cooperation between European Central Bank and national authorities to develop the SREP methodology (German Ministry of Finance website, 2018).

Fifth: The way of cooperation between the European supervisor and the non-euro area supervisor must be clarified, that is banks from outside the Euro area that are subject to both the European Central Bank supervision as a host authority and *to the* home regulator supervision. SSM changed the way of cooperation into more close coordination. SSM is open to other supervisory authorities that wish to have a close cooperation with arrangements. There is opportunity of bilateral cooperation between the European Central Bank and a supervisor outside the European Union and it involves specific arrangements. These arrangements range from non-confidential discussions to structural cooperation stated in a Memorandum of Understanding. Some of these Memorandums are bank-specific, while others are issue-specific and cover a wider range of supervised entities (SSM Supervisory Manual, 2018).

Sixth: There is a need for continuous developments and evaluations to strengthen the effectiveness of its procedures. This includes improving functioning systems taking into consideration the specifications of every country. *Also adopting* clear objectives and priorities that supports credibility and transparency. Continuous consultation with partners and other institutions ensures comprehensiveness, timeliness and effectiveness.

4. Financial stability in Egypt

The overall aim of this research is to examine the cooperation between supervisory authorities in relation to financial stability. Concerning the status of the financial stability in Egypt, there is the Financial Stability Index of Egypt that is used to reflect current macro financial indicators. It is a quantitative indicator that consists of twenty-one variables. These variables are classified under four main indicators. These main indicators are: Banking Sector Soundness, Macro Economic Performance, Progress of Stock Markets and International Economic Indicators. The figures used are quarterly. Whenever the index approaches one (the maximum) this refers to more financial stability, while approaching zero (the minimum) refers to less financial stability. Financial Stability index in Egypt has witnessed slight increase through 2018 in comparison to the previous year. It reached 0.51 as average of the year. However, it reached 0.54 in March 2019. The main cause of the increase was the Macro Economic performance. *The Macro* Economic indicators witnessed positive developments on many aspects. *Mainly* the financial control policies and floating the exchange rate led to decrease in budget deficit and increase in foreign reserves (Central Bank of Egypt website, 2019).

Financial soundness indicators of the banking sector *are mentioned in* Table 1. The main indicators are Capital Adequacy, Asset Quality (Nonperforming Loans to Total of Loans *and* Loans Provisions to Nonperforming Loans), Earnings (Returns on Average Assets and Returns on Average Equity), Liquidity of local and foreign currencies. During 2018 Financial Solvency increased due to the increase of Capital Adequacy of banks. Also the indicators of the Quality of Assets raised due to the decline of nonperforming loans and the expansion in loans provided by banks. This returns to the improvements of the economic conditions and the initiatives of the Central Bank of Egypt to finance small and medium enterprises. On the other hand, the Domestic Liquidity Ratio decreased due to the increase in clients' deposits. *The* Money Market indicators during the same period witnessed some deterioration due to external reflections (Central Bank of Egypt website, 2019).

Overall there are improvements in financial stability indicators due to the macroeconomic improvements and the soundness of the banking sector. *This is* despite the fluctuations in the international economy. Egypt's banking sector assets represented 90.2% of the whole financial system assets (Central Bank of Egypt website, 2019).

Indicators	Fiscal year 2017	Fiscal year 2018	Dec. 2019
First: Capital adequacy			
Capital base to risk weighted assets	14.7	15.7	18.4
Tier 1 capital to risk-weighted assets	11.7	12.7	15.9
Common equity to risk-weighted assets	9.2	10.4	11.7
Leverage ratio	6.3	6.3	7.4
Second: Asset quality			
Nonperforming loans to total loans	4.9	4.1	4.2
Loan provisions to nonperforming loans	98.3	98.0	97.6
Third: Earnings			
Return on average assets	1.5	1.4	1.4
Return on average equity	21.5	19.2	19.2
Fourth: Liquidity			
Local currency 20%	47.1	40.3	45.8
Foreign currencies 25%	66.4	67.7	74.0

Source(s): Central Bank of Egypt Website (2020)

