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ON BANK PRIVATIZATION IN EGYPT

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Abstract

There is a worldwide growing effort to reforming and privatizing banking systems. The main motivation behind such trend has been that public ownership of banks tends to be associated with financial repression, poorly developed banking system, higher interest rate spreads, slower financial development, and lower economic growth. Empirical evidence shows that public banks seem to generate enormous losses that impose a huge fiscal burden on the economies. Such problems that are inherent in banking systems dominated by public ownership have led many countries, including Egypt, to consider privatizing their public banks.

In this context, this paper is introduced by going through the controversy regarding state ownership of banks in Egypt. The paper proceeds by an analysis of the structure of the Egyptian banking system. The second section assesses the performance of public banks versus private banks. The third section reviews the developments in the privatization of the banking system in Egypt. The fourth section highlights the economic and political issues that are hindering the implementation of the privatization program, in an attempt to identify a possible set of recommendations on how to accelerate the pace of the privatization process. The paper concludes by stating that privatization of banks is not a panacea in itself and to attain the benefits of privatization it has to be accompanied by stable macroeconomic conditions and a healthy regulatory and competitive environment.

ملخص

هناك جهود على مستوى العالم لاصلاح وخصخصة أنظمة البنوك. الدافع الأساسي وراء هذه الجهود يكمن في ان الملكية العامة للبنوك مرتبطة بالتحكم المالي ،و بنظم بنكية غير ناضجة ، وبزيادة في هامش أسعار الفائدة، وببطء في تطور القطاع المالي و ببطء في النمو الاقتصادي.وتشير الدلائل العلمية أن البنوك العامة تخسر خسائر جسيمة والذي يؤدي بدوره الى وضع ضغوط مالية على الاقتصاد الكلي. كل هذه المشكلات والمتعلقة بأنظمة البنوكالتي يسيطرعليها القطاع العام أدت ببعض الدول ، ومن بينهم مصر، الى التفكير في خصخصة البنوك العامة.

في هذا الاطار تبدأ هذه الورقة بمناقشة الجدل حول ملكية الدولة للبنوك في مصر ثم تحلل هيكل القطاع المصرفي المصري. وفي الجزء الثاني من الورقة يتم تقييم اداء البنوك العامة بالمقارنة بالبنوك الخاصة. الجزء الثالث يختص بتطورات خصخصة القطاع المصرفي في مصر. الجزء الرابع يشير الى بعض الموضوعات الاقتصادية والسياسية التي تعوق تطبيق برنامج الخصخصة في محاولة للتعرف على بعض التوصيات للاسراع في عملية الخصخصة.وتخلص الورقة الى أن خصخصة البنوك ليست الحل في حد ذاته وانما يتم تعظيم فوائد الخصخصة عندما تكون مصحوبة بأسس اقتصاد كلي سليمة وبيئة تنظيمية وتنافسية.

1. Introduction

There is a worldwide growing effort to reforming and privatizing banking systems. An integral component of almost all economic reform and structure adjustment programs undertaken during the last two decades was the liberalization and privatization of banking systems. The main motivation behind such trend has been that public ownership of banks tends to be associated with financial repression, poorly developed banking system; higher interest rate spreads, slower financial development, and lower economic growth.[1] Moreover, empirical evidence shows that public banks seemed to generate enormous losses that impose a huge fiscal burden on the economies. Such problems that are inherent in banking system dominated by public ownership have led many countries to consider privatizing their public banks.

Experience has also shown that public banks can contribute to banking crises by permitting political objectives distort bank operations. Empirical investigations conducted by Caprio and Martines Peria (2000) reveal that greater public ownership not only increases the probability of a banking crisis but also raises fiscal costs. Some of the largest losses have been incurred by public banks. Several economies, such as Hungary, Argentina, and Mexico had to inject capital to absorb losses incurred by public banks. Public banks are more likely to allocate capital to low productivity investments.[2] Moreover, public banks tend to have a lower incentive to identify problem loans, and to minimize costs. They are confronted with little competition, their losses are often covered by the government and they are protected from closure on constitutional grounds.

It is sometimes necessary to privatize public banks to isolate bank management from political interference.[3] Thus privatization can improve the performance of the banking system, and can also bring substantial fiscal benefits, simply by avoiding future losses of public banks. However, the decision to privatize these banks is not an easy task, especially in countries with long history of state-ownership of banks, where banking systems were considered 'strategic' in terms of funding the countries economic development plan.

While privatization of banks has worked and achieved its set objectives in some developing countries, it led to problems that in some cases required re-nationalization in other countries. Hence, choosing an adequate approach and proper timing is a crucial policy issue in developing countries when dealing with the problems of public sector banks. Empirical studies examining the performance of banks that were fully or partially privatized via public share offerings have revealed that there have been limited improvements in bank profitability, operating efficiency, leverage and non-interest revenue after privatization.[4] Significant government ownership of banks remains, even after privatization, and in very few cases the government has completely eliminated public ownership in these joint venture banks. The governments' tendency to retain some public ownership raises questions regarding its seriousness and commitment to market-oriented governance banks.

In this context, this paper is introduced by going through the controversy regarding state ownership of banks in Egypt. The paper proceeds by an analysis of the structure of the Egyptian banking system. The second section assesses the performance of public banks versus private banks. The third section reviews the developments in the privatization of the banking system in Egypt, both joint venture and public banks. The fourth section highlights

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[1] Caprio and Cull (2000), p. 3.

[2] Barth, *et al.,* (2000), p.5.

[3] However, if directed lending by the government is unavoidable, some of the large solvent banks could be asked to allocate a small percentage of its loans to projects of high political priority. This might be safer as it will reduce the possibility of credit concentration.

[4] Verbrungge, *et al*., (1999), p. 2.

the economic and political issues that are hindering the implementation of the privatization program, in an attempt to identify a possible set of recommendations on how to accelerate the pace of the privatization process.

Assessing the performance of the Egyptian banking system entails some financial analysis pertaining to bank-specific microprudential ratios, comprising a set of indicators, namely capital adequacy, asset quality, management soundness, earnings, liquidity, and sensitivity to market risk.[5] A comparative analysis is then undertaken between microprudential indicators of public sector banks on one hand and private banks on the other hand.[6] Moreover, monitoring microprudential indicators for changes over time—intertemporal comparison—can also help in providing an indication of the possible emergence of a banking system problem.[7] The study period is from 1991, the beginning of the economic reform program in Egypt, until 2002. In addition, a composite index was constructed in order to attain an overall assessment of the microprudential indicators. These quantitative microprudential indicators are not sufficient to assess the soundness of the banking system, and hence will be supported by institutional analysis of a more qualitative nature.

It is worth noting that there are a few limitations regarding the data used in terms of quality and aggregation.[8] It is recognized that data availability for some of the foregoing indicators will be of variable quality. There are several shortcomings that emanate from differences in capital structure, product mix, and accounting procedures among individual banks and over time.[9] Another drawback is that aggregation of bank data may be potentially misleading as it may conceal or misrepresent problems by offsetting positive and negative signals from different individual banks. Deterioration in individual banks may not be apparent in aggregate data. Hence, banks' data, in general, should be treated with caution, and in particular those of developing countries. However, these indicators can still give a rough indication of areas of vulnerabilities. Data on banks that have been privatized is very difficult to find, especially regarding financial performance pre- and post-privatization.

The banking system, after a series of Egyptianization and nationalization measures in the 1950s and 1960s, was left with four publicly owned commercial banks and five specialized banks. The market was highly concentrated. Competition was limited further by the application of sectoral and, then, functional specialization which made the system a sector based mono-bank one. The introduction of *open door* policy of the 1970s and the financial liberalization measures of the 1990s resulted in an increase in the number of banking units without a significant decrease in market concentration. The domination of public banks in a highly concentrated market resulted in frail competition and limited innovation.

The dominance of public banks in Egypt is identified with familiar problems in developing countries which take two forms: First, internal management problems resulted from lack of incentives, political interference, overstaffing and lack of managerial and banking skills.

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[5] The framework used for analyzing the performance of the banking system financial institutions by international organizations is CAMELS.

[6] Private banks include joint venture banks and branches of foreign banks.

[7] It is worth noting that breaks in time series could occur if there are changes in the regulations and accounting norms.

[8] It is recognized that data availability for some of the foregoing indicators will be of variable quality. Another drawback is that aggregation of bank data may be potentially misleading as it may conceal or misrepresent problems by offsetting positive and negative signals from different individual banks. For example, deterioration in individual banks may not be apparent in aggregate data.

[9] For example, in the case of Egypt, different banks used different accounting practices regarding valuation of the quality of assets and depreciation until the adoption of the Egyptian Accounting Standards in 1997, which are compatible with the international ones. In addition, some banks were indulged in practices that distort the quality of information such as window dressing, which may produce misleading indicators.

Second, the general economic environment and policy background according to which public banks are assumed to operate.[10] Public banks were found to be protected by an array of regulations and preferential treatment,[11] for example: branching by private banks was more restricted than branching of public sector banks and credit ceilings were set in a way that favours public banks[12]; private banks were denied the opportunity to provide certain financial service to the public sector companies without the acceptance of their assigned public banks and pension funds of the public sector had to be deposited with public banks.

The dominance of public ownership of banks in Egypt has led to poor corporate governance. Public banks were more prone to government interference in credit and planning decisions than private banks. Incentives to maximise profits, or even to minimise losses, barely existed. Moreover public banks lacked managerial autonomy and like the rest of government sectors units in Egypt they had no effective power regarding staffing decisions.[13] The conditions of government owned financial intermediaries in India which, more or less, describe prevailing conditions elsewhere were summarised as follows:[14] low resource mobilisation; low profitability; low capitalization ratios and insolvency; complicated bureaucratic procedures for loan processing and operating inefficiency; allocation of resources on the basis of non-economic criteria; reduced autonomy; and poor quality of personnel, overstaffing and weak management.[15]

Not only were public banks subject to poor corporate governance, but also were private banks. Relationship banking was especially common in private and joint venture banks. Bank managers often cooperated when the bank belonged to the same conglomerate as the borrower, and favored influential shareholders. Other bankers continued to lend to unprofitable, especially big firms, to prevent them from going bankrupt and in turn exposing the bank to problems. Examination of troubled banks in other countries reveals this type of mismanagement.

Another feature of poor governance that is especially common in joint venture banks, is that in some cases shareholders would exert pressure to obtain loans on preferential terms. There are several incidents where credit was mainly allocated to the privileged private sector, the shareholders' network of clients, and friends, in addition to their own directors and managers. This took priority over assessing risks and balancing risk with returns on investment. The privileged private sector was sometimes allowed to borrow despite poor financial condition and insufficient collateral. Some of these defaulters fled the country to avoid legal action or managed to delay legal action for a long period of time.

The board of directors is characterized by a bureaucratic element of government authorities. Board members of public banks and joint venture banks lack independence, they mainly represent the interest of the government, rather than that of the shareholders or the corporation. During the 1990s, the members of the Board of Directors of the private banks included former government officials, individuals associated with policy makers, and businessmen. The bureaucratic element is represented in the former ministers, and chairmen of public authorities present in the board of the banks, in addition to representatives of public banks, insurance companies, and enterprises in view of their shareholding in the capital of

[10] Fry (1990), p. 15.
[11] For further details see World Bank (1993), pp. 1-41.
[12] When the CBE in the late 1980s adopted a strict policy to control the number of branches, the number of branches per public bank was significantly higher than that of other banks.
[13] For details see Handoussa (1989), pp. 28-30.
[14] Cited in Fry (1991) from a study by Morris (1985) on the Indian financial system.
[15] On bank efficiency losses and rules for restructuring banks in transitional economies see Andrew Sheng (1990).

those joint venture banks. Membership of the banks' board of directors included people who were linked with policy makers either through family connection or political status.

