FINANCIAL STRUCTURE OF EGYPT

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This article attempts to analyse the financial structure of Egypt in the light of the economic reform and structural adjustment program (ERSAP) initiated in 1990. After introducing ERSAP, it discusses the general economic outlook and basic characteristics of the Egyptian financial system in a comparative perspective. It also considers Egypt's financial institutions, its money market and its capital market.

1. INTRODUCTION

The economic difficulties of Egypt, which became more serious in the late 1980s, are many. They include severe indebtedness, fiscal deficit, balance of payments deficit, inflation, economic recession and related problems. Economic growth slowed down in the second half of the 1980s when oil prices and export earnings fell. However, the economy did not adjust to the external shocks and the decline in resources. Continual large government expenditures and energy subsidies as well as support of public enterprises helped generate significant government budget deficits which reached almost 20 per cent of GDP for the years 1985-1991. Since the budget deficit was financed by expansionary monetary policy, this led also to high rates of inflation. The economy, thus, entered into a period of "stagflation".

In response to the deterioration in the Egyptian economy, the government initiated the economic reform and structural adjustment program (ERSAP) in March 1990. The first stage of the ERSAP aimed at realising a market-based outward-oriented economy, and decentralising the economy by stimulating private investment and making it the main engine of economic growth. The measures implemented during the first stage of ERSAP included a reduction in the current account and government budget deficit; the liberalisation of prices, foreign exchange and interest rates; the privatisation and restructuring of public enterprises; trade liberalisation; and the establishment of a social fund to decrease the effects of market reforms on poor population.

After the government had implemented the first stage of the ERSAP, it began implementing the second stage of the program in July 1993. The second stage of the ERSAP focused on macro-economic stability and real and financial sector reforms. Its main aim was to evaluate the gains made during the first stage and deepen the structural reforms to provide a sustainable economic growth mainly with the participation of the private sector.

The ERSAP is being implemented with the support of the international community. The IMF is supporting the macroeconomic stabilisation component of the program which aims at balancing current account deficits in the short run. The World Bank is supporting the structural adjustment of the economy to improve its efficiency as the country shifts towards an export-oriented growth strategy.

The aim of this study is to analyse the financial structure of Egypt in detail in the light of the financial reform program which was an integral part of the ERSAP. The second section presents a

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(*) The author is Research Assistant in SESRTCIC. She is grateful to Dr. Abdel Rahman Zeinelabdin for helpful suggestions and comments. However, any errors that may be found in the paper are the sole responsibility of the author.

general overview of recent economic developments. The economic results of the first stage of the reform program will also be discussed.

The third section summarises the basic characteristics of the Egyptian financial system before and after the implementation of ERSAP. In this section, the development of the financial sector, where the banking sector takes a very important place, will be analysed from an historical perspective. Furthermore, a comparison between public sector and private sector banks will be undertaken on the basis of their financial position.

The fourth section concentrates on the financial institutions. The Central Bank of Egypt (CBE) will be examined in terms of its functions, tools of monetary policy and credits. This section will also consider the depository institutions, namely, commercial banks, business and investment banks and specialised banks, through banking laws and their financial positions. The final part of this section will deal with other financial institutions, including insurance companies, investment and mutual funds and foreign exchange dealer companies. In this part, the activities of these financial institutions will be examined.

The fifth section considers financial markets and capital movements. The money market and capital market--basically the stock exchange--will be discussed. In this section, the volume of inter-bank money market will be assessed. Then the emergence and development of the Egyptian Stock Exchange will be examined along with related laws and data. Also, the operating system of the stock exchange will be illustrated. As a conclusion, the financial structure of Egypt will be summarised in the light of the economic reform policies towards liberalisation and privatisation applied since the 1990s.

2. GENERAL ECONOMIC OUTLOOK AND RECENT DEVELOPMENTS

By the second half of the 1980s, Egypt had a lot of difficulties in debt repayments while capital inflows declined and foreign debt began to accumulate continuously. By 1990, Egypt's total foreign debt had reached $51 billion, equal to 144% of GDP and repayment obligations equal to one half of its export earnings (FAO, 1993, No. 26). While annual growth was significant at about 8.5 per cent during most of the 1970s and the first half of the 1980s, it decreased to about 2.5 per cent at the end of the 1980s. Inflation accelerated to almost 20 per cent between the second half of the 1980s and 1991.

Since the early 1990s, the Egyptian economy has experienced important structural changes, basically in market forces, both in the financial sector and in the real sector. As regards GDP, since the late 1980s, a dramatic slowdown in growth rate has continued for years. The decreasing trend in growth rates was a predicted consequence of the implementation of the first stage of the ERSAP since one of the main targets of the program was to reduce the fiscal deficit by restraining the aggregate demand. The agricultural sector experienced a reduction in its contribution to GDP, while the share of the industrial sector remained nearly unchanged (CBE, 1993/1994). Public sector investment over the first stage of the program indicated a decrease from 12% to 7% of GDP, concentrating mainly on infrastructure, social services and productive services sectors, leaving other areas to the private sector (*The Middle East*, January 1995). During the first stage of the economic reform program, government efforts focused on adjustment of the financial structures mainly of the public sector companies, either by transferring the ownership of those companies to the private sector or by restructuring them to make them more efficient. However, the performance of the main commodity sectors was generally weak. This situation led to an unbalanced economic growth in the real sectors, while the services sectors grew at relatively high rates. This caused the continuation of the recession in the Egyptian economy.

As regards the external sector, the position of the balance of payments and the current account were positively affected by the results of the first stage of ERSAP. The current account position switched from a deficit into a surplus starting from 1990. This is because of the rise in the unrequited transfers and revenues from tourism. Although the current account was improving, the trade balance continued to show a deficit of $5 billion in 1993 (Table 1). The main reasons for this are the weak performance of commodity exports due to the loss of export markets in the centrally planned economies and the high competition in the external markets. Moreover, total foreign reserves (excluding gold) have indicated a significant improvement increasing from $792m in 1985 and $1,378m in 1987 to a level of $12,904m in 1993 (Table 1).

Table 1
Basic Economic Indicators

	1985	1987	1990	1991	1992	1993
Population growth rate (%)	2.9	3.3	2.8	2.3	2.2	2.0
Unemployment rate (%)	---	6.9	8.4	9.2	10.1	9.8
GDP (m $)	46451	73571	48050	33393	41768	54100
Real GDP growth rate %	6.6	2.5	2.5	2.3	0.3	0.5
Inflation rate %	12.0	19.7	16.5	19.7	13.6	12.1
Egyptian pound per US $	0.70	0.70	2.00	3.33	3.33	3.37
Exports (fob) (m $)	3714	4168	3477	3533	3054	3105
Imports (CIF) (m $)	9962	15585	12411	7572	8305	8175
Trade balance (m $)	-6248	-11417	-8934	-4039	-5251	-5070
Current account (m $)	-2166	-246	184	1903	2812	2900
Gold (m $)	792	1378	2684	5325	10810	12904
Gross investment (m $)	---	20143	13250	8363	8618	9139
Budget deficit/GDP %	-21.6	-17.8	-17.2	-20.0	-5.0	-7.5

Source: SESRTCIC Database, Economic Bulletin, No.1, 1994, National Bank of Egypt.

As regards trade, a move towards a gradual liberalisation of foreign trade started and also various measures have been taken. Egypt has removed almost all non-tariff barriers and it intends to cut the maximum tariff rate to 50 % by the end of 1995. Tariffs on nearly all capital goods have been reduced by 5-10 per cent to encourage investment.