Table 1. Financial soundness indicators of the Egyptian banking sector

Many domestic banks in Egypt hold sizable governmental debt both from the secondary and primary markets. The deep-rooted sovereign-bank relationship raises concerns regarding its impact on the soundness of the banking sector as well as its potential impact on debt sustainability. Countries with higher levels of public debt tend to have higher domestic banks holdings of domestic sovereign debt for two reasons. First, domestic banks holdings of domestic sovereign debt reduce the domestic cost of borrowing. Second, domestic sovereign debt tends to enjoy a preferential regulatory treatment with a zero risk-weighting. There are incentives for banks to invest into government bonds, and therefore less pressure on governments to reform their state finance sources, thus the sovereign-bank connection is deepened and leads to further delay of the needed fiscal adjustment. This could postpone problems until debt reaches dangerously high levels (Asonuma *et al.*, 2015; Huttl and Schoenmaker, 2016; Alba *et al.*, 2004).

The largest component of government expenditures is the domestic debt service. Table 2 the debt burden increased as the interest rates on T-Bills raised after 2011 due to political and economic instability. The rates started to decrease during 2013/14 after the inflow of Gulf aid to Egypt and the upgrading of Egypt's credit rating. However, the rates raised again in

Egypt government	2018	2017	Highest in the period from (2002–2018)	Lowest in the period from (2002–2018)	Unit
Government Debt to GDP	92.6	103.2	103.2	73.3	Percent
Government Budget	−9.5	−10.4	−6.8	−13.3	Percent of GDP
Government Budget Value	−420	−362	−29	−420	EGP billion
Government Spending	99	106	106	11	EGP billion
Government Revenues	916	755	916	109	EGP billion
Fiscal Expenditure	1,336	1,117	1,336	153	EGP billion

Source(s): Egypt Government Debt to GDP (2020)

Table 2. Government Debt to GDP

2014/15, due to the increase in the government needs for debt and the devaluation of the Egyptian Pound. , it declined again as a result of the decrease in the interest rates since the end of the first quarter of 2019 (Megahid, 2017; ElGhouty, 2018).

In cooperation with IMF Financial Stability Board, it set specific reforms and in November 2016, the Executive board of the IMF approved financial assistance for Egypt in the form of an Extended Fund Facility (EFF) arrangement for SDR 8.59 billion or about US$12 billion. Since starting the IMF loan program the Egyptian government intended to reduce its general debt. Placing public debt on a clearly declining path has been one of the main objectives of the authorities' program. Recovery in GDP growth rates and significant reduction in fiscal deficits have helped to reduce gross government debt from more than 100% of GDP in 2016/17 to 85% of GDP in 2018/19. This is a significant accomplishment. However, the debt level remains high and needs to be reduced further to strengthen Egypt's debt sustainability. The authorities' intention to maintain primary fiscal surpluses (i.e. fiscal balances excluding interest payments) at 2% of GDP in the medium term would ensure a stable decline in public debt to sustainable levels (IMF website, 2019).

Another form of the international supervisory cooperation is the Basel Committee. The rules of Basel III concerning the banks' capital is a step forward, it aims at making banks' positions stronger and safer (Apatachioae, 2015). However, there are some concerns about the handling of sovereign bonds in banks' balance sheets. It is not addressed in Basel III, as government bonds denominated in domestic currency can be treated as safe according to national regulators decision. All the committee members use this option to set zero risk weight on these bonds. This implies that banks can hold more domestic sovereign bonds without raising more capital. Anyway dealing with the issue of banks holdings of sovereign debt requires extreme care as a sudden change in the regulations would force banks to sell their government bond holdings at the same time, which might itself generate a sovereign debt crisis. Also, some regulatory advantage for moderate holdings of domestic government debt is reasonable. Banks may use sovereign bonds as collateral for managing their liquidity or act as primary market for these securities (Bloomberg, 2017).

In general, Basel Committee has its own unique institutional and supervisory structure. Through its central bank and supervisory membership and international efforts, it translates the concerns of central banks, supervisors and others into actual coordinated bank supervisory and regulatory measures. These measures are at both national and global level. This system-wide approach to supervision aims at strengthening the regulatory, supervisory and risk management infrastructure to be more resistant and contributing to financial stability (Wellink, 2008).