2. The Structure of the Egyptian Banking System

The Egyptian banking system is considered, in its present structure, a product of several transformations that took place during the last decades. This has been reflected in the move from a banking system that was almost dominated by foreign banks, towards a system that is predominantly Egyptian, and dominated by publicly owned banks. The 1970s witnessed the beginning of a new era of liberalization, where the banking sector activities were open to private capital, both foreign and local. This move towards the liberalization of the financial system, and increasing its degree of competitiveness, was accelerated by the launching of Economic Reform and Structural Adjustment Program in 1991, of which an important ingredient was financial liberalization.[16] In May 1990, President Mubarak announced for the first time that privatization was to be undertaken on a significant scale, including the sale of all state-owned shares in joint venture banks.[17]

Total assets of the Egyptian banking system amounts to LE 498 billion, roughly 128 percent of GDP as of 2002 while total domestic credit accounts to almost 90 percent of GDP. The main source of growth in the bank's assets over the past decade has been credit to the private sector; both business and household, accounting for more than 81 percent of total credit advances (Annex 1, Table A1.1).

Until the issuance of the new banking law[18] in 2003, banks in Egypt were classified as commercial or business and investment banks, though the functional significance of this classification diminished as they became involved in a wide range of commercial banking activities. There are 62 banks operating in Egypt of which 28 commercial banks, and 31 business and investment banks, in addition to the three specialized banks (Annex 1, Table A1.2). In terms of their ownership structure, four of the commercial banks are publicly owned and 24 are private and joint venture, while the business and investment banks comprise 11 private and joint venture and 20 branches of foreign banks. The three specialized banks are publicly owned. The three specialized banks were assigned the task of providing mid- and long-term finance for agriculture, industry and real estate. Specialized banks' total assets accounted for about 5 percent of GDP. These banks mainly cater for the private sector and depend in their fund raising on the interbank market, as well as, borrowing from nonfinancial intermediaries.[19]

The banking system is dominated by public ownership. Public banks both commercial and specialized account for around 58.6 percent of the system's assets (Figure 1). Ownership of the banking system has not changed as rapidly as was foreseen some years ago despite the legal preparation in 1998 for privatizing the banking system. Despite their declining share (Figure 2), collectively public banks as of 2002 still account for more than 58 percent of the system's assets with their extensive branch network. They have a significant market share in retail and corporate banking services through their large branch networks and ties with public sector entities. They are also participants in the equity capital of most joint venture banks. On the other hand, private banks play a less dominant role in the market for loanable funds and

[16] For more details see Mohieldin (2000) p. 10.
[17] Handoussa (1993a), p. 6.
[18] The Central Bank, Banking System, and Money Law 88 of 2003 comprise 135 Articles.
[19] The Principal Bank for Development and Agricultural Credit has an extensive branch network with over one thousand branches throughout the country, providing a range of financial services in rural areas, some of which are at subsidized rates. The other two specialized development banks are the Egyptian Industrial Development Bank and the Arab Egyptian Real Estate Bank.

focus more on trade-related financial services to the private sector. Although private and joint venture banks are growing faster, many remain relatively small, with modest branching. However, the dominance of public banks does not encourage sector reform, and leaves a market that is highly concentrated and lacking competition.

3. The Performance of Public Banks versus Private Banks

On aggregate, microprudential indicators revealed the better performance of private sector banks as opposed to the public banks in Egypt. Indicators show several areas of deficiencies in public sector banks, including a relatively low capital adequacy ratio, poor quality of banks' assets, high ratio of nonperforming loans, modest earnings and profitability, declining liquidity, and a fair level of exposure to several forms of financial markets risk. Public banks being more subject to government intervention and political pressure in credit allocation lacked managerial autonomy and incentives for profit maximization and cost minimization. Public banks have been subject to directed lending either to the public sector and preferred private sector enterprises.[20] This has distorted the incentive system and adherence to sound practices. The condition of the banking system has also been adversely affected by the deteriorating macroeconomic environment, the decline in economic growth and the declining exchange rate. However, it was noted that banks are supported by a stable and strong deposit base.

A. Capital Adequacy

Capital adequacy ratio of Egyptian banks is low compared to other developing countries facing similar risks, especially when taking into consideration that banks with unsophisticated risk management systems should maintain much higher capitalization levels. Equity-to-assets ratio—a proxy for capital adequacy—shows that private banks are much better capitalized compared to public banks.

Public banks in Egypt were undercapitalized in 1990, as a result of which the government injected around LE 1.3 billion in 1991 to enable banks to comply with the Basel capital adequacy ratio.[21] Consequently, the equity-to-assets ratio of public banks increased sharply from 1.8 percent in 1990 to 4.7 percent in one year, showing a capitalization recovery (Figure 3). This was followed by a downward trend for public banks until 1998, reflecting a capital adequacy problem, after which the ratio started to recover to reach 4.5 percent in 1999.

In contrast, the equity-to-assets ratio of private banks that were initially better capitalized, after a slight drop in 1991, witnessed an upward trend in the 1990s to reach 7 percent in 2000, indicating a higher quality portfolio (Annex 1, Table A1. 5). Similar to public banks, private banks' equity-to-assets ratio showed a declining trend since the year 2000 to reach 6.3 percent, as opposed to only 3.7 percent for public banks as of 2002.

Disparity between the levels of capitalization of public banks as opposed to private banks persisted. Capital risk, which indicates how far asset values may decline before the position of a bank's depositors and other creditors is put at risk, is higher for public banks compared to private banks, despite the capital injection to recapitalize public sector banks of the early 1990s. Overall, private banks have relatively better credit selecting mechanism, and they have mainly been involved with viable public sector institutions and top private sector companies, and hence suffer from minimal problems. However, the ratio for public banks is expected to rise in 2003 after the capital injection of March 2003 of around LE 4 billion,

[20] Garcia and Saal (1996), p. 106.

[21] Banks that were not adequately capitalized were given an adjustment period, for example, banks with capital adequacy ratio of 7-8 percent in December 1990 were required to comply by December 1992, while those with a ratio of less than 7 percent were allowed till December 1993.

which is done to support banks meet their new minimum risk-weighted capitalization ratio of 10 percent.

B. Asset Quality

Proxies for asset quality both at the lending, and borrowing institutions level .of the banking system in Egypt, such as credit concentration, foreign currency-denominated lending, nonperforming loans, leverage ratio, lending to loss-making public enterprises, contingent lending arrangements, risk profile of assets, and corporate default risk, give signals that the portfolio of private banks is of better quality compared to public banks.

(i) Credit allocation by sector. Over the past decade there has been a sizable shift in banking towards private sector lending. Banks lending to the private enterprises has been growing at an average of 22 percent, while credit growth to public enterprises was only 3 percent on average. Credit allocated to the private sector in Egypt in 2002 is estimated at around 62 percent of GDP, exceeding that of the fastest growing developing economies at around 46 percent.[22] Such increase in private sector credit is promising since it is often associated with stronger economic growth.

The breakdown of banks credit by sector shows a clear transformation in the structure of public banks' loans in favor of the private sector. Credit extended to the private sector has been increasing from 47 percent in 1990 to more than 70 percent in 2002. Accordingly, the share of the government sector, and public enterprises in total credit declined (Annex 1, Table A1.8). Consistently, the private sector credit-to-total assets ratio showed a rising trend until 1999 while that of the public sector has been declining for both public and private banks (Figures 5 and 6; and Annex 1, Tables A1.6, A1.7, A1.8, and A2.9).

This sizable shift towards private sector lending could be attributed to the privatization program and the financial restructuring of public enterprises, as well as, the regulations of 1991 that required banks to diversify their portfolios and to tighten their credit policies, as well as, the authorities' decision to eliminate the preferential treatment in the terms and conditions of loans granted to public enterprises, thus allowing for greater competition. This change has been consistence with the government's policy of enhancing the role of the private sector, and of stimulating private investments. On the other hand, public enterprises were permitted to deal with all banks without prior permission from public banks; however, this did not lead to public enterprises getting a larger share of private banks' credit (increased in absolute terms only).

Even though, credit allocated to the private sector increased substantially, while that for the public sector declined, the private sector and the public sector are a not distinct bloc of interest. It cannot be excluded that due to public sector dominance, the decisions as to which private enterprises get credit is still informally influenced by the government. Moreover, the increase in private sector credit has to be interpreted with caution, and should not be taken at face value.[23] Some projects that are undertaken in part by the private sector are government-lead initiatives, where the private investors would played the role of a public sector administrator, implementing publicly endorsed projects. Moreover, the decision to which private enterprise get credit is still informally influenced by the government. Hence, classifying banks by their capital structure to determine the kind of management and policies

[22] IFS Yearbook (2003), p. 67.

[23] One of the reasons is the issue of rolling over of loans: not every increase in credit advances to the private sector can be considered a net credit or an indication of fresh funding to the private sector It is very hard to find information and data that differentiate between fresh funding and rolling over of credit.

implemented, is not necessarily true, since in reality bank managers' behavior do not always reflect the interest of shareholders.[24]

In general, data on credit allocation in Egypt are not totally reliable and prudently disaggregated. In some cases loans could be provided for a particular purpose but effectively it is used for another especially if there is restriction on limits, such as that on real estate. In addition, there is a loans classification problem at the banks level, as well as, lack of adequate supervision by the central bank on the sectoral concentration of bank lending. This is crucial for ensuring a diversified portfolio risk, especially in case of potential problems, such as that associated with real estate.

(ii) Foreign currency-denominated lending. A rapid increase in foreign currency-denominated credit can signal vulnerability in the banking system. Although the foreign exchange risk is carried by the borrower, it often implies a higher credit risk to the lender. An unexpected devaluation could negatively affect the performance of banks through an increase in nonperforming loans. In terms of risk management the central bank has established aggregate ceilings on long and short foreign currency positions that limit such exposures.[25]

The ratio of foreign currency-denominated lending has been generally higher for private banks compared to public banks (Figure 6). This is because the private sector—the largest demanders of foreign currency—is the private banks main client. As the lending pattern of public banks shifted during the 1990s in favor of the private sector, the foreign currency-denominated lending witnessed an upward trend for public banks.

The share of foreign currency-denominated credit has been relatively stable during the last decade, ranging from 22 percent to 28 percent, with temporary upward shifts during periods of sustained capital inflows and confidence in the exchange regime, such as in 1993-94 and 1997-98 (Annex 1, Table A1.10). However, the shortage in foreign currency since 1998 following the series of external shocks that hit the economy resulted in the depreciation of the exchange rate. The resulting foreign currency exposure, and the increase in risk, as well as, the new directions by the central bank on foreign currency lending led to the decline in foreign currency-denominated lending-to-total lending. There are still concerns to the risk of loan default in the case of further depreciation of the Egyptian pound, which would magnify the banking problem.