Fiscal adjustment was one of the major aims of the first stage of ERSAP. The fiscal deficit was reduced significantly as a result of increasing revenues and rationalising expenditures. Before the application of the first stage of the reform program, the budget of the government was suffering from a large deficit reaching 17.8% of the GDP in 1987. The largest part of the deficit was financed through the banking sector and borrowing from abroad. Thereafter the deficit reached a level of 5% in 1992 and 7.5% in 1993 (Table 1). This development was due to a more efficient management of direct taxes, the introduction of new indirect taxes such as the general sales tax which was applied gradually since early 1991. Furthermore, deficit financing became largely dependent upon domestic finance, mainly treasury bills, which started to be issued in January 1991, when the role of the Central Bank as a source of financing the budget deficit had been abolished.

Price stability is one of the major objectives of the economic reform in Egypt. It provides an appropriate environment for investment with a higher degree of certainty. The price reform for many commodities and services, and also the abolition of subsidies led to a slight increase in the level of general prices at the beginning of the first stage of the ERSAP. The major capital inflows as a result of the liberalisation process and higher confidence in both the banking system and the Egyptian economy caused a significant rise in domestic liquidity. In spite of these negative effects on prices, inflation rates have been under control since the beginning of 1992 through the credit policy which provides low cost financing to the business sector and the considerable decline in the government budget deficit. The rate of inflation dropped continuously from the level of nearly 20.0% to 12.1% in 1993 and 8.1% in 1994.

An important element of these reform policies has been the liberalisation of interest rates since January 1991, and the unification of the exchange rate system in which the value of the Egyptian pound started to be determined by market forces since November 1991. This initially resulted in a 66 per cent devaluation of the Egyptian pound against the dollar. However, the exchange rate quickly stabilised at about 3.3 (Table 1). Since the beginning of 1994, IMF officials have stressed that a further 20-30% devaluation would improve external competitiveness and so promote exports. However, in December 1994, the Egyptian authorities argued that the export problem of Egypt was not only prices, but also the ability to find foreign markets and to have high quality surplus production. Also they insisted that the government would never intervene to reduce the value of the pound, but would leave any fluctuation to market forces.

Although the positive achievements reached so far are considered as a momentum for the second stage of the ERSAP, considerable problems still exist for the future. Unemployment is an important problem that can accumulate with the privatisation of the public sector companies. The problem can be solved only by attaining a higher and sustainable economic growth to create jobs. Furthermore, capital inflows cause problems for domestic money supply growth creating surplus in the money market and exchange rate stability, if the means of absorbing capital are not available. Egypt intervened through the sale of treasury bills and it could cover all imports and meet its foreign debt obligations. Because the government has to sell treasury bills in open market operations to eliminate the excess of money supply caused by capital inflows, the budgetary costs of absorbing capital have also increased. Direct annual interest payments as a result of these operations are estimated at about one per cent of GDP in 1992. In addition, it is estimated that the net effect of increase in real interest rates is to reduce investments by 51 million Egyptian pounds for every one per cent increase in the real interest rate (African Development Report, 1994).

3. OVERVIEW OF THE FINANCIAL SYSTEM

Egypt had the earliest modern banks in the Middle East, although they were foreign banks rather than locally owned ones. By 1963, the number of banks in Egypt was limited to five public sector banks in addition to the specialised banks. The Egyptian banking system has expanded considerably since 1975. With the trend of the open-door policy and the promulgation of Investment Law No. 43 for 1974 and Law No. 230 for 1989, the banking sector has shown a rapid expansion since the mid-seventies. The Investment Law allowed the investment of Arab and foreign capital in commercial and business and investment banks. Also, the new Law No. 37 for 1992, amending some provisions of Banks and Credit Law and the CBE Law, provided CBE with more powers in addition to permitting foreign banks and branches to deal in the Egyptian pound beside foreign currencies.

Public sector banks comprised four commercial banks and all of the specialised banks, and together they accounted for 63.8% of the total financial position of the banking system as of June 1992. On the other hand, private sector banks consisted of 40 private and joint commercial banks, 11 private and joint business and investment banks (merchant banks) and 22 foreign branches. All of these private and joint venture banks constituted 36.2% of the total financial position of the banking system as of the same date (National Bank of Egypt, 1993, No.4). However, 15 development banks, included in commercial banks, in the governorates had been merged into the parent National Bank in Cairo. Similarly, the Bank of Credit and Commerce (Misr) had been merged into Banque Misr in the second half of 1993. This caused a decrease in the number of private and joint venture commercial banks to 24. By the end of 1993, banking units in Egypt, excluding the CBE, reached 84 units. They are composed of 81 units that are listed with the CBE and 3 unregistered units which were established under private laws (Table 2). These banking units can be divided into three categories including 28 commercial banks, 32 business and investment banks and 21 specialised banks. The unregistered banks are the Arab International Bank, Nasser Social Bank and Chemical Bank.

The Egyptian banking system is dominated by the public sector banks. The public commercial banks are the largest banks which account for some 71.6% of the commercial banks' aggregate balance sheet that totalled £E139.3 billion representing 79.6% of the total banking system in June 1992 (National Bank of Egypt, 1993, No.4). Nevertheless, private sector banks are growing continuously reaching more than one third of the financial position of the system. As a whole, commercial banks had total assets of approximately £E 166,274m, while the total assets of the other banks except the CBE amounted to only £E 39,676m at the end of 1993 (Annex Table 3).

Before liberalisation, the banks operated in a regime of interest rates controls. Although nominal interest rates were controlled by the government up to 1991, real interest rates were generally positive, because prices were also controlled. The banking sector could show significant developments with the positive real interest rates while there was little financial development in the other financial institutions.

Table 2
Banks Operating in Egypt as at 31/12/1993

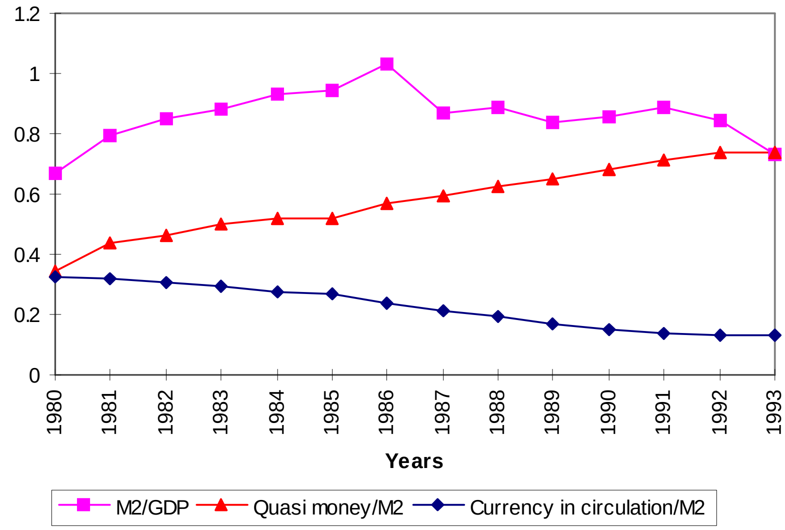
Central Bank Of Egypt	1
Commercial Banks	28
Public Sector Banks	4
Branches	836
Private & Joint Venture Banks	24
Branches	252
Business and Investment Banks	32
Private and Joint Venture Banks	11
Branches	78
Off-Shore Banks	21
Branches	38
Specialized Banks	21
Industrial Development Banks	1
Branches	8
Real Estate Banks	2
Branches	18
Principal Bank for Development & Agricultural Credit	1
Development Agricultural Banks	17
Branches	152
Village Banks	787

Source: Economic Review, No.2, 1993/94, Central Bank of Egypt.