The Central Bank of Egypt continues *to enhance* the banking system regulatory environment. *This is* through the finalisation of the second phase of Basel II and the subsequent implementation of Basel III. In addition, the Central Bank of Egypt works on strengthening the macro-prudential supervision framework. *This is achieved* through regular stress testing to ensure the safety and stability of the banking system. Also the on-going banking sector reform and *the* continuing effort to reduce non-performing loans, has aided the banking system in withstanding the external shock of the global financial crisis (Central Bank of Egypt website, 2016).

Concerning cooperation on the regional level; there is the Association of the African Central Banks (AACB). The governor of the Central Bank of Egypt was elected to be the Chairperson of the Association of African Central Banks in 2018/2019 (AACB website, 2019). It is an association which regroups the central banks of 46 member countries. *It was* established in 1968. Its primary aim is to promote cooperation in the monetary, banking and financial areas. At the level of bank supervisors, its main objective is to contribute to the continuous efforts that aim at strengthening banking regulatory and supervisory frameworks in Africa. It also aims to support national and regional supervisory bodies.

This is done through *developing* their capacity; *strengthening* cross-border supervisory cooperation; *adopting* a country-level roadmap for reforms; *sharing* the experience of African central banks that have implemented Basel II (AACB website, 2015).

Community of African Banking Supervisors (CABS) works in three main directions to reach its strategic objectives: knowledge sharing; institution building and resource mobilization and support. Through this CABS contributes to the stability and soundness of the members' banking systems. *Also it enhances* the compilation of the member banks with the international supervisory regulations. So it encourages the adoption of the international supervisory measures to ensure the stability, integrity, soundness and efficiency in the banking system and thus contributing to more financial stability (CAB Work Plan, 2014).

Another form of cooperation is the Memorandum of Understanding. It is considered an appropriate procedure in achieving cooperation between supervisory authorities. It allows procedures of sharing information, views and assessments that facilitates financial stability. Central Bank of Egypt signed Memorandums of Understanding with many parties including European Central Bank. These memorandums include many aspects ranging from building the capacity of the supervisory work teams to setting up data frameworks that enhance efficient data collection and transfer (Central Bank of Egypt website, 2016).

5. Conclusion

Unjointed systems of national banking supervisory authorities are not capable enough to spot risks associated with the globalized banking sector. Also such systems lack quick response to those risks. This raised the need for common multinational supervisor. The main aim of a unified or semi-unified supervisory framework is to ensure financial stability. This is fulfilled through broad coverage of information and safe banking practices that can protect stability. Thus building a strong regulatory regime with international standardized rules and strong enforcement mechanisms.

Single Supervisory Mechanism as a regional unified supervisory framework, allows member banks to benefit from experiences of each other. This is through the availability of comprehensive and deep information besides strong analytical methods. In the same way Banking Supervision, in the Central Bank of Egypt, benefits from cooperation with other supervisory entities whether on international or regional levels. This contributes to updating rules, more capable trained regulators and supervisors and strong enforcement measures thus promoting financial stability. Accordingly, the Egyptian banking system adopted major banking reforms to create a more efficient financial system. These reforms included strengthening bank supervision and regulations on the basis of internationally accepted standards (El-Shazly, 2001).

So banking supervision ability to perform its tasks is strengthened through the international supervisory cooperation. Better accounting standards, disclosure requirements and supervisory measures are adopted. International supervisory authorities like the Basel Committee on Banking Supervision or IMF Financial Stability Board set new international regulations and specific reforms. These regulations are based on rich and detailed cross-border data analysis. Adopting the updated regulations and the recommended reforms and implementing them in times of relative financial stability promotes better results compared to adopting reforms in times of banking crisis. As in times of crisis there is loss of confidence that forces authorities to restore stability through policy procedures that are more difficult and costly. This creates a strong foundation for financial stability.

Cooperation in banking supervision depends on enriched information exchange and organized interrelations among national authorities to maintain financial stability. Supervisory authorities in Egypt promote both international and regional supervisory cooperation. This is done through appropriate procedures, whether in sharing of information,

views and assessments. Importance of common principles, procedures and practical arrangements is highlighted.

Information sharing is vital in enhancing effective regional and international supervisory cooperation. Its effectiveness is important in preventing failure in banking supervisory cooperation. A more in-depth profound cooperation that would pave a road towards expanding mutual benefits results. This paper suggests further research on both the scope and constraints of ongoing information sharing between supervisory authorities in the way it achieves effective monitoring of financial stability.

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