In an attempt to ease the situation of scarcity of foreign currency and reduce the foreign exchange risk, the Government undertook several measures. In order to curb the surge in imports, following the East Asian crisis of 1997, a decree was issued in 1998 through which the rules of origin were used to hinder the entry of foreign products into the country especially through free zones. Furthermore, the central bank instructed banks to lend in foreign currency only those who have an adequate source of foreign exchange earnings. Banks had to restrict their credit facilities to traders for import finance, and traders had to self-finance the total value of their imports.[26]

An 'understanding' was reached between the central bank and banks in 1999 requiring 100 percent advance deposits in foreign currency for imports of certain commodities. This has resulted in a decline in foreign currency-denominated lending especially in private and joint venture banks from 38 percent in 1997 to 25 percent in 2000. Unlike in the earlier years, credit expansion in 1999, in particularly to the private sector, was dominated by local

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[24] Henry (1996), p. 227.

[25] Ten percent of capital for a single currency, 20 percent of capital for the aggregate of all currencies, and 20 percent for intraday positions, to which banks must comply with on daily basis.

[26] Such restrictions can result in a reduction in banks' commission and fee income generated from issuing letters of credit, in addition to reducing the banks' interest income derived from granting loans.

currency lending. The continuous depreciation of the Egyptian pound, following the recent adoption of a more flexible exchange rate regime has adversely affected the quality of banks' assets has been negatively affected, increasing defaults on foreign currency loans.

(iii) Nonperforming loans and inadequate provisions. Banks' asset quality was also adversely affected by the substantial amount of nonperforming loans resulting from previous directed lending to loss-making public enterprises, which was not protected by adequate provisions. The implementation of the tighter asset classification and provisioning measures in 1991—recommended by Basel Committee—made banks build substantial loan-loss provisions, to compensate for previous understatements, as reflected by the significant increase in provision-to-loans ratio—a proxy for nonperforming loans assuming adequate provisioning for bad and doubtful loans.

Public banks' adjustment to the new regulation has been facilitated by the privatization proceeds. More than one-third of the proceeds from the sale of public enterprises and public banks' shares in joint venture banks were used to settle arrears to public banks, which resulted in an improvement in banks' loans portfolio.[27] Private banks adjusted with reasonable speed to the tighter regulations, since most of them were already following prudent lending policies.

Nonperforming loans declined from 30 percent of total loans in 1992 to 13.4 percent in 1997 until it reached around 11.7 percent in 1999 (12.3 percent for public commercial banks, and 10.8 percent for private and joint venture banks)' amounting to LE 19.6 billion (Figure 7 and Annex 1, Table A2.11).[28] However, in 2002, largely due to the deteriorating macroeconomic environment, nonperforming loans increased to 17 percent of total loans, which is rather high.[29] Egypt, similar to other developing countries that have been subject to directed lending had a higher rate of nonperforming loans in public banks.

Although a decline of nonperforming loans was witnessed in the 1990s, as reflected in the fall in provisions-to-total loans ratios, the actual level of nonperforming loans is expected to be higher if strict loan classification criteria were applied, and if rolling-over of loans is taken into account. A large portion of the loans is in the form of overdraft facilities that are not categorized as nonperforming, and hence the past due classification has not fully capture the accurate figure of nonperforming loans.[30] It is also worth noting that a sizable part of nonperforming loans have been restructured, some of which under very concessional terms. These may represent hidden weaknesses in the banks' portfolio.

Moreover, banks are not required to classify or provision against loans to the government but they are required to classify and provision against loans to other public sector entities, except where a written guarantee is provided by the Ministry of Finance. As a result, their balance sheets do not reflect their actual status and profits might be exaggerated. There are also cases where bankers manipulate the classification of nonperforming loans by classifying bad loans as good, and so avoid making provisions.[31] Such incidents of "cosmetic mismanagement" have contributed to crises in several developing countries.

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[27] For details see Nasr (2000), p. 34.
[28] The General Department for the Compilation of the Banking Credit Risk.
[29] The ratio of nonperforming loans to total loans can be understated in an environment in which banks tend to roll over loans that otherwise would become nonperforming.
[30] According to Moody's, at least two-thirds of loans are in the form of overdraft facilities as of 2000.
[31] Accounting practices in the past regarding provisioning were driven more by efforts to streamline reported earnings rather than presenting a fair picture of the true book value. However, as disclosure norms became stricter, the regulatory system reached a level of efficacy, and international practices are brought, provisioning is expected to improve.

However, since 2000, an upward trend of the provision-to-loans ratio was witnessed, reflecting an increase in nonperforming loans. This could be associated with the slowdown in economic growth and the general deterioration in the macroeconomic environment. Another explanation could be that the new management, especially of the public banks, has been keen on estimating actual losses that have been incurred in the past, and making adequate provisions for them.

(iv) Loans outstanding to loss-making public sector entities. Increasing loans to loss-making public entities, often an outcome of directed lending may signal significant credit risk. Public banks were not in general run on commercial basis, and were more subject to government intervention and directed lending to public enterprises and priority projects. Most of these loans were government guaranteed to loss-making companies that the government would bail-out at the end. The public sector was the public banks' main customer, accounting for 75 percent of total public banks' loans in 1991 (Annex 1, Table A1.12).

Most of these public enterprises were highly leveraged and externally indebted. Their indebtedness increased from around LE 47 billion in 1991 to LE 68 billion in 1994, to reach LE 84 billion in 2002 (Figure 8).[32] Despite the increase in accumulated losses carried on the balance sheet of public enterprises (from LE 200 million in 1990 to LE 10.28 billion in 1999), public banks continued to extend them loans (Annex 1, Table A1.12). Banks in Egypt, similar to those in transitional economies had a strong, perverse incentive to fund former debtors, even when these were public enterprises that were less efficient and more risky than private ones, under the assumption that by doing this they gain the potential repayment of previous debts.[33] Consequently, nonperforming loans and bad debt accumulated over the years in public banks.

However in 1993, loans extended to the public sector started to decline. Banks namely public banks were expected to clean up their loan portfolios, and were no longer permitted to lend more than 30 percent of their capital to any single borrower. Moreover, the preferential treatment granted to the public sector in terms of having access to easy credit was removed. "The public 'business' sector is now expected to make its own investment plans and to find its own sources of finance-on market terms—independently of any of the rigid controls it was subjected to over the past thirty years."[34] Government guarantees were not sufficient for extending loans even to big public sector enterprise unless approved by the Ministry of Finance. Despite the government's effort to settling public entities' debts and arrears, public banks were still left burdened with the nonperforming loans of the loss-making public entities accumulated over the year.

(v) Leverage ratio. The ratio of loans-to-equity—proxy for the leverage of the banking system—shows a gradual upward trend since the early 1990s (Annex 1, Table A1.10). The leverage ratio for public banks is higher than that for private banks, reflecting more vulnerability in the former. This was reflected in the rise in the loans-to-assets ratio, indicating better intermediation but a higher exposure to credit risk (Annex 1, Table A1.9). The drop in the leverage ratio of public banks in the early 1990s was mainly due to the tight stabilization policies and the consequent recession that led banks to slowdown their lending activities. However, the loans-to-assets ratio of Egyptian banks on aggregate is not too high or low, by international standards, to be of concern to the performance of the banking system.

(vi) Corporate default risk. The quality of the banking system's loan portfolio is directly dependent of the creditworthiness of its borrowers. Problems in corporations were brought to

[32] For more details see IMF (1998), pp. 50-51, and Nasr (2000), pp. 9-10.
[33] Perotti (1993), p. 1022.
[34] Handoussa (1993b), p. 12.

the surface with the deterioration in the economic conditions. The economic conditions and the liquidity shortage in the late 1990s particularly stressed borrowers with internal inefficiency, or over-expanded activities.[35] The number of companies in Egypt that announced their bankruptcy was 47 in 2000 compared to 27 in 1999, more than 74 percent increase over a year time (Figure 12). A number of well-known businessmen left the country leaving behind bank debts reported at LE 1.5 billion.[36] The increase in the number of companies declaring bankruptcies, and hence unable to service their debt; signaled distress in the banking system in the late 1990s. At the same time, the number of newly established companies declined from 4,156 in 1998 to 2,286 in 2002 (see Annex 1, Table A1.11).

C. Management Indicators

Management indicators, such as expense ratio and earnings per employee, although improving in the 1990s, show low level of efficiency in their operations. Empirical data reveals that public banks in particular have higher operating costs, and lower earning per employee ratio, indicating less efficiency and over-staffing compared to private banks (Tables 1 and 2). Despite the change in management of the public banks in 2000, no signs of improvements have yet been reflected in the management indicators.

The banking system in Egypt has a relatively low density and characterized by geographic concentration, indicating that the market is suffering from a low level of competition, and is lacking incentives for improvements. The extensive branch network of public banks explains some of the higher cost structure. These branches are considered overstaffed.

D. Earnings and Profitability Indicators

Profitability indicators put banks operating in Egypt at a modest level compared to other developing countries. In the 1990s, return on assets, and on equity although increasing, were still relatively low (Table 3). There is great disparity between profitability of public banks, and private banks, where the latter is performing much better. To a large extent, this poor performance of public banks can be attributed to the sizable additions they had to make in recent years to loan-loss provisions.

E. Liquidity Indicators

The banking system in Egypt has been characterized by high liquidity during the first half of the 1990s that decline slightly over the second half. The decline in liquidity was reflected in the declining liquid assets-to-total assets ratio, the sharp rise in interbank rates, the steady increase in the loans-to-deposits ratio, and the increase in banks borrowing from the central bank. However, funding structure, which is a key aspect of liquidity show that the banking system in Egypt has a strong and stable deposit base with a favorable maturity structure.

(i) Maturity structure of banks' assets. Indicators that reflect the maturity structure of the assets portfolio, such as the share of liquid assets-to-total assets, can reveal the liquidity of the banking system. The Egyptian banking system has been characterized by a high liquidity ratio during the early 1990s (Figure 10). On one hand this reflects banks ability to deal with potential deposit runs but on the other hand excess liquidity reflects a high-perceived risk on the bankers and investors' side, as well as inefficiency in the intermediation process. A high liquidity ratio indicates that banks are holding a high ratio of liquid assets.

However, since 1993 the liquidity ratio has been declining due to the tightening of the monetary conditions (Annex 2, Table A2.21). It fell from 59 percent in 1992 to 46.2 percent

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[35] A stratified sample of 200 large manufacturing and construction firms reveals the poor performance and unfulfilled expectations of Egyptian firms during the second half of the fiscal year 2000 [Egyptian Center for Economic Studies (ECES), "Business Barometer", July 2003, p. 2].

[36] *Moody's Banking System Outlook* (2000), p. 4.

in 1997 and even further to 34 percent in 2000. In response to such a decline, some banks resorted to the issuance of bonds in order to lengthen the maturity of their funding, in addition to taking advantage of the fact that unlike deposits, banks do not have to maintain the 15 percent reserves ratio at the central bank for bonds. With the local funding sources drying up, several banks have resorted to syndicated borrowing from abroad to boost their funding bases.[37]

However, an enhanced liquidity was evident since 2000, which was reflected in the easing of interbank rates. In general, public banks are well secured in terms of liquidity, as opposed to private banks, which is also evident in the lower ratio of loans-to-deposits of the former (Figure 11; and Annex 1, Table A1.17). Most banks in Egypt structure their assets and liabilities to match repricing maturities in addressing interest rate risk.

(ii) Loans and deposits growth. Following the acceleration in banks credit in the 1990s, a decline was witnessed, which was especially evident in private banks (Annex 1, Tables A1.18 and A1.19). Such a decline in credit, known as a ‘credit crunch’, could be attributed to a drop in the demand for loans due to the slowdown in public investments that is likely to have affected related private sector activity, and on account of higher real interest rates.