Before this date and as was mentioned earlier, the financial sector was largely government-controlled. There were interest rate and credit ceilings. In spite of these various forms of financial controls, Egypt was successful in resource mobilisation and financial deepening since it is one of the major financial centres of the Arab world with relatively developed equity market and banking structure, and also getting a high flow of workers’ remittances from abroad.

As regards financial deepening, figure III-1 indicates some related variables. Financial deepening is shown as the ratio of broad money (M2= money + quasi money) to gross domestic product (GDP). By the second half of the 1980s, Egypt experienced a successful process of financial deepening,

Figure III-1. Financial Deepening Process of Egypt



then she had a decreasing ratio until 1993 which recorded 0.7. The other ratio, quasi money over M2 indicates the development of financial institutions. Figure III-1 also presents the ratio of currency held by public to broad money. In the early 1980s this ratio was relatively high; however, by the end of the period, currency had become less important and bank deposits had become much more important in Egypt.
Egypt's financial liberalisation program was introduced in January 1991. The financial liberalisation measures included interest rate liberalisation; the reform of banking and stock market legislation; strengthening control of the Central Bank of Egypt (CBE); the organisation of a market for treasury bills; the adoption of a unified and free foreign exchange rate.

Currently, the banking system is considered as one of the main items of the economic reform. Regulations that are against private banks or insurance companies are being removed, bank fees and charges liberalised. To improve the efficiency of banking, the government has recapitalised the four public sector banks, increased minimum capital requirements in light of risk-weighted assets along the lines of the Basle guidelines (Trends in Developing Economies, 1994). Government has also initiated privatisation of banks and insurance companies. All joint venture banks and insurance companies are targeted to be privatised through the sale of public shares. Besides, Egypt's social security and private pension systems are being amended to ensure their proper funding.

All of the interest rate controls were removed. However, the interest rate decontrol was also accompanied by the imposition of bank specific credit ceilings. At the same time, the government initiated a banking reform program mostly because of the under-capitalisation of many banks relative to Bank for International Settlements (BIS) ratios; the collapse of BCCI Misr, the Egyptian subsidiary of BCCI, and the collapse of Islamic investment companies (*The Middle East*, January 1995). The program's main aim was not only to increase the efficiency of the banking system, but also to make it more competitive.

The financial liberalisation measures led, however, to a dramatic reduction in the domestic currency demand deposits and a shift into foreign currency demand deposits due to a large devaluation of the exchange rate. When the exchange rate stabilised, domestic currency demand deposits recovered. According to a report issued by the Central Bank of Egypt, domestic currency deposits increased

12.6% to £E 99.2 billion while foreign currency deposits showed a slight decrease of 3% to £E40 billion in June 1994, mostly because of competitive interest rates on the pound.

On the other hand, the remarkable increase in capital inflow and the consequent accumulation of foreign exchange reserves is one of the most positive outcomes of the financial liberalisation measures. The increase in capital inflow might be attributed to the liberalisation of interest rates and also to a reduction in the country's risk premium as a result of macroeconomic and exchange rate stability. The risk ranking of Egypt was reduced from 86 in September 1992 to 73 in 1993, and continued to decrease at the beginning of 1994, then returned to the same level of 73 in March 1995.

As regards the stock exchange market, its flourishing was one of the most positive developments of 1994. A similar development is expected in 1995 as more and more stocks come into the market as a result of privatisation. A new Securities Market Law was promulgated to provide the basis for more transparent and efficient functioning of the stock exchanges.

In general, Egypt's financial liberalisation program had positive impacts on the overall Egyptian financial sector. Following the financial measures, Egypt's banking system expanded considerably. Private sector banks grew also rapidly representing one third of the financial position of the banking system. With the increasing confidence in the banking system and a stabilised foreign exchange rate, domestic currency deposits increased significantly. Furthermore, the stock exchange market was positively affected by the liberalisation and privatisation policies.

4. FINANCIAL INSTITUTIONS

A. THE CENTRAL BANK

1. The Institution and its Functions

The Central Bank of Egypt (CBE) was established in January 1961. Its principal functions were to regulate and supervise the monetary, credit and banking policy while retaining the stability of the Egyptian currency and fostering the national economy. The CBE has performed its functions as an issuer of banknotes; banker to the government and also to the banking sector. The CBE has also controlled bank credit and money supply. Furthermore, it has managed the State's gold and foreign exchange reserves and participated in the preparation and implementation of the State's foreign exchange budget. Prior to the financial reform program, the CBE used to fix the deposit and lending interest rates for banking operations together with the discount rate. Thereafter, all of the interest rate controls were eliminated except the discount rate.

However, the CBE's controlling powers and the authority of its Board of Directors to effect banks' mergers increased. The banks were required to have a minimum authorised capital of £E100m and paid up capital of £E 50m. On the other hand, the banks were also allowed to keep the secrets of their customers' accounts unless otherwise requested by a court decision.

As of the early 1990s, the law governing the CBE's functions and authorities was amended to make the CBE more efficient. With Law No. 37 of 1992, the Central Bank's supervisory and control powers were strengthened as a surveillance authority. The financing of the budget deficit by the CBE was abolished and indirect ways to finance the budget deficit such as Treasury bills were introduced.

2. Tools of Monetary Policy

The aim of monetary policy is to improve the allocation of resources and to achieve financial and structural balances together with sustainable growth of GDP. Before the ERSAP, the CBE's monetary policy was mainly applied through three main instruments, namely, fixing credit ceilings for individual banks; maintaining the reserve requirement ratio; and managing the interest rate structure.

Since 1990, the economic transformation has been directed towards liberalisation and market orientation where prices are determined by demand and supply forces. Consequently, since it was thought that mobilisation and allocation of resources would be more effective in attaining internal and external equilibrium, this transformation necessitated the introduction of new tools and the development of the already existing ones. These monetary policy tools are basically the reserve requirement ratio, the liquidity ratio, open market operations, credit ceilings, managing the changes in the interest rate structure and the discount rate.

Currently, monetary policy works to achieve its three key objectives, namely, the control of monetary expansion; the stability of the Egyptian pound exchange rate against the US dollar; and the gradual decline of the interest rate on the Egyptian pound to encourage investments and promote economic growth. However, the decrease in the Egyptian pound interest rate did not have a negative effect on savings in the local currency, since the rate is still higher than that of other currencies especially the US dollar, and the Egyptian pound exchange rate is stable. In what follows a brief outline of these monetary policy tools will be given.

a. Reserve Ratio

The Central Bank is empowered to fix and alter the minimum reserve requirement ratios that the banking institutions must maintain against their deposit liabilities. The CBE adopted, on 13 December 1990, a resolution modifying the reserve ratio and the basis of its calculation. Accordingly, each commercial, business and investment bank (except the Housing and Development Bank) were to maintain a cash reserve (interest-free) with the CBE of not less than 15% of its total Egyptian pound deposits, instead of the 25% rate which was applied before this decision. Furthermore, the Industrial Development Bank, the Housing and Development Bank, and Real Estate banks must also maintain with the CBE a cash reserve (interest-free) representing no less than 15% of the excess of the average daily balance of the total local currency deposits during the working days of the week, over its total paid-up capital and registered reserves.

This resolution has become effective as of 30 December 1990. It is further stipulated that banks should continue to hold with the CBE 15% of their total foreign deposits at the LIBOR rate. This ratio was decreased from 15% to 10% in late December 1993 to increase competitiveness among banks.

b. Liquidity Ratio

The Central Bank of Egypt modified the liquidity ratio and the scope of its application on 20 December 1990. Accordingly, commercial, business and investment banks including foreign bank branches (except the Housing and Development Bank) should maintain two liquidity ratios with a minimum of 20% for the local currency and 25% for foreign currencies as of 1st January 1991. Prior to this amendment, the liquidity ratio, which applied only to the local currency, was 30 per cent. The aim of applying two separate ratios is to provide banks with adequate liquidity to satisfy local or foreign currency requirements.

c. Open Market Operations

The CBE has already been authorised to buy or sell in the open market securities representing government obligations and other securities fully guaranteed by the government. However, open-market operations had not been regarded as an important policy instrument until the beginning of 1991.