However, it could also be attributed to the reluctance of banks to extend loans with the objective of preventing further increases in nonperforming loans in response to the financial difficulties confronting them, as well as, the deteriorating macroeconomic environment. The high growth rate of credit compared to deposits in the late 1990s, as reflected by the steady rise in the loans-to-deposits ratio, indicates stress and a decline in liquidity of the banking system. A slight improvement in liquidity was witnessed in the beginning of the new decade (Figure 12).

In terms of deposits, although there is no explicit deposit insurance scheme in Egypt, it is still clear that the government would protect deposits of public banks and “large” private banks. This implicit deposit insurance has prevented bank runs but at the same time removed the discipline associated with that risk.[38] While deposit insurance reduces the possibility of self-fulfilling bank crises, it introduces a significant degree of moral hazard by creating incentives for excessive risk-taking by bank managers. Depositors were not concerned about the riskiness of the banks’ portfolio and bankers were encouraged to take bigger risks, allowing undercapitalized banks to remain in business.

(iii) Central bank credit to the banking system. Central bank credit to the banking system in Egypt showed a remarkable increase in absolute terms, indicating a liquidity problem in the system. Borrowing of banks jumped from LE 4.6 billion in 1990 to more than LE 15 billion in 1997.[39] However, in terms of total liabilities, banks’ borrowing from the central bank increased only slightly from 5.3 percent in 1990 to 6.8 percent in 1995.

The change has been more noticeable for public banks (from 2.6 percent in 1990 to 5.9 percent in 1995), while that for private banks have almost not changed during the same period (Annex 1, Table A1.20). The ratio of central bank credit-to-bank liabilities, started to decline in 1996, however, a slight increase was witnessed in 2000, signaling a liquidity problem in the banking system.

[37] In the late 1990s a number of banks went to the international syndication market to supplement their funding needs. Individual borrowing ranged from US$ 100 million to US$ 250 million, totaling to US$ 1 billion for the banking system. This amount is manageable, but the potential risk undertaken should be assessed.
[38] World Bank (1989), p. 76.
[39] This increase can be partly due to the placement of foreign currency deposits by the central bank, and the soft loan to Banque Misr in support of its acquisition of Bank of Credit and Commerce International.

(iv) Segmentation of interbank rates. The interbank market in Egypt accounted for around 10 percent of the consolidated balance sheet of banks in the 1990s. It is the main means of filling the liquidity gap in the banking system. The interbank market is in the form of overnight to up to 3-month deposits; however, most of the interbank transactions were of one-week, 1-month and 3-month maturities.[40] Commercial banks were the most active participants during the 1990s, mainly private banks that reached almost 90 percent of the market share in 1995 (Table 4).

The volume of interbank transactions fluctuated only slightly during the early 1990s with the changing liquidity. During this period, interbank interest rates varied within a strict narrow range, and were less than the interest rates on customers' loans, leaving a profit margin for the bank seeking liquidity.[41] However, interest rates on interbank transactions were relatively higher in 1993 because of the high interest rates on treasury bills, but then started to decline until 1998. However, in the late 1990s, interbank rates increased sharply and became volatile, reflecting a liquidity problem, and the tight monetary conditions. The liquidity problem has pushed interest rates up, which in turn increased interbank rates to the extent that it sometimes exceeded the average interest rate on customers' loans.[42]

In order to ease up pressures on the Egyptian pound in the late 1990s, the central bank pumped a large amount of U.S. dollars into the market. Nevertheless, the excess liquidity of the public banks was absorbed by the expansion in credit, and there was pressure on public banks resources to cover the liquidity gap of private banks. This forced banks to resort to non-traditional means of attracting funds, such as bond issuance.[43]

The improving liquidity conditions in the end of 2000, resulted in a slight easing up of interbank rates. The interbank market is expected to be strengthened with the development of a reference rate known as the Cairo Interbank Offer Rate (CIBOR), first posted on July 2000, which is expected to improve transparency. However, the CIBOR was not effectively in use by most of the operating banks.

Overall, the liquidity indicators show that Egyptian banks are liquid despite the decline in the late 1990s. Some improvements in the liquidity indicators were witnessed in 2001 and 2002. The high growth rate of credit compared to deposits in the late 1990s, as reflected by the steady rise in the loans-to-deposits ratio, indicates a decline in liquidity of the banking system. Consistently, the increased in central bank credit to the banking system as a proportion of its liabilities in the late 1990s, and the sharp increase in interbank rates reflects a liquidity crunch and tight monetary conditions. Nevertheless, banks in Egypt are still considered fairly liquid by international standards.

F. Sensitivity to Financial Market Risks

The banking system in Egypt, similar to other systems that are involved in diversified operations, is confronted with various financial market risks, including the exchange rate risk, the equity risk, and liquidity risk. These risks are considered, on the whole, relatively low.

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[40] El-Refaie (1998), p. 40.

[41] Interest rate on interbank transactions ranged between 11.5 percent and 14.3 percent, compared to 18.2 percent on bank loans to customers.

[42] Overnight interbank interest rate increased from an average of 9.3 percent in 1998 to 11 percent in the first quarter of 1999. Average interest on interbank transactions in 1999 was around 13.9 percent against 12.8 percent interest rate on loans granted to customers [EFG-Hermes, (1999), p. 9].

[43] Some banks resorted to bond issuance in order to extend the maturity of their funding (as of June 2000, fifteen banks had bonds traded on the stock exchange). Bonds were considered a cheaper source of funding since banks did not have to maintain a 15 percent reserve ratio at the central bank for bonds such as that on deposits.

(i) Foreign exchange risk. Liabilities of Egyptian banks to correspondents abroad have declined since 1992 through the mid 1990s as shown in Figure 13, largely due to capital inflows after the liberalization of the exchange rate, and the rise in interest rates on the Egyptian pound relative to the U.S. dollar. Capital inflows and dedollarization enabled banks to easily reduce their foreign liabilities. Consequently, banks were left in a comfortable foreign exchange position. In contrast, banks' liabilities to correspondents abroad-to-total liabilities increased from 3.6 percent in 1996 to 14.5 in 1998, reflecting increased reliance on foreign borrowing and large open foreign exchange positions, signaling high vulnerability of the system to exchange rate swings. This was especially evident in business and investment banks where the ratio of liabilities to foreign correspondents-to-total liabilities reached 12.5 percent, (Annex 1, Table A1.21). It is worth noting that banks in Egypt are subject to regulations limiting banks' foreign currency positions.[44]

Currency mismatches that occur when a bank borrows in foreign currency and lends in domestic currency can increase the bank's fragility by exposing it to an unpredictable exchange rate policy. Even if banks hedge their foreign currency position by lending in that currency, they can still be affected by devaluation if their borrowers are unhedged. In response to the depreciation of the Egyptian pound in 1999, banks reduced their foreign currency borrowing in order to minimize the downside risks associated with over-exposure to such borrowing. This is reflected in the decline in the banks' liabilities to foreign correspondents-to-total liabilities to reach 5.9 percent in 2002. It is worth noting that a foreign exchange exposure ratio is imposed by the central bank, and supervising banks' compliance to such limitations is achieved on daily basis.

(ii) Credit risk. Credit risk was low in the early 1990s, as banks were inclined to limit their medium-quality loans. However, credit risk has increased for some banks as a result of the high credit expansion rates, and liquidity shortage, which led to several firms showing signs of distress, if not bankruptcy.

Credit risk—measured as the ratio of medium- and long-term loans to total assets—was on aggregate low in the early 1990s, as banks were inclined to limit their medium-quality loans (Annex 1, Table A1.22). The banking system is dominated by short-term financial intermediation. The lack of long-term lending results in a maturity mismatch for those who borrow short-term to finance long-term projects, rolling them over year after year on the balance sheets. It should be noted that in the absence of long-term investments such pressures could be subsided.

In 1996, the ratio of medium- and long-term loans-to-total assets increased substantially by almost 50 percent in 1996 compared to 1990, as demonstrated in Figure 13. In 2000, the ratio for business and investment banks have remained in the range of 11 and 14 percent, while that for public banks have increased significantly to reach 22 percent. Low credit risk is usually reflected in a high return on equity.

Consistently, bank rating agencies believe that credit risk has increased for some banks as a result of deterioration in credit quality near the end of the decade.[45] Risks were particularly high, since banks went into the cycle of high credit expansion rates, while the economy was going through a liquidity shortage, and several private firms were showing signs of distress if not bankruptcy.

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[44] All banks operating in Egypt were requested in March 1991, to maintain a ratio of foreign currency liabilities to foreign assets, and vise versa, of 105 percent, while the net foreign currency position was limited to 15 percent of each bank's capital [IMF (1998), p. 82].

[45] See for example Moody's (2000), p.1.

(iii) Equity price risk. Since banks in Egypt are allowed to engage in stock market trading, banks are also exposed to equity risk. Banks can hold in individual financial and nonfinancial enterprises up to 40 percent of capital with an aggregate limit of 100 percent of capital. These limits are considered high by international standards. Moreover, the central bank aware of the fact that the volatility of the stock market can affect the soundness of the banking system requires banks to apply 'suitable' margins on lending for purchases of equities or in lending against equities, and also watches closely the developments in such lending, which by the end of 2002 accounted for 2.7 percent of banks' total loans portfolio.46

Overall, microprudential indicators of the Egyptian banking system has on aggregate shown some deterioration since the late 1990s. Private banks demonstrate better performance compared to public banks. Empirical evidence reveals the existence of certain vulnerabilities, however, the existence of riskier environment should not be taken to mean that a crisis is looming, they highlight areas of concern, and point to the need to undertake or accelerate the reforms required to prevent such occurrences.

To attain an overall assessment of the microprudential indicators, a composite index was constructed. Forming a composite index for banking soundness requires the following: First, identification of the underlying aspects of the bank soundness and careful investigation of the interrelationships between its different components. If the concerned variables are highly intercorrelated, it is then necessary to measure banking soundness from a simple single dimension. Second, selection of the most relevant indicators or variables, reflecting the main dimensions of banking soundness. Third, the combination of those variables forms one composite index maybe useful. However, one should notice that some subjectivity and value judgment could be found in this type of analysis.47 Statistical methods, such as factor analysis, can be used to form such an index, however these methods cannot eliminate altogether, this element of subjectivity.

Factor analysis has been used to combine the variables reflecting three indicators of bank soundness, namely: asset quality, liquidity, and capital adequacy.48 Each of the first two indicators is composed of seven variables. We assume that Y1 denotes the asset quality index and Xk are variables that represent the seven indicators involved in the analysis, the objective is to combine Xk's to obtain one index expressing the asset quality (Yi).49 A similar procedure was followed for the liquidity indicators.50 We use the linear form to express the combination in order to determine the weights assigned to Xk's.

$Yi = Fi (X1, X2, ... , Xn),$

$i = 1, 2, . . . , p$

The larger the index the more sound the banks are. The soundness composite index for public banks shows a steady improvement since 1992. However, the year 2000 shows deterioration in the soundness of public banks. A similar trend was witnessed for private banks, however

[46] CBE (2002).

[47] Subjectivity can be attributed to the selection of particular indicators and variables, in addition to the way these variables are combined.

[48] The composite index was restricted to these three variables due to lack of sufficient time series data for the other microprudential indicators.

[49] The variables used are: private sector loans-to-assets, foreign currency-denominated lending, provisions-to-loans ratio, loans-to-assets ratio, investing in securities-to-total assets ratio, rate of growth of real loans, and loans-to-equity ratio.

[50] The variables used to represent liquidity of the banking system include: central bank credit to banks-to-liabilities, rate of growth of deposits, rate of growth of loans, loans-to-deposits ratio, liquidity ratio, banks' liabilities to foreign currency correspondents, and medium- and long-term loans-to-total loans.

the composite index for private banks reflects better performance compared to public banks (Table 5).

4. Status of The Privatization of The Banking System in Egypt

The financial reform measures of the 1990s, in addition to the liberalization of financial variables[51], included the broadening and deepening of the financial system mainly the banking system—the dominate financial institution; through increasing the competitiveness. One of the main objectives of the reforms was to give a central role to market forces in the mobilization of savings, and allocation of credit, mainly through the enhancement of private sector participation and the privatization of the public sector while "the government focus on the provisions of public goods and on the correction of market failure".[52] This was facilitated by the lifting the restrictions of foreign ownership in financial institutions; and improving the legal and regulatory frameworks, governing the financial sector.

The structure of the Egyptian banking system was affected by several mergers that took place in the early 1990s. Moreover, the government was committed to privatize the public sector shares in the 23 joint venture banks[53], and one of the four commercial public banks, in order to improve their competitiveness. In order to facilitate the process of privatizing public shares in joint venture banks, several regulatory measures were undertaken. The four commercial public banks were requested in 1994, to reduce their shares in joint venture banks to less than 51 percent. Furthermore in 1996 they were requested to reduce their shares to a maximum of 20 percent. In order to enhance competitiveness and efficiency, majority foreign ownership (more than 49 percent) was also permitted in the joint venture banks through Law 97 of 1996. This law also liberalized charges and fees for banking services.

The privatization of the banking system has been lagging. Despite the government's commitment and various announcements to privates at least one of the four commercial public banks, none of them has been privatized. In fact, the issue does not seem to be on the government's priority list despite the regulatory preparation through the issuance of Law 25 of 1998.[54] Privatizing public banks in Egypt has been considered a politically sensitive issue, since this sector has been envisioned as "strategic" and too important to be left to the private sector, hence, was the general preference to retain majority ownership of these banks, as will be discussed later. It is apparent that the authorities' have recently shifted its focus from privatization to on improving management of these banks.

A crucial component of the financial sector reform was the reduction of public sector's shares in the joint venture banks. As part of the regulatory measures, the four commercial public banks were requested in 1994, to reduce their shares in joint venture banks to less than 51 percent. Furthermore in 1996 they were requested to reduce their shares to a maximum of 20 percent. In order to enhance competitiveness and efficiency, majority foreign ownership was also permitted in the joint venture banks through Law 97 of 1996. However, no major activity have occurred, until early 1996 when the public shares in the largest and most

[51] At the start of these reform efforts, it was realized that the financial system in Egypt was repressed in the sense that there were, *inter alia*, interest rate ceilings, high reserve requirements, and directed lending.

[52] Handoussa (1993a), pp. 3-4.

[53] Public ownership in joint-venture banks includes public banks, insurance companies, NIB and other public entities.

[54] Before 1998, public banks were subject to the same law as all public companies, namely Law 97 of 1983, which did not allow the transfer of shares from public companies, except to another. Even when Law 203 of 1991 was passed, allowing public companies to sell their shares, public banks were not covered by this law.

profitable joint venture bank were privatized,[55] followed by several other successful transactions.[56]

Despite the reduction of public sector shares in joint venture banks, total privatization of joint venture banks has not yet been accomplished (Annex 1, Table A1.23).[57] Not all public sector banks have complied with the government's set target of reducing each public bank's share in joint venture banks to below 20 percent while several are still majority-owned directly or indirectly by the public sector. Even those that did, majority public ownership were still maintained through multiple public banks ownership in a single joint venture bank. Moreover, divestiture of public sector banks' share in joint venture banks by itself will not achieve total privatization of joint venture banks because other non-bank public entities may still have shares in them.

However, a new banking law was passed in June 2003, which addresses many of the deficiencies in previous laws governing the banking system (Box 1).[58] One of the immediate implications of the law is the improvement of the capitalization of the operating banks. However, some of the banks will not be able to reach the minimum capital requirements within the specified period of three years. This may result in a wave of mergers and acquisitions, and reduction in the number of operating banks in an already over-banked market.

The law will also indirectly result in enhancing competition in the banking sector through the lowering and elimination of barriers, which limited operational flexibility, such as the distinction between specialized, business, and commercial banks; and the special treatment of public banks. Other issues addressed by the new law include, clearly defined responsibility of different stakeholders, namely mangers, and board of directors; avoiding credit concentration, and connected lending. Requirements concerning connected exposures have been tightened under the new law. More comprehensive definition was put for connected parties, and credit exposure for connected exposure. A limit on connected exposures and a system to enable the central bank to monitor compliance with the limit were put in place.

Moreover, in October 7, 2003, the government has taken a decision to establish a holding company that would be responsible for the seven public banks, without any government interference. Along with managing the portfolio of the public banks, the holding company would be responsible for developing and executing a program of financial and technical restructuring of these banks. According to the New Banking Law 88 of 2003, the Chairman of this holding company will be replacing the Governor of the central bank in the chairing the public banks' General Assembly. This move is suppose to reduce some of the responsibilities related to the public banks that have been moved on to the Prime Minister since the abolishment of the Ministry of Finance.

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[55] The first joint venture bank to sell its public shares was the Commercial International Bank (CIB). The CIB was almost totally owned by NBE, went through three stages: partial privatization through increasing the paid capital, (so that by 1992 it has increased by five times reducing public share by 69.9 percent); majority privatization in 1993 through public floatation (where 1.5 million shares were offered resulting in another drop in public shares to 43 percent); and the sale of 50 percent of its remaining shares in the international market in the form of GDRs on the London Stock Exchange in 1996.

[56] Sale of public sector shares in joint venture banks took several forms, the sale of shares on a stock market through a combination of a local IPOs, and International Global Depository Receipts (GDRs), increases in capitalization of existing private sector owners, and private placements to local and foreign partners.

[57] On aggregate out of the 23 joint venture banks, as of 2002, seven are still majority owned by the public sector, of which two are majority-owned by the four public banks, three are majority-owned by other public entities, and two are jointly owned by both the public banks and other public sector entities. In addition, the public sector has less than 20 percent in eight joint venture banks.

[58] The executive regulations and by laws are yet to be issued to put the law in the full force of action.

As a step forward to privatizing the public sector shares in the joint venture companies, the government decided in October 7, 2003 to establish two companies that would be responsible for managing public banks' investments in 140 joint venture companies whose capital exceeds LE 6 billion, with the ultimate objective of selling these public sector shares, as well as, removing the government's representative from the Board of Directors of these joint venture companies. Initially, Boards of the joint venture banks, included representatives from public banks, insurance companies, and enterprises in view of their shareholding in the capital of these joint venture banks.

One issue that deserves looking at is the entry and exist rules for banks in Egypt. For a market to be competitive, there should not be any significant entry or exit barriers. The Egyptian banking system has suffered from the use of restrictive regulations such as licenses and permits, which prevented new entry and limited competition. In addition, regulatory barriers to entry include restrictions on the licensing of domestic banks, and branching, as well as restrictions on foreign bank entry and on the types of activities that banks are allowed to undertake. The main concerns used to justify restrictive entry regulations, include: 'cream skimming' by private and foreign banks; acquiring dominant positions in the domestic market; hit and run activities due to lack of commitment; protecting the interests of the existing banks especially public banks; and allocating most of domestically mobilized funds abroad.[59]

However, these concerns should be carefully looked at. For example the political concern of foreign banks acquiring dominant positions in the domestic market should not be addressed by restricting entry but by applying competition policy. Although, the withdrawal of international banks from the market may signal a problem in the domestic market, which may have a negative impact on the banking environment, in reality, withdrawal is often due to problems in the home rather than the host country. In terms, of protecting the interest of existing banks, improving their efficiency is a better approach than protecting inefficient banks. Another reason used to justify restrictive entry regulations is concern that foreign banks would move domestically-mobilized funds abroad. However, public banks are not different from foreign banks in terms of geographic allocation of resources. Hence, it is not a problem of foreign banks only but that of the banking system as a whole.[60] It is more an issue of improving the investment opportunities domestically and enhancing market stability.

Maintaining an adequate exit mechanism is also crucial for achieving an efficient market. Banks in Egypt were not allowed to fail. This has come into effect not through prudential policies or measures that enhance efficiency of banks, but rather through the support of the central bank and the rest of the banking system to weak banks. Weak banks were left to operate, while adequate measures such as restructuring, merging or liquidation were not applied. To prevent financial instability, recapitalization is sometimes required, which entails a fiscal cost. As a result, inefficient banks were encouraged to indulge in high risk activities, while sound banks were forced to subsidize them.

5. Constraints Facing the Privatization of the Banking System in Egypt

The Egyptian privatization program has operated under a variety of constraints.[61] These can be divided into three main categories: pre-implementation constraints that occur in the preparatory stage of setting the legal and political grounds for privatization; implementation concerns that hinder the pace of privatization transactions; and post-privatization concerns

[59] Bahaa Eldin and Mohieldin (1998), p. 129.
[60] In 1992, more than 77 percent of foreign currency deposited in the banking system was allocated abroad [Bahaa Eldin and Mohieldin (1998), p. 130].
[61] See Mohieldin and Nasr (1996).

that should be taken into consideration to ensure the effectiveness of the reform program in attaining the potential gains of privatization.

A. Pre-Implementation Constraints

The privatization pre-implementation constraints principally are: general inadequacy of the legal framework; lack of alternative investment opportunities for the Government; concerns of revealing the 'real' quality of the public banks' portfolio; unaccomplished privatization of joint venture banks; and the political sensitivity of privatizing the "strategic" banking sectors.

(i) Inadequate legal framework. Well-functioning institutional and regulatory system is essential for the success of the privatization program. The legal framework for privatization remains inadequate, particularly in three respects. First, there is no clear rule for the valuation of public assets. Law 9 of 1983 provides the CAA with the power to "review" the valuations and issuing prices of privatization transactions, a process that delays the privatization process. Second, as long as the public sector retains majority ownership, exercising minority shareholders' rights is highly restricted, in terms of board nominations, distribution of profits, employees' bonuses, auditing and access to information. Although there is private sector representation in the Board of Directors there is still public-sector dominance in decision making. Third, until recently there had been no clear framework for the allocation of sales proceeds. It was after 1997 that the government decided to use the sales proceeds in reducing the budget deficit.

(ii) Lack of alternative investment opportunities. Lack of alternative investment opportunities acts as a disincentive for the government to sell. In fact, there is a prevailing reluctance among the public sector, whether public banks, insurance companies, and other public entities to sell their shares in joint venture banks, partly because of the general perception that it is difficult to find alternative investments that yield equivalent profits at an equally low risk.[62] Investing in joint venture banks is in many cases considered among one of the best earning assets in the public sector portfolio, especially in view of the downturn of the capital market. In fact, the public sector's share in the small banks has been increased again in a few banks as a result of capital increases.

(iii) Concerns about revealing the 'real' quality of the public banks' portfolio. Although central bank auditors provide oversight of public banks, they do not issue public reports categorizing the bank's portfolios according to risk and performance. Egypt, similar to other developing countries faces the difficulty of dealing with extremely low-quality loan portfolio, most of which is in default, and are likely to be unrecognized on the banks' balance sheets and financial statements. Hence, an independent analysis of portfolio quality and reserve sufficiency is not possible. The banks themselves also do not report this information, making it difficult for others to judge the quality of the portfolios and the adequacy of reserves. The concern about potential negative depositor reaction to more detailed portfolio information could be playing a role in the hesitancy to move forward with privatization in this sector.