With interest rate liberalisation, the government resorted to the market to finance the budget deficit. Therefore, short-term Treasury bills were issued, as of January 1991, with competitive interest rates in weekly auctions. Subscriptions are opened for banks, authorities, companies and individuals. Moreover, through using real savings, this new instrument has helped to diminish monetary expansion while giving the Central Bank some leeway to exercise open-market operations. Since the beginning of 1993, the government reduced Treasury bill issues gradually so that they would be adequate to finance the budgetary deficit and a reasonable amount of liquidity in the domestic economy could be achieved.

d. Credit Ceilings

Before financial liberalisation, credit control used to be an important instrument to check excessive monetary expansion. The maximum growth rate of credit to the private and house-hold sector was determined as 12% for the 1980s. On 9th May 1991, the CBE Board of Directors adopted a resolution related to credit ceilings. According to this resolution, credit ceilings were to replace the previously applied credit controls by limiting loans to 60% of deposits along with a maximum growth rate of 10% per year on loans to the private business and household sectors. It was necessary to control the demand side to avoid a further increase in inflationary pressures, at least during the early application of interest and exchange rates liberalisation. For this reason, credit ceilings have been imposed to regulate the expansion of bank credit to both public and private sectors.

Nevertheless, it was decided to eliminate credit ceilings for the private sector as of 1st October 1992, then for the public sector as of 1st July 1993. Thereafter, bank credits increased, especially for the private sector.

e. Interest Rate Liberalisation

Prior to the financial liberalisation program, the interest rate applied by banks was fixed by the CBE. On 20th December 1990, a resolution for interest rate liberalisation as of 3rd January 1991 was adopted by CBE Board of Directors. Accordingly, banks were free to determine their own interest rates on loans, advances, and deposits provided that the minimum interest rate for three-months deposits would be no less than 12% per annum.

As a complementary step towards interest rate liberalisation, it was decided to eliminate the minimum requirement (12%) of interest rate on Egyptian pound deposits for three months as of July 1993. In this context, banks were allowed to set interest rates on current accounts and demand deposits just as was the case in foreign currency accounts.

As was expected, the liberalisation of interest rates resulted in positive rates on the Egyptian pound and improved the competitiveness of savings in local currency against foreign currency savings.

f. Discount Rate

The CBE can raise or lower interest rates on its loans and so control bank credit operations. During 1980-1989, the discount rate was between 10 and 14 per cent. Subsequent to the financial liberalisation, the CBE's lending and discount rate was determined by adding 2% to the average rate of Treasury bills of 91-day maturity. It was therefore 20% in December 1991, 18.5% in December

1992, and 16.7% in December 1993. Afterwards, the CBE dropped the annual lending and discount rate to 15.25% at the end of June 1994 (Annex Table 1).

g. Others

- On 21st March 1991, the CBE Board of Directors adopted a resolution to secure a balance between assets and liabilities in local currency and those in foreign currencies, each separately. Henceforth, each bank (except foreign bank branches) was to maintain a maximum ratio of 105% between foreign currency assets and foreign currency liabilities; the balance of the foreign currency position was not to exceed 15% of the bank's capital. Then, the decision was amended, to the effect that banks' net position in foreign currencies should not exceed 20% of equity rights for all the currencies combined and 10% for each currency.

- As regards capital adequacy, the relation between capital and assets is measured by their relative risk in conformity with the Basle Committee guidelines. A decision was taken on 17th January 1991 requiring that banks registered with the Central Bank (excluding foreign bank branches) should hold their core capital (paid-up capital, reserve and carried over profits) and supplementary capital (risk provisions for credit facilities and subordinated loans with maturities of more than five years) at a minimum of 8% of risk assets. Banks were given time to adapt to these provisions.

- To avoid the concentration in credit and the concentration of investments abroad, a number of measures were taken. In this respect, the CBE issued a decision on 18th March, 1993 extending the criteria of credit concentration by not allowing investments by the banks to exceed 30% of their paid up capital and reserves to a single client, whether these investments are in the form of subscription in equity capital or credit facilities. Furthermore, it was also decided that investments by banks with any correspondent abroad would not exceed 40% of equity rights according to the capital efficiency criterion or 10% of the bank's total investments with corresponding banks abroad, whichever is less.

- Law No. 205 of 1990 concerning the confidentiality of bank accounts was promulgated. According to this law, banks are allowed to keep the confidentiality of their clients' accounts, except in the case of a court decision for disclosure.

- The Central Bank's Board of Directors decided to establish an insurance system for deposits under the control and administration of an independent authority under the supervision of the Central Bank. The aim of the system is to ensure the safety of small savings in both local and foreign currencies.

3. Credits of the Central Bank

Although the greatest part of the CBE credit was granted to the government to finance the budget deficit before the financial reform program, this practice was thereafter abolished. Currently, credits of the CBE are directed to all kinds of banks in the sector, namely, business and investment banks, specialised banks, commercial banks and the National Investment Bank.

Table 3
Loans And Credit Facilities Granted By CBE (£E M)

End of June	1986	1987	1988	1989	1990	1991	1992	1993	1993*
-Total	3633	4408	5010	5733	10869	26723	28976	29805	27643
-Loans to the banking system									
Commercial banks	147	-	-	-	30	194	266	1102	1127
Business and investment banks	744	1085	1338	2005	2426	3019	3313	3168	3291

Specialised banks	1033	1199	1297	1449	1551	1816	1921	2088	2069
-Loans to the National Investment Bank	1441	1629	1588	1459	1303	1145	1088	1026	327
-Currency swaps	-	-	309	335	334	402	414	417	-
-Ministry of Finance's Account									
Seasonal financing of the government's accounts	-	-	-	2767*	2288*	-	-	-	-
Revaluation differences of foreign banks balances	-	-	-	4447*	4493	18637	19276	18022	16637
-Other accounts	268	495	478	485	732	1510	2698	3982	4192

Source: Central Bank of Egypt.

* End of December. (The total loans and credit facilities granted by the CBE is £E 13220 m at the end of December 1989).

During 1986-1989, the total loans and credit facilities granted by the CBE increased slightly with the annual average growth rate of 16.4% as compared to the period of 1990-1993 which realised an average growth rate of 40 per cent. Loans to the banking system had an average share of 54.4% during 1986-1989. Until the end of June 1988, the share of loans to the National Investment Bank was very important with more than 30% in total loans. At the end of June 1989, loans to the business and investment banks recorded a significant rise reaching £E 2005 m representing 35% (Table 3).

However, in the second half of 1989, the rise in loans and credit facilities that reached £E 13220 m was mainly due to an increase in the Ministry of Finance's account. The account increased by £E 4447 m as a result of a revaluation adjustment of the CBE's foreign currency assets and liabilities, and by £E 2767 m as a result of government budget financing. The total loans to the Ministry of Finance amounted to £E 7214 m, representing 54.6% in total loans. The same situation continued until the end of 1990. The share of loans for financing the government budget became 31.5% in total loans excluding the revaluation adjustment, causing inflationary pressures to push the inflation rate up to 21.3% at the same date.