(iv) Total privatization of public sector shares in joint venture banks has not been attained. This delay is largely attributed to: (i) only one public bank has complied with the target of less than 20 percent ownership, while the remaining three have reduced their ownership to less than 51 percent, but have not fulfilled the maximum 20 percent ownership target;[63] (ii) even in cases where public banks have complied with the target of 20 percent maximum

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[62] Also, the change in Income Tax Law 5 in January 1998 has the effect of making Government securities less attractive for banks.

[63] For example, Banque Misr continued to own around 25 percent of Misr International Bank (MIBank) and 33 percent of Misr Romanian Bank, two banks in which they previously had majority ownership, and Bank of Alexandria continued to own 35 percent of EAB, and 38 percent of Misr Iran Development Bank.

ownership, majority public ownership can still be maintained, through multiple public ownership in a single joint venture bank, such as the case of the International Islamic Bank for Investment and Development; (iii) total sale of public banks share in joint venture banks by itself will not achieve total privatization of joint venture banks because other non-bank public entities, such as public insurance companies and NIB, may still have shares in them.

(v) Privatizing public banks is a politically difficult decision. Privatizing the banking sector has been a politically difficult issue, especially in countries where the financial market was subject to a significant degree of government intervention and state control. In common with international experience, privatizing the banking sector in Egypt is considered a politically sensitive issue. The banking sector has been envisioned as "strategic" and too important to be left to the private sector. Hence, there is a general preference to retain majority or total ownership of banks. The main reasons behind this include: (i) concerns that private banks will not be as effective as public banks in directing scarce capital to highly productive projects; (ii) the failures of private banks in many countries that incurred large losses that were in many cases passed on to depositors and taxpayers; (iii) failure of several privatization efforts, most notably Chile in the early 1980s, and Mexico where the crisis occurred two years after concluding privatization; and (iv) the government believes that privatizing the banks is not the optimum solution especially at the present time. The economy is going through a critical phase as regards the stability of the Egyptian pound and liquidity in the economy, making banks particularly fragile creating a case for government intervention, and possibly ownership.[64]

B. Implementation Issues

Impediments confronted in the implementation of bank privatization, include: pricing and valuation difficulties, the need for financial and operational restructuring prior privatization, labor and social concerns,

(i) Pricing and valuation difficulties. This has been an impediment that has frequently confronted the privatization of public enterprises, in general, which created political sensitivities resulting from the government's conflict between choosing a price that will attract investors and at the same time publicly acceptable. The government was often criticized for selling state assets below its market price. The inadequate legal framework intensifies the problem, because there is no clear rule for the valuation of public assets. The only valuation method recognized by the Central Auditing Agency is "replacement value", making it difficult for shareholder to propose prices based on market-oriented principles (discounted cash flow, net worth, or net book value), creating conflicts between the government as a shareholder and the Central Auditing Agency.

However, the government was able to avoid such problems when selling the public sector shares in joint venture banks through initial public offerings (IPOs), allowing the market to determine the price. Nevertheless, issuance of shares does not ensure improvement in the performance or efficiency of banks. Better management, know-how, and technology could be achieved better through anchor investors. Empirical evidence have shown that nonfinancial public entities that were sold to anchor investors performed better post-privatization when compared with those that were privatized via issuance of share in the stock market.

(ii) The need for financial and operational restructuring prior to privatization. Public banks need both financial and operational restructuring, especially. In terms of financial restructuring, there is a general concern regarding the quality of the banks' loans and investment portfolios and the sufficiency of their reserves. Public banks hold large non-performing loans in public enterprises that have not been restructured yet. This has led to the

[64] Caprio *et al*., (2000), p. 1.

government's tendency to engage in pre-sale restructuring, in order to prepare them for privatization and avoid selling them at a 'low' price or liquidating them.

Pre-sale restructuring can be appropriate for banks that are not chronically distressed, and where there are potentials in improving their economic and financial viability in order to prepare them for sale. Otherwise restructuring can be a waste of time and money and hence liquidation should be considered. There are two common ways of restructuring: financial and labor restructuring. International experience shows that Governments should start first with financial restructuring, and if the market indicates that there is no interested buyer then labor restructuring should be carried out before the transaction is put again in the market.

Another approach that the authorities are now following is operational restructuring or changing the management of the seven public banks as previously mentioned. This also entailed capacity building of staff at all levels in the public banks, as well, getting rid of the redundant workers—an issue that has been of social concern throughout Egypt. In some cases early retirement packages were offered. Interms of hiring new staff, although 'forced employment policies' in the public sector were abandoned in the early 1990s, "there is considerable pressure on central and local government to employ new graduates."[65] The objective of financial restructuring should be to improve the efficiency and restoring the medium and long term viability of the enterprises. However, the government should be selective, since the risk and cost involved can be sometimes greater than the benefits, and hence liquidations should be considered.

Another issue related to operational restructuring is foreign investors purchasing the banks, and getting rid of the large number of redundant employees—the situation in most public entities. This issue of downsizing the staff is especially critical in Egypt, with the current high level of unemployment in Egypt, making the government more cautious in the privatization process.

C. Post-Privatization Concerns

There are also several other post-privatization concerns that needs to be address: (i) the relationship between majority and minority shareholders, and the government's retention of controlling shares; and (ii) lack of information on pre- and post-privatization performance.

(i) Full vs. partial sale—government retention of shares. Empirical studies have shown that share issue privatization does not necessarily ensure improved performance of banks. It is highly unlikely that government ownership will be eliminated at the IPO stage,[66] reflecting the low possibility for the success of bank privatization using the public share approach. Accordingly, banks that were majority privatized are expected to perform better than those that were partially privatized and had been retained under state control.

The Egyptian government appears to want to retain majority shares in some "strategic" sectors such as the banking sector, in order to act as a quasi-regulator, particularly on pricing. In which case the bank would remain under state control and the exercise of minority shareholders rights is highly restricted, and the public-sector will still dominate the decision making.

International experience shows the only justification for the government's retention of majority holdings are when there is lack of capital to purchase shares. Some may argue that the government will benefit from later capital appreciation, but, the experience on the stock market shows, retaining shares can be risky. In other countries significant asset stripping has been observed, to the detriment of the government minority shareholding. Others will argue

[65] Handoussa (1993a), p. 4.
[66] Perotti (1995), p. 13.

that retaining shares provides protection for labor, some regulatory protection and allows government to manage monopoly issues through their shareholding.

(ii) Trade-off between stock market offerings and anchor investors. Different methods of sale do produce different outcomes. Some private ownership is better than others—in terms of how quickly and effectively they restructure the enterprises and increase its capability in operating in a competitive market. Generally, companies privatized through the stock market performed relatively lower than companies sold to anchor investors. On the one hand, public offerings can more directly achieve widening of ownership base, avoid biases for privileged local and foreign investors and at the same time activate the stock market. On the other hand, stock market floatations are timely and difficult to launch, especially when privatizing problem companies. Moreover, selling to an anchor investor will most probably provide ownership incentives, skilled management, know-how, and technology that will in turn improve a company's efficiency and productivity.

The relatively lower performance of the companies sold through the stock market is partly attributed to the fact that the objectives of the small investors are short-term in nature and often concentrate on quick capital gains. They are not often interested in the value of the company as an anchor investor would be, since the latter is considering long-term performance. Price fluctuations may result into small investors' loss of confidence in the market that will make them sell their shares and consequently create selling waves that can negatively affect the stock market. It is also worth noting that shareholders who hold their shares with custodians especially GDRs, are denied voting rights.[67]

Furthermore, widening the ownership base through floatation should not come at the cost of managerial competence. Privatization should aim at improving corporate governance, even if it means giving up a wider ownership base for an anchor investor with enough shares to have a strong motivation and control to improve the performance of the company.[68] Changing management is not just changing people, but the philosophy and bringing in a different incentive system.

(iii) Market structure, competitiveness and regulatory capacity. International experience shows that privatizing enterprises in competitive, and particularly tradable, sectors is likely to yield solid and rapid economic benefits, while privatization of enterprises in non-competitive markets (e.g., large monopolies in energy and telecoms) requires a regulatory system to protect consumers, and to identify service objectives, develop cost-minimization targets, and create or strengthens a supervisory body. The Government should look carefully at the position of the public sector banks. As new competitors enter the market; or existing commercial banks decide to compete more aggressively with new investments in equipment, technology and better management on bases of lower operating costs; the value of large franchises will diminish. The Government should consider moving towards institutional restructuring of the banking sector.

Moreover, there are other reasons put forward against privatisation which can be summarized by the following: concern about "cream skimming" by private and foreign banks; second, fear of acquiring dominant positions by foreign banks in the domestic market; third, concern about hit and run activities by foreign banks. Fourth, protecting the interest of the incumbent banks, especially the public ones; fifth, concerns regarding extensive allocation of mobilized

[67] GDR depositories are not allowed to vote separately, but rather they vote in ways desired by the management that appointed them. However, the Capital Market Authority (CMA) board has the power to enforce shareholders rights and to suspend resolutions of the General Assembly if they are to benefit a certain category of shareholders.

[68] World Bank, (1993), p. iii.

domestic savings abroad; and sixth, regulatory concerns based on a claim that foreign and private banks may require particular regulatory capacity.[69]

5. Concluding Remarks and Policy Implications

Although improvements associated with the liberalization of the banking system, internal governance of the Egyptian banking system still suffers from several deficiencies. The banking system in Egypt is still dominated by public banks, despite their declining market share. These public banks are characterized by weak internal governance, poor management, and lack of performance incentives. Most of these banks were not run on commercial basis and were subject to political direction in lending heavily to the public sector. Public banks tend to have a lower incentive to identify problem loans, to minimize costs, and to innovate. They are confronted with little competition, their losses are often covered by the government and they are protected from closure. Moreover, the banks' portfolios were not sufficiently diversified, and there was growth in risky assets. The portfolio condition of the seven public banks has been a source of concern for several years. The recent decline in economic growth and the decline in the exchange rate only add to these concerns.

Public banks are relatively inefficient and their performance is in general much lower than that of the private banks. They are undercapitalized, have poor asset quality, low-yielding assets, low profit margins, overstaffed, and inadequate risk management system. The performance of these public banks tends to distort the banking system and retards its development. The dominance of public banks has discouraged the development of credit-evaluation skills, and led to the problem of adverse selection. However, private ownership of banks does not guarantee good governance. They too were not saved from various sources of pressure for directed lending. There were also incidents of unsound practices and mismanagement. Insider, connected, and 'name' lending took priority over assessing risks and balancing risk with returns on investment, as a result there were some borrowers who were unable to service their debt. Continued dominance of state-ownership of banks and the poor performance of public banks has large economic costs. It could distort the financial market, creating inefficiency in the resource allocation, and weakening prospects for competitive market development. Prompt realization of the problem is crucial. Delay in taking corrective actions have ultimately experienced higher recapitalization costs.

Nevertheless, the privatization of public banks has not been on the government's priorities. Although, the legal framework has been prepared for privatization, it is clear that there is a reluctance to privatize the public banks. The focus is currently on changing the management of these banks. However, there is a concern that such an approach, which the government likes to introduce as 'privatization of management' is neither a sustainable nor an adequate remedy of the problems of the public sector banks. Beyond the accuracy and meaning of the term, such privatization of management, would, at best, help prepare these banks for privatization through the undertaking of initial reforms in addition to some cleaning up of the banks' portfolios. In the absence of an adequate incentives structure, public banks under the 'new' management may not witness a significant improvement compared to their state under the 'old' one.

Privatizing the banking sector has been considered a politically sensitive issue. The banking sector has been envisioned as "strategic" and too important to be left to the private sector. Hence, there is a general preference to retain majority ownership of banks. Privatization has always been an intensely political process; the management of public perception and transparency are as important as the financial and technical arrangements. In that respect,

[69] For further discussion of these arguments see Bahaa Eldin and Mohieldin (1998), pp. 130-131.

building public consensus in favor of the reform is crucial. It would require changing the negative public perception of the private sector and to realize the benefits of privatization.

In terms of joint venture banks, the government has not yet completed selling the public sector shares in these banks. There is a general tendency by the Egyptian government to retain majority shares in some "strategic" industries in order to act as a quasi-regulator. In very few cases has the government fully eliminated its ownership in these banks, raising questions regarding its seriousness and commitment to market-oriented governance banks. The government has recently announced a plan to privatize the remaining public sector shares in these joint venture banks. The performance of those joint venture banks that have been privatized has not significantly improved. This could be attributed to the government tendency to retain some ownership, as a result of which management and the incentive structure of these banks does not change. An anchor investors, rather than large disbursed and fragmented shareholders, will most probably provide more ownership incentives, competent management, more capital investments, know-how, and advanced technology which will in turn improve the banks' performance. The effective new corporate governance and the positive impact of the strategic investor is crucial in the creation of a more effective and healthy banking system.

Essential prerequisites for bank privatization are a stable macroeconomic condition and a competitive environment with an adequate regulatory framework, and enforcement of corporate governance rules. International experience gives evidence that implementing stabilization and structural adjustment policies and privatization programs is not a solution in itself and that economic reform measures, unaccompanied by consistent and credible policies, can be short-lived. Despite the full recognition of the importance of these prerequisites by the authorities, the pace of reform is still slow and leaves a lot to be desired.

Prior to privatization it is also essential to restructure banks and clean their portfolio from nonperforming loans, especially those outstanding to public enterprises. International experience suggests that successful privatization of the banking system requires recognition and resolution of past losses. A prompt and realistic recognition of problems and areas of vulnerability at an early stage is crucial. A thorough external audit and an accurate evaluation of assets and liabilities of banks should be undertaken before privatization. In many cases the public are unaware of the extent of the problem of nonperforming loans since they are often hidden through credit rollover or debt restructuring. Privatization is therefore likely to reveal bank insolvency, a situation that politicians are trying to avoid. If public banks in Egypt have hidden losses, covering fiscal costs will be an important part of the banks privatization process. The effectiveness of privatization also depends on the new private owners of the banks. Privatization should not just be a transfer from public sector inefficiencies to private sector incompetence. This highlights the importance of screening of bank licenses and new private bank owners.

Restructuring of public banks is a difficult and costly task, and it should be limited to banks that are viable. Options for bank restructuring include: bailout, mergers, recapitalization, and liquidation. Government bailing out troubled banks using public resources has the advantage of speed, but at a high cost and low incentive for bank managers to improve performance. Another drawback is that it creates the expectations of future bail-outs, reducing incentives for adequate risk management by banks. Mergers entail a limited fiscal cost, promote confidence in the banking system, and provide some incentive for bank performance. Mergers take more time than bailout but less time than recapitalization.

In terms of restructuring public banks in Egypt, the government has recently announced the establishment of a holding company that would be in charge of managing the portfolio of these public banks, and preparing them for privatization. However, there are two issues that should be taken into consideration. First, is that the government should benefit from the mistakes associated with the 'Banking Holding Company' that was created in the early 1960s at the peak of the nationalization and socialist era to take control of the assets of all the banks at the time. It was a short lived experience as it was perceived as a big bureaucratic entity, which did not contribute to its expected functions in funding the central national plan. Second, the government should also avoid the deficiencies and drawbacks of the holding companies that are in charge of the nonfinancial public enterprises, especially with respect to the possible conflict of interest between maximizing their portfolio, on one hand; and selling the public shares on the other.

Moreover, corporate restructuring must go hand in hand with banking reform and restructuring. In some cases there is a need to restructure corporations, in particular loss-making public enterprises to which a large portion of non-performing loans has been allocated. In this context, unsound public enterprises should be either liquidated or restructured. However, some countries may face the dilemma of preserving social stability versus restoring the soundness of the banking system. Accounting standards of enterprises in Egypt need to be rigorous enough to ensure that their creditworthiness can be assessed. Lack of discipline in these areas increases the likelihood of banking distress.

The presence of market failures combined with the externalities stemming from the unique nature of banking activities does justify government intervention in the form of prudential regulation and supervision to strengthen proper bank management and internal governance, boost market forces and correct for market failures, whenever these arise. Efforts are required to consolidate the banking system in Egypt through mergers and acquisitions, well-structured privatization program, which should be accompanied with adequate prudential regulation, and a more competitive market structure. In terms of the newly proposed capital adequacy ration of 10 percent, this could be attained in the short-run by convertible bonds and subordinated debts, and through mergers and acquisitions, and privatization in the long run.

Privatization can benefit the banking sector, only if, it contributes to improving market structure and through the generation of proceeds which can be applied to financial restructuring. Therefore, the government should move forward to privatizing the public banks and reforming the regulatory body, especially if new private banks entering the market offer improved and widened services which, in any case, would further crowd out the public sector banks. However, privatization of banks is not a panacea in itself and the ultimate objective should be a more efficient and competitive banking system. To attain the benefits of privatization it has to be accompanied by stable macroeconomic conditions and a healthy regulatory and competitive environment.

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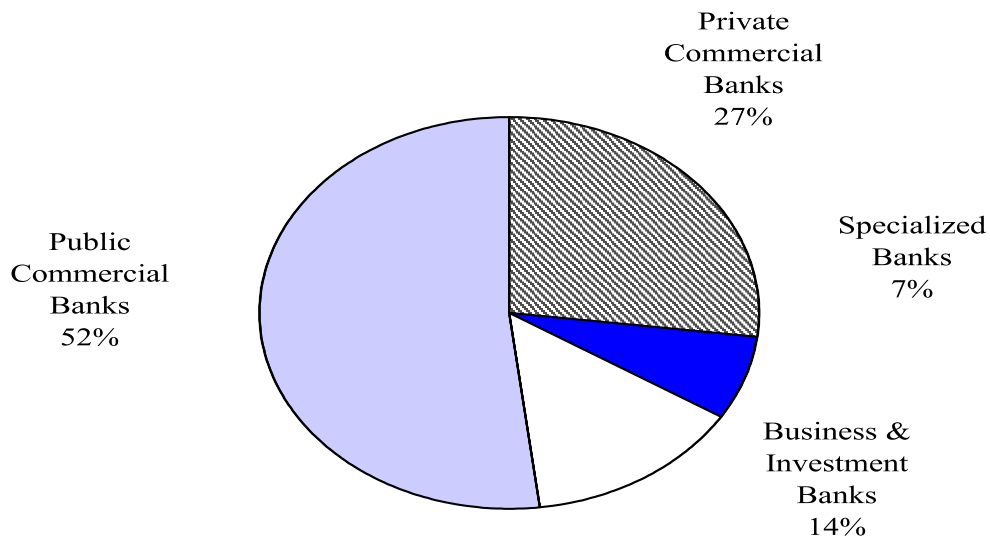
Box 1: Highlights on Main Changes Associated with the New Banking Law 88 of 2003

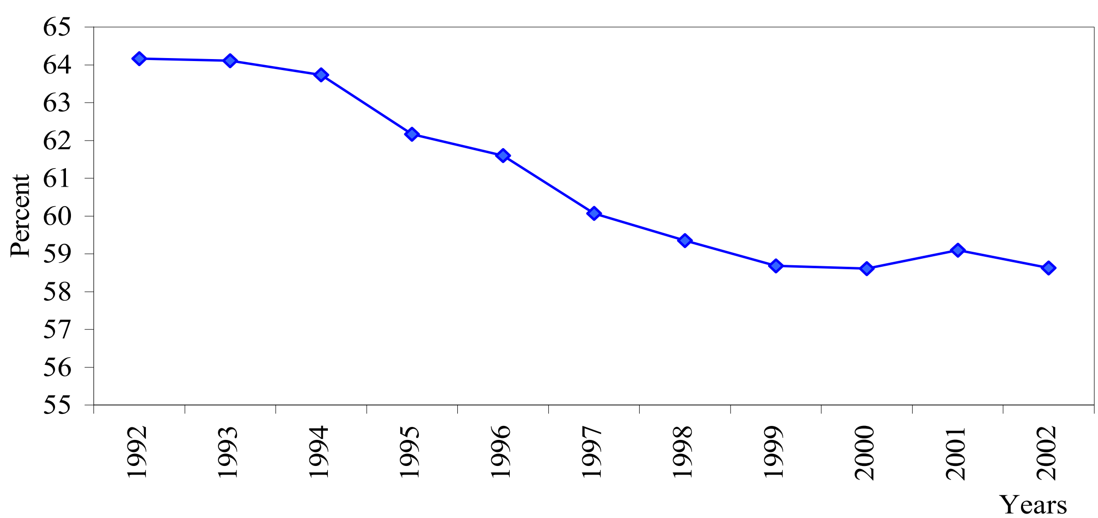
- The separation between the regulatory functions, management responsibilities and ownership rights.
- Reconfirmation of the possibility of the private sector to own shares, without limits, in public banks.
- Enhancing the powers of the board of the CBE regarding design and enforcement of prudential regulation.
- Applying corporate governance rules on all banks including the public ones, with emphasis on internal audit and control.
- Abolishing the old 'artificial' distinction between commercial, business and specialized banks.
- Increasing the minimum paid in capital to LE 500 million for domestic banks and US$ 50 million for branches of foreign banks.
- Establishing a fund, with identified resources, to provide adequate compensation for the management of public sector banks.
- Introducing the concept of connected lending and regulating it.
- Improving bank ownership rules.
- Obliging banks to disclose information on regular basis.
- Protecting the confidentiality of bank accounts.
- Establishing the principles of loan settlements and workouts.
- Revising the penalties according to the recent domestic developments and international norms.