Afterwards, the financing of the government budget deficit by CBE credits was abolished. In spite of this, total loans and credit facilities realised a significant increase by 145.9% reaching £E 26723 m at the end of June 1991. This was mainly due to a rise of £E 14.1 billion in the Ministry of Finance's account as a result of debiting it with the revaluation adjustment (Table 3). This enormous rise in the item of revaluation differences was due to a considerable devaluation which was applied in 1990-1991. During 1991-1993, the loans extended to the banking system indicated an average share of 19.7% in total loans, while the share of the "National Investment Bank", the "revaluation adjustment" granted to the Ministry of Finance, and "other accounts" which included currency swaps represented 3.8%, 65.6% and 10.9%, respectively, on the average (Table 3).

The treasury-bills interest rates as well as the Central Bank rate on loans and discount were reduced gradually by the CBE since 1992 in line with the monetary policy which aims to stimulate investments and promote economic growth (Annex Table 1). Hence, loans to the banking system excluding the National Investment Bank rose by 61.9% between 1990 and 1993. This trend was accompanied by a decrease in banks interest rates on loans and deposits. This was also in line with the decreasing trend in the inflation rate since the end of 1991. Furthermore, gross investment in the Egyptian economy went up to $9139m in 1993 from $8363m in 1991 (Table 3).

B. DEPOSITORY INSTITUTIONS

1. Commercial Banks

Commercial banks are defined as banks that usually accept deposits payable on demand or within fixed periods by the CBE and the Banking System Law.

They constitute the largest part of the depository institutions. By the end of December 1993, the number of commercial banks became 28 including 4 public sector banks and 24 private and joint venture banks with total branches of 1088. Their aggregate balance sheet amounted to £E166.3 billion in December 1993 (Annex Table 5), representing 80.7% of the total banking system (excluding the CBE and the three unlisted banks) (Annex Table 3). The share of commercial banks in total deposits reached 90.4% (Annex Table 8), and in total loans and advances became 74.8% at the same date (Annex Table 9).

On the other hand, in June 1992, the four public sector commercial banks continued to play a very significant role in the banking sector having 71.6% of the commercial banks' aggregate balance sheet. Furthermore, according to the volume of assets, the average volume of a banking unit amounted to £E24.9 billion for public sector banks and £E1 billion for private and joint venture commercial banks (National Bank of Egypt, 1993, No.4)

2. Business and Investment Banks (Merchant Banks)

The CBE and the Banking System Law define Business and Investment Banks as banks that carry out operations related to promotion of savings for investment compatible with the economic development plans. In this context, such banks have rights to establish investment companies or other companies dealing with various types of economic activity. They may also share in financing Egypt's foreign trade operations.

The number of business and investment banks amounts to 32 including 11 private and joint venture banks and 21 off-shore banks with total branches of 116 at the end of December 1993 (Table 2). Their aggregate balance sheet amounts to £E 27.5 billion as of December 1993 (Annex Table 6) representing 13.4% of the total banking system (excluding CBE).

The financial position of foreign branches was recorded as £E 8 b indicating 5% of the total banking system in June 1992. Average volume of banking unit according to the volume of assets amounted to £E722m for all merchant banks in the same date and some £E 860 m in December 1993. However, it amounted to £E685m for merchant banks excluding foreign branches and some £E364m for foreign branches alone in June 1992 (National Bank of Egypt, 1993, No.4).

3. Specialised Banks

These banks carry out banking operations related to both conventional banking operations and serving a specific type of economic activity in line with their constituting decrees.

One important feature of specialised banks is that they depend largely on borrowing funds from the CBE and commercial banks. They are state-owned and include the Industrial Development Bank, two real estate banks, the Principal Bank for Development and Agricultural Credit and its 17 affiliates in the governorates, totalling 21 banks with a total of 965 branches (Table 2). In December 1993, the financial position of the specialised banks amounted to £E12.1 billion (Annex Table 7) representing 5.9% in the total banking system (Annex Table 3). The average volume of a banking unit by assets indicated a slight increase to about £E578m in 1993 compared to £E571m in June 1992.

C. OTHER FINANCIAL INSTITUTIONS

1. Insurance Companies

The present insurance sector in Egypt is composed of the Supreme Council for Insurance, the Egyptian Authority for Insurance Control, which was established by Law No. 10 of 1981 to supervise the insurance market and institutions, and the establishments dealing with insurance and reinsurance.

Insurance and reinsurance institutions include four public sector companies, three private sector and two free zone companies. These insurance companies are headed by the Supreme Council for Insurance and the Egyptian Authority for Insurance Control.

Table 4
Investments of the Insurance Companies & Funds

End of June	1991	1992	1993	1994
Grand Total (£E b)	5.2	6.5	7.7	9.1
(%) Share of :	100.0	100.0	100.0	100.0
Loans	3.5	2.6	2.6	2.2
Securities	46.2	43.7	53.2	53.8
Deposits at banks	37.8	50.3	40.3	40.7
Land and real estates	12.6	3.3	3.9	3.3

Source: Annual Report, 1991/92, 1992/93 and 1993/94, Central Bank of Egypt.

Investments of the insurance companies and funds include credits extended by these companies, investments in securities representing the largest share in 1993 and 1994, deposits at banks and investments in land and real estates (Table 4).

2. Investment and Mutual Funds

If the market is to expand, there will have to be an increase in the range of financial institutions and the products they offer. The new legislation also allows banks to participate in the stock market by establishing investment and mutual funds. These funds have a legal identity and invest in financial securities and try to get increased returns for those banks that establish them as well as collect savings for non-bank investments.

Until the end of 1994, three funds have been established and their invested capital was limited to 20 times the amount of liquid capital. In other words, the investment and mutual funds have to keep 5% of their invested capital as cash. The National (Ahli) Bank Investment Fund is run by a management company and started activities in mid-August 1994. It has a capital of £E5m and investments amounting to £E100m. Investment certificates have a face value of 500 Egyptian pounds, distributing investment risk. The Bank Misr Investment Fund has a capital of £E25m and investments totalling £E500m. It has appointed the State Street Boston Corporation and Concord International Partners to provide technical assistance. The Egyptian American Bank Fund is the first fund established by a joint venture bank. It has a capital of £E20m and investments totalling £E200m, managed by the Egyptian Fund Management Group, together with the British Framlington Group. The Egyptian American Bank Fund started activities in mid-September 1994. The fourth investment fund was launched by Bank of Alexandria at the beginning of 1995. More investment funds are also awaiting approval.

3. Foreign Exchange Dealer Companies

In November 1991, after using the multiple exchange rate system for decades, Egypt unified its exchange markets. The reform of the exchange system was part of a comprehensive economic and financial program. Liberalisation and unification of the exchange rate system helped the expansion of the foreign exchange market through confidence and allowing foreign exchange dealer companies to deal in foreign exchange whether in the form of banknotes and/or travellers' cheques. The foreign exchange dealer companies were allowed to operate 24 hours daily to provide foreign exchange services throughout the day.

These companies take the form of an Egyptian joint stock company with Egyptians' shares. The CBE's related directives give these companies the right to open up to four branches per one million of capital. Furthermore, the minimum paid up capital of these companies should be £E1m. By the end of June 1994, the number of non-banking foreign exchange dealer companies had increased to 79 with 84 branches. Their paid up capital totalled £E150.6m. These companies achieved a surplus of foreign exchange amounting to US$10m with their resources reaching US$4248m. The share of these companies' resources in foreign currencies was 28.6 % of total market resources. Their uses increased by US$645m reaching US$4238m and representing 41.6% of total market uses at the same date (CBE, 1993/94).

5. FINANCIAL MARKETS AND CAPITAL MOVEMENTS

A. MONEY MARKET

Inter-bank and Treasury bills are the instruments of the money market. The inter-bank market is an important source of short-term funds for the banking system.

In the Egyptian system, it is significant that the comparison of the structure of banks' deposits with that of their liabilities shows that commercial banks are the main source for other banks' funds. On the other hand, business and investment banks and specialised banks show a similarity in their liabilities and deposits structure. They use more credits from inter-bank than they grant. Also, it is to be noted that inter-bank money market transactions are mostly in domestic currency.

Table 5
Inter-bank Transactions

(Millions of Egyptian Pounds)

	Deposits			Liabilities		
	June 91	June 92	Dec. 93	June 91	June 92	Dec. 93
Total	12944	11304	9554	12444	10771	9407
In local currency	6971	6173	6367	6831	6089	6295
Commercial banks	6182	5899	5793	3155	2946	2854
Business and investment banks	626	265	553	1416	970	2030
Specialised banks	163	9	21	2260	2173	1411
In foreign currency	5973	5131	3187	5613	4682	3112
Commercial banks	4610	3973	2304	3914	3450	1741
Business and investment banks	1298	1089	826	1699	1232	1371
Specialised banks	65	69	57	-	-	-

Source: Annual Report 1991/92, Central Bank of Egypt, Economic Review, Vol. XXXIV No. 2, 1993/94, Central Bank of Egypt.

Interbank activity has declined continuously since 1991 as the volume of transactions reached £E 9.6 billion as measured by deposits at the end of December 1993 (Table 5). This was mostly because of banks' preference for investment in T-bills since they provided risk-free high returns.

B. STOCK EXCHANGE

The first Egyptian stock exchange, which was established in Alexandria in 1883, is considered to be one of the oldest financial markets in the world. The second stock exchange, Cairo Stock Exchange, established in 1890, was one of the world's busiest. The market was relatively active until the 1960s. However, after the nationalisation policy of the 1960s, the stock market went through a period of stagnation and recession. Consequently, the trading volume collapsed and only about 30 companies remained listed as compared to 925 in the late 1950s.

The necessary regulations relating to registration and the organisation of dealing in shares were not available in the market. Law No. 161/1957 was promulgated to regulate operations in the stock exchange and continued to be valid until the issuing of the Capital Market Law in 1992. With the open door policy of the mid-1970s, Presidential Decree No. 520/1979 was promulgated to establish the General Authority for Capital Market with the purpose of regulating and organising the capital market.

In the context of Egypt's ERSAP, greater attention has been devoted to the potential role of the equity market, since it is considered an important instrument for mobilising domestic and external resources. In line with the financial reform program, Law No. 95/1992 was promulgated to reorganise the primary and secondary capital markets to encourage the investment of private savings. The Law included the following measures: Tax exemptions on securities; liberalisation of interest rates on bonds; establishment of mutual funds to attract small investors; and regulating the companies dealings in securities together with brokerage operations.

Under the new legislation, a number of brokerage firms (with one quarter of their capital value as paid capital) have been set up to provide analysis and pricing expertise, and to deal in new shares. They can trade unlimited stocks and bonds. Now there are 40 stockbrokers operating in Cairo, up from 12 before the law came into effect. The Egyptian stock market included 674 registered companies with 424 million registered stocks at the end of July 1994. Paid up capital totalled £E4139m and US$1417.1m and £E3 m in the same period.

Dealings in the stock exchange, which take place on the trading floor during fixed times, are only limited to securities that can be acceptable in the prices schedule. It is forbidden to deal in securities declared invalid by the Stock Exchange Committee.

There are three kinds of methods to determine prices in the stock exchange. One of them is the fixed price method in which the client fixes the minimum price in the case of selling and the maximum in the case of purchasing. The broker must follow the said prices by clients, otherwise he would be considered responsible for the decrease in prices. The other method is the better price method in which the broker should make all possible efforts to sell at the highest price or purchase at the lowest. The third one is the opening or closing price method. The client can also order the broker to conclude the transaction with the opening price or closing price.

In the Egyptian stock exchange, there are three share indexes. One of them is the Capital Market Authority (CMA) index that covers all listed companies, now totalling 674. The companies are divided into two classes. The A list companies provide 30 per cent of their capital through public subscription and are owned by a minimum of 150 shareholders. The B list has the majority of companies whose shares are infrequently traded. The other one is index of Hermes Financial (local brokerage firm) which is based on just 24 companies. In this index, the stocks with the highest liquidity are chosen from each sector. The third one is the Egyptian Financial Group's (EFG) index which covers 34 quoted companies that are traded most (*MEED*, 28 October 1994).

Table 6
Egyptian Stock Market Profile

	1985	1990	1991	1992	1993	1994
Market capitalisation (Millions of US $)	1382	1835	2527	3259	3814	4263
Market capitalisation (Per cent of GDP)	3.0	3.8	7.6	7.8	7.0	---
No. of listed companies	317	573	627	656	674	700
Trading value (Millions of US $)	97	126	139	308	169*	358

Source: Emerging Stock Markets Factbook 1994, International Finance Corporation.
* Starting from August 1993 a shift was made from double to single entry system, as stipulated by Capital Market Authority.

In the Egyptian stock exchange, the number of listed companies increased from 317 in 1985 to 674 in 1993 and 700 in 1994 (Table 6). Market capitalisation, which shows the nominal value of all listed shares, has improved significantly since 1990. Egypt made a significant performance in 1994 by occupying the 3rd position in 68 countries (with 167.2% change in the price index) in terms of stock market performance, which is calculated on the basis of the percentage change in the price index, as compared to her rank of 44 in 1993 in the same group (IFC, 1994 and 1995).

6. CONCLUSION

Egypt has had a relatively well-developed financial sector since the first half of the 20th century. Following the nationalisation era of the 1960s, the banking system had again expanded significantly with the open-door policy followed since the mid-seventies. The liberalisation policy, which began in the 1980s, has had very important effects on the financial system, especially after the financial reform program of ERSAP.

The overall economic growth declined significantly over the first stage of the ERSAP. This slowdown in the Egyptian economy was a predicted consequence of the implementation of the program which aimed to reduce the budget deficit through decreasing the government expenditures. However, the population growth rate was much more than the GDP growth rate, so the real per capita GDP decreased continuously during 1990-1993. The unemployment rate increased significantly reaching nearly 10 per cent over this period compared to the rates before the implementation of ERSAP (Table 1). Furthermore, the social fund which was established to protect poor people from the negative effects of liberalisation and privatisation did not work well due to subsidies insufficient to keep people above the poverty line and the failure to provide jobs.

As regards the government budget deficit, tight fiscal and monetary policies led to a decline in the budget deficit which was targeted to settle at 1.5% in the 1994-95 fiscal year. It was reduced considerably by increasing revenues and decreasing expenditures. The development in the government revenues was due to a more efficient management of direct taxes and the introduction of new indirect taxes. Moreover, the budget deficit was financed mainly through treasury bills since the beginning of 1991, when the role of CBE as a source of financing the budget deficit was abolished.

As regards inflation, the rates of inflation were under control since the beginning of 1992 mostly through a credit policy which provided low financial cost, caused a considerable decline in the government budget deficit through restraining the demand side, and stabilised the exchange rate. The rate of inflation has dropped continuously over the period and also in 1994.

The position of the current account and that of the total foreign reserves were positively affected by the result of the first stage of ERSAP. This was due to the unrequited transfers and revenues from tourism. In spite of the improvement in the current account, the Egyptian economy suffered from a deficit in its trade balance over the period. With the capital inflow and surplus in the balance of payments, foreign reserves (excluding gold) have indicated a significant development.

By the beginning of 1993, open market operations were used widely to limit monetary expansion. The growth rate of domestic liquidity (M2) increased significantly since the beginning of 1990, then it could be limited in 1992 by issuing T-bills. However, the government decided to reduce T-bill issues in 1993 so that they would be adequate to finance the budgetary deficit and a reasonable amount of liquidity could be achieved. Therefore the growth rate of liquidity rose a little more reaching 16.4% in 1993 against 14.3% a year earlier.