Figure 1: Market Structure of the Banking System by Assets as of June 2002



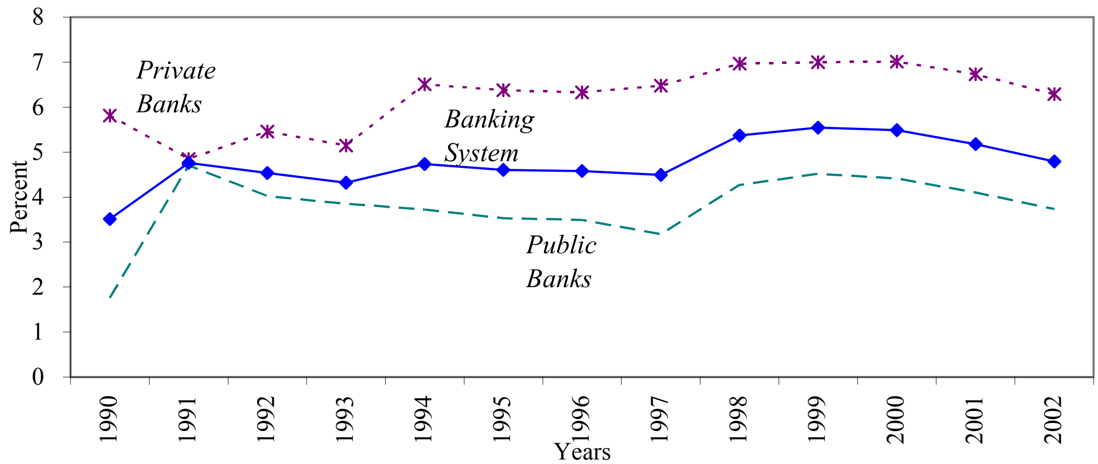
Source: Central Bank of Egypt (CBE), Annual Report (2002)

Figure 2: Public Sector Banks' Assets-to-Total Assets



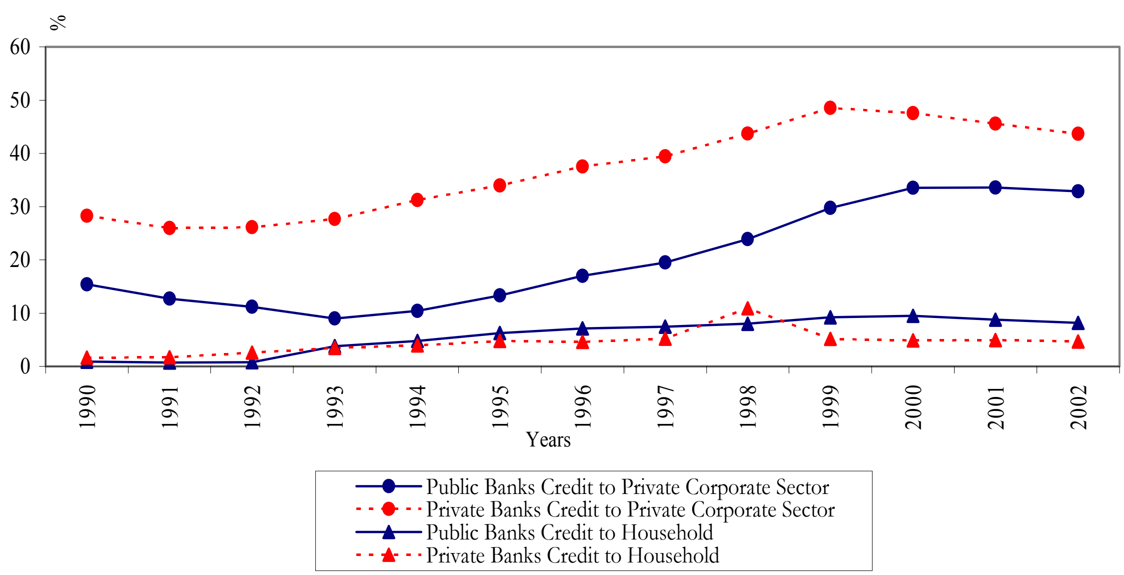
Source: CBE, Annual Report (various issues)

Figure 3: Equity-to-Assets Ratios (*non-risk weighted*)



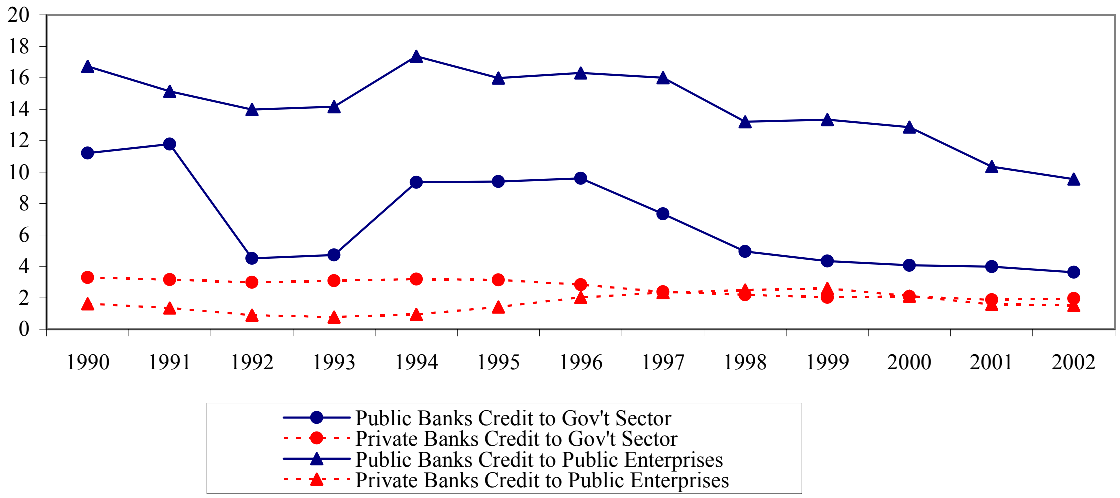
Source: CBE, Annual Report

Figure 4: Credit allocated to the Private Sector-to-Total Assets



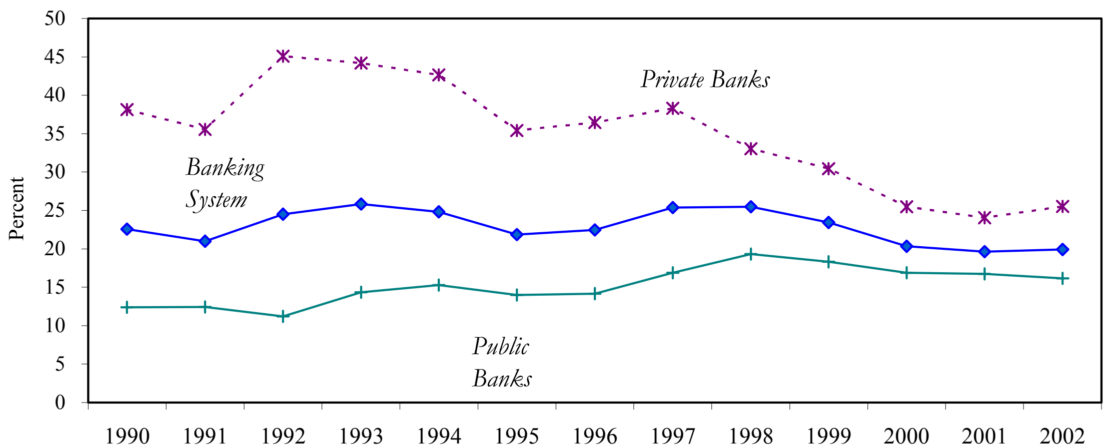
Source: CBE, Annual Reports (various issues)

Figure 5: Credit allocated to the Public Sector -to-Total Assets



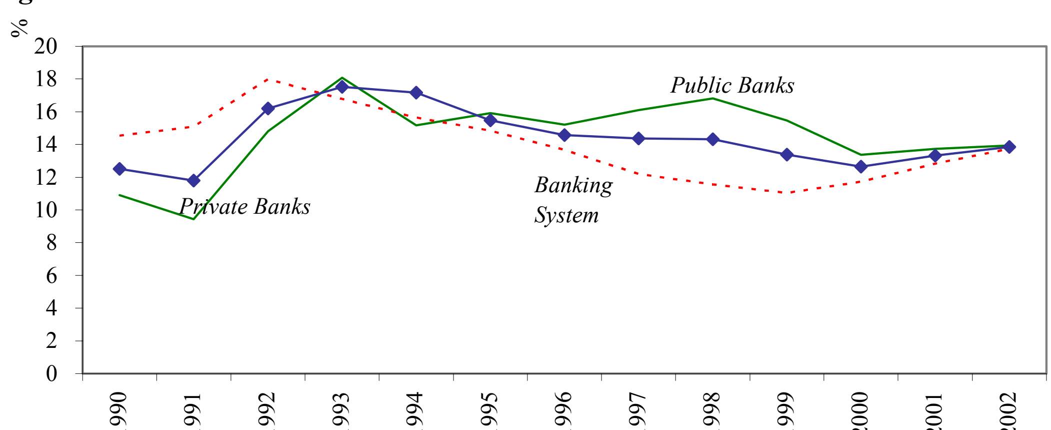
Source: CBE, Annual Report (various issues)

Figure 6: Foreign Currency-Denominated Lending-to-Total Lending



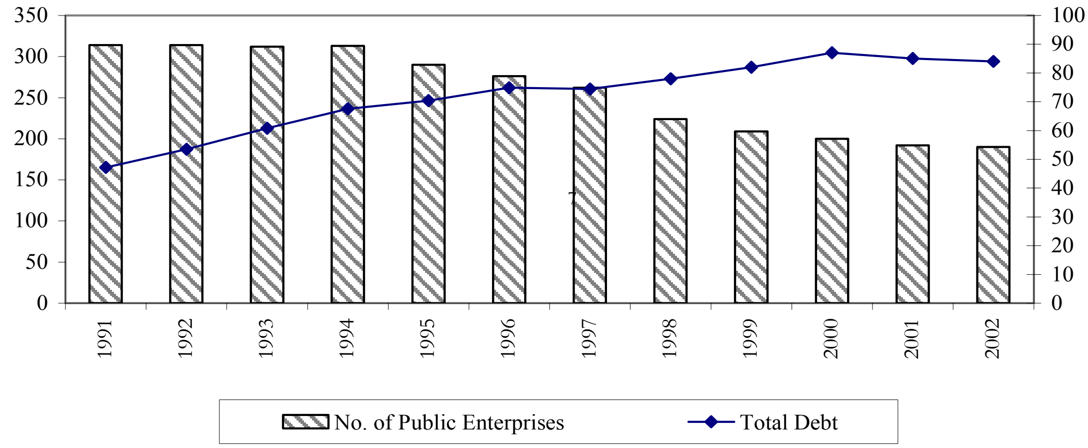
Source: CBE, Annual Report (various issues)

Figure 7: Provisions-to-Loans Ratio



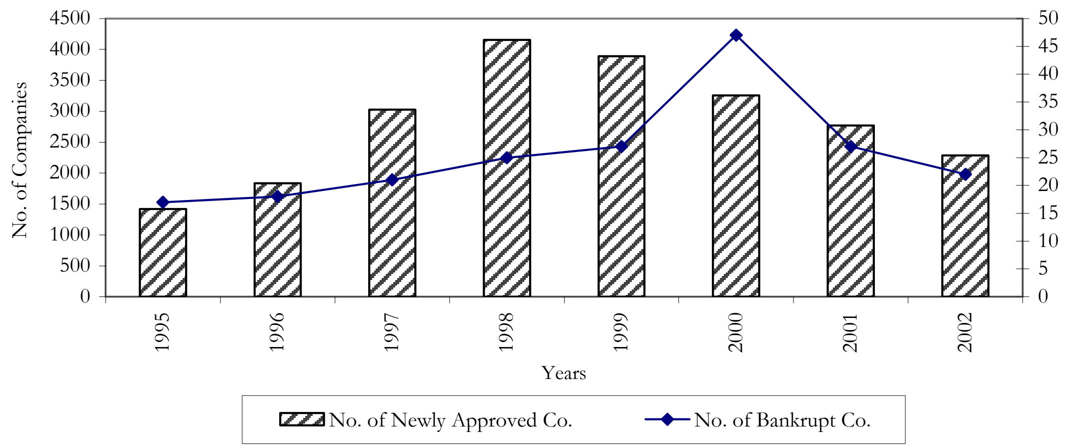
Source: CBE, Annual Report

Figure 8: Number of Public Sector Enterprises and Total Debt