Prior to the financial liberalisation, the interest rates applied by banks were fixed by the CBE. Thereafter, the liberalisation of interest rates on loans and deposits of banks was achieved in January 1991. This resulted in a significant rise in deposits in local currency as compared to foreign currency. This was also accompanied by an increasing confidence in the stabilised Egyptian pound. However, the liberalisation of interest rates led to a remarkable decline in gross investments in 1991.

At the end of 1992, the main aims of the monetary policy were determined as being the control of monetary expansion, the stability of the exchange rate of the Egyptian pound against the US dollar, the gradual decline of interest rates on the Egyptian pound to encourage investments and promote economic growth. The decline in the interest rate did not affect the preference for savings in the Egyptian pound, since it was still relatively higher than the US dollar interest rate. Also, the complete elimination of credit ceilings and the decrease in the discount rates of the CBE caused an increase in credits especially those granted to the private sector. Hence, gross investments recorded a gradual increase beginning from 1992. In spite of the remarkable increase of credit granted to the business sector during 1993-1994, growth in domestic liquidity reached only 12.4% in 1994.

Most of the government controls in the financial system, mentioned above, were removed by reforms. In spite of the liberalisation and privatisation policies applied since 1990 by the ERSAP, the Egyptian banking system is dominated by the public sector banks with 63.8 % of the total financial position of the banking system in June 1992. Hence, the allocation of financial resources is under the influence of the government, determined through the government-owned commercial and/or specialised banks.

According to their financial position, commercial banks make up the largest part of the depository institutions; followed by business and investment banks, and specialised banks, with shares of 80.7%, 13.4%, and 5.9%, respectively, in the banking system.

The new legislation related to the stock exchange and some new institutions such as investment funds helped develop the non-bank financial institutions. By July 1994, the Egyptian stock market included 674 registered companies with 424 million registered stocks. Also, a similar development is expected in 1995 as more stocks come into the market as a result of privatisation.

As a result of macroeconomic and exchange rate stability, Egypt's risk premium decreased in the international financial market. The remarkable increase in capital inflow and consequent accumulation of foreign exchange reserves is one of the most positive outcomes of the financial liberalisation measures. On the other hand, since efforts to control population growth, achieve a reasonable growth in GDP, and curtail unemployment are not adequate, the average real per capita income, and consequently the standard of living, have decreased during the first stage of ERSAP. Regarding the second stage of ERSAP, which began in July 1993, it is too early to say what effects these reforms will have.

ERSAP, which was initiated in response to the deterioration in the Egyptian economy had so many positive impacts on the overall performance of the economy. The measures taken to achieve the aims of the first stage of ERSAP have generally been implemented successfully. The current account and budget deficit decreased; the liberalisation in prices, trade, foreign exchange and interest rates was mostly achieved. On the other hand, Egypt still needs time for privatisation. Also, real GDP growth and consequently per capita GDP growth declined significantly, while the unemployment rate increased. Concerning the financial sector, it was, no doubt, positively affected by the financial liberalisation program of ERSAP.

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ANNEX

Table 1. Treasury-Bills Interest Rates and CBE's Discount Rate

	Average Rate %			%
At the end of	91 Days (1)	182 Days (2)	364 Days (3)	Discount Rate
1991 March	18.0	---	---	20.1
June	19.3	---	---	21.5
Sept.	19.4	20.0	---	21.3
Dec.	18.1	18.3	---	20.0
1992 March	17.9	18.5	19.1	20.0
June	17.6	18.0	19.5	19.6
Sept.	17.1	17.5	18.0	19.1
Dec.	16.5	16.7	17.5	18.5
1993 March	15.9	16.4	17.0	17.9
June	14.9	15.1	---	16.9
Sept.	15.0	15.3	15.6	17.0
Dec.	14.7	14.9	15.0	16.7

(1) First issue on 13/1/1991.
(2) First issue on 10/9/1991.
(3) First issue on 30/3/1992.

Source: Economic Bulletin, National Bank of Egypt, Vol. XXXXVI No.1, 1994.

Table 2. Interest Rates on £.E. Deposits, Loans and Advances (*)

Period	National Bank of Egypt						Average the Banking System					
	1991		1992		1993		1991		1992		1993	
	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.
1.Deposits												
For a month and less than 3 months	10.75	14.5	13.5	12.0	11.5	9.5	11.7	13.03	13.4	12.4	11.6	5.6
For 3 month and less than 6 months	14.5	17.0	16.0	14.5	13.5	11.5	14.2	17.15	17.6	15.99	13.95	12.5
For 6 month and less than a year	14.5	17.0	16.0	14.5	13.5	11.5	14.8	17.45	17.6	15.98	13.75	12.25
For a year and less than 2 years	15.25	16.0	15.0	13.0	12.0	11.0	15.4	17.3	17.08	15.71	13.05	11.70
For 2 years and less than 3 years	15.5	16.0	15.0	13.0	11.5	10.0	15.6	16.6	16.3	13.3	12.1	9.3
For 3 years and less than 5 years	16.0	17.0	16.0	13.0	11.5	10.0	15.9	16.7	16.1	13.95	12.11	9.3
For 5 years and less than 7 years	16.25	17.0	16.0	13.0	11.5	10.0	16.2	16.8	15.7	13.7	12.0	7.8
Savings	---	15.0	15.0	13.0	12.5	11.5	---	15.1	15.1	14.08	12.9	12.25
2. Loans and Advances	20.6	21.2	19.8	18.7	16.5	17.0	---	20.6	20.3	19.1	22.0	19.5
3. Investment Certificates	February 1981		July 1982		July 1989		August 1989		March 1991		Nov.1993	
	12.0		13.25		16.25		17.5		(A)	(B)	(A)	(B)
									14.5	15.5	13.0	14.0

(*) L.E. interest rates were liberalised as from 3.1.1991 and Egyptian banks were authorised to fix their own interest rates on deposits and loans.

Source: Economic Bulletin, National Bank of Egypt, Vol. XXXXVI No.1, 1994.

Table 3. Egypt Banking Sector by Total Assets (£Em)

	1990 DECEMBER		1991 DECEMBER		1992 DECEMBER		1993 DECEMBER		1994 JUNE	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
BANKING INSTITUTIONS										
CENTRAL BANK	55,248	29.3	78,272	32.2	98,841	34.4	104,924	33.8	124,114	37.0
COMMERCIAL BANKS	101,532	53.9	130,944	53.8	153,000	53.2	166,274	53.5	170,965	51.0
BUSINESS AND INVESTMENT BANKS	21,905	11.6	22,983	9.4	24,905	8.7	27,533	8.9	27,827	8.3
SPECIALISED BANKS	9,616	5.1	11,134	4.6	10,901	3.8	12,143	3.9	12,370	3.7
TOTAL	**188,301**	**100**	**243,333**	**100**	**287,647**	**100**	**310,874**	**100**	**335,276**	**100**

Source: Economic Review, Central Bank of Egypt, Vol.XXXIV No.2, 1993/94.

Table 4. Financial Position of Central Bank of Egypt (£Em)

End of December	1990	1991	1992	1993
First: Notes Issued and Cover	13,456	14,731	16,751	19,085
Gold	1,281	2,179	2,046	2,198
Government Securities	12,175	12,552	14,705	16,887
Second :Banking Operations				
A- Assets				
Gold and SDRs	3	9	196	241
Balances with banks and correspondents abroad	9,314	21,212	38,698	51,494
Earmarked balances	266	756	735	810
Foreign securities	424	2,513	6,330	6,436
Payment agreements	1,078	1,287	1,280	1,274
Cash in vaults and banks	221	419	336	338
Government securities of which :	18,085	20,105	17,940	14,243
Treasury bills	---	---	---	6
Loans and other debit balances	24,652	28,757	30,269	27,643
Debit balances and fixed assets	1,205	3,214	3,057	2,445
Assets = Liabilities	**55,248**	**78,272**	**98,841**	**104,924**
B- Liabilities				
Deposits and other accounts	48,095	63,958	82,771	86,483
Payment agreements	53	36	48	41
Capital	100	100	100	100
Reserves	1,035	1,588	2,017	2,169
Provisions	117	118	204	245
Other Balances	5,848	12,472	13,701	15,886

Source: Economic Review, Central Bank of Egypt, Vol. XXXIV No.2 1993/94.

Table 5. Commercial Banks: Aggregate Balance Sheet (£Em)

End of	1990 Dec.	1991 Dec.	1992 Dec.	1993 Dec.	1994 June
Assets					
Cash	1,018	1,162	1,416	1,775	2,285
Securities & investments of which:	8,267	19,573	41,613	41,991	45,969
Treasury bills	---	6,229	19,102	22,101	26,085
Government securities excluding bills	6,190	11,073	19,482	16,005	15,752
Balances with banks in Egypt	20,106	23,837	23,075	28,579	27,942
Balances with banks abroad	19,832	30,983	25,966	24,415	26,191
Loans & discount balances	39,461	45,133	46,031	55,531	59,674
Other assets	12,848	10,256	14,899	13,983	8,904
Assets = Liabilities	**101,532**	**130,944**	**153,000**	**166,274**	**170,965**
Liabilities					
Capital	1,108	4,174	4,207	4,600	5,057
Reserves	1,336	1,475	1,744	2,044	2,220
Provisions	4,587	6,064	8,544	9,866	10,168
Bonds & long term loans	184	290	292	302	454
Obligations to banks in Egypt	5,893	7,238	6,598	10,106	12,004
Obligations to banks abroad	6,439	7,659	3,355	1,971	1,701
Total deposits	70,483	89,559	110,999	120,411	125,655
Other liabilities	11,502	14,485	17,261	16,974	13,706

Source: Economic Review, Central Bank of Egypt, Vol. XXXIV No.2 1993/94.

Table 6. Business and Investment Banks : Aggregate Balance Sheet (£Em)

End of	1990 Dec.	1991 Dec.	1992 Dec.	1993 Dec.	1994 June
Assets					
Cash	111	131	131	147	180
Securities & investments of which:	670	953	2,613	3,698	3,557
Treasury bills	---	184	1,797	2,993	2,787
Government securities excluding bills	79	92	115	14	14
Balances with banks in Egypt	3,380	3,534	2,601	2,772	2,609
Balances with banks abroad	6,962	6,806	7,294	8,579	7,403
Loans & discount balances	9,269	9,801	10,480	10,490	11,390
Other assets	1,513	1,758	1,786	1,847	2,688
Assets = Liabilities	**21,905**	**22,983**	**24,905**	**27,533**	**27,827**
Liabilities					
Capital	880	975	1,110	1,504	1,665
Reserves	326	351	366	372	389
Provisions	1,406	1,922	1,905	2,045	2,034
Borrowings from international institutions	38	64	83	74	101
Obligations to banks in Egypt	7,196	7,012	8,321	9,971	9,287
Obligations to banks abroad	1,659	1,278	1,413	1,383	1,387
Total deposits	8,164	8,840	9,156	9,776	10,100
Other liabilities	2,236	2,541	25,551	2,408	2,864

Source: Economic Review, Central Bank of Egypt, Vol. XXXIV No.2 1993/94.

Table 7. Specialised Banks: Aggregate Balance Sheet (£Em)

End of	1990 Dec.	1991 Dec.	1992 Dec.	1993 Dec.	1994 June
Assets					
Cash	29	66	39	35	142
Securities & investments of which:	137	123	131	179	157
Treasury bills	---	10	---	25	---
Government securities excluding bills	11	33	37	39	39
Balances with banks in Egypt	65	117	95	149	159
Balances with banks abroad	69	112	143	173	139
Loans & discount balances	6,528	7,176	7,308	8,268	8,770
Other assets	2,788	3,540	3,185	3,339	3,103
Assets = Liabilities	**9,616**	**11,134**	**10,901**	**12,143**	**12,370**
Liabilities					
Capital	242	369	369	369	374
Reserves	192	268	271	294	294
Provisions	601	730	830	930	915
Bonds & borrowings	1,061	1,411	1,458	1,642	1,584
Obligations to banks in Egypt	3,517	3,775	3,244	3,478	3,477
Obligations to banks abroad	---	---	---	---	---
Total deposits	1,946	1,963	2,351	3,051	3,450
Other liabilities	2,057	2,618	2,378	2,379	2,276

Source: Economic Review, Central Bank of Egypt, Vol. XXXIV No.2 1993/94.

Table 8. Deposits By Maturity (£Em)

	Commercial Banks	Business & Investment Banks	Specialised Banks	All Banks	
	AT The End of Dec.1993			Dec-93	Jun-94
Total Deposits	**120,411**	**97,776**	**3,051**	**133,238**	**139,205**
In Local Currency	**86,870**	**3,755**	**3,036**	**93,661**	**99,172**
Demand deposits	8,752	585	1,201	10,538	12,307
Time & saving deposits	73,616	2,878	1,815	78,309	81,682
Blocked or retained	4,502	292	20	4,814	5,183
In Foreign Currency	**33,541**	**6,021**	**15**	**39,577**	**40,033**
Demand deposits	6,344	704	1	7,049	6,466
Time & saving deposits	24,113	4,590	2	28,705	29,941
Blocked or retained	3,084	727	12	3,823	3,626

Source: Economic Review, Central Bank of Egypt, Vol.XXXIV No.2, 1993/94.
Annual Report, 1993/94, Central Bank of Egypt.

Table 9. Loans and Advances Provided by Banking Sector

(By Maturity) (£Em)

At the end of Dec.1993

SOURCE AND MATURITY	AMOUNT	%
Commercial Banks	55,415	74.8
One year and less	48,676	82.8
More than one year	6,759	44.0
Business & Investment Banks	10,435	14.1
One year and less	6,704	11.4
More than one year	3,731	24.3
Specialised Banks	8,268	11.2
One year and less	3,407	5.8
More than one year	4,861	31.7
All Banks	74,118	100
One year and less	58,787	100
More than one year	15,331	100

Source: Economic Review, Central Bank of Egypt, Vol.XXXIV No.2, 1993/94.

Table 10. Loans and Discounts Granted By Banking Sector (By Sector) (£Em)

	Commercial Banks	Business & Investment Banks	Specialised Banks	All Banks	
	At the end of Dec. 1993			Dec. 93	June 94
Total Deposits	**55,531**	**10,490**	**8,269**	**74,289**	**79,834**
In Local Currency	**42,077**	**5,432**	**7,611**	**55,120**	**57,936**
Government sector	3,376	2,135	1,989	7,500	5,715
Public sector companies	20,581	35	7	20,623	20,929
Private business sector	15,029	2,738	1,534	19,301	22,138
Household sector	2,283	524	4,081	6,888	8,317
Foreign sector	808	-----	-----	808	837
In Foreign Currency	**13,454**	**5,058**	**658**	**19,169**	**21,898**
Government sector	769	71	3	843	921
Public sector companies	2,399	46	1	2,446	3,157
Private business sector	8,831	4,138	653	13,622	15,801
Household sector	686	367	-----	1,053	1,095
Foreign sector	769	436	-----	1,205	924

Source: Economic Review, Central Bank of Egypt, Vol.XXXIV No.2, 1993/94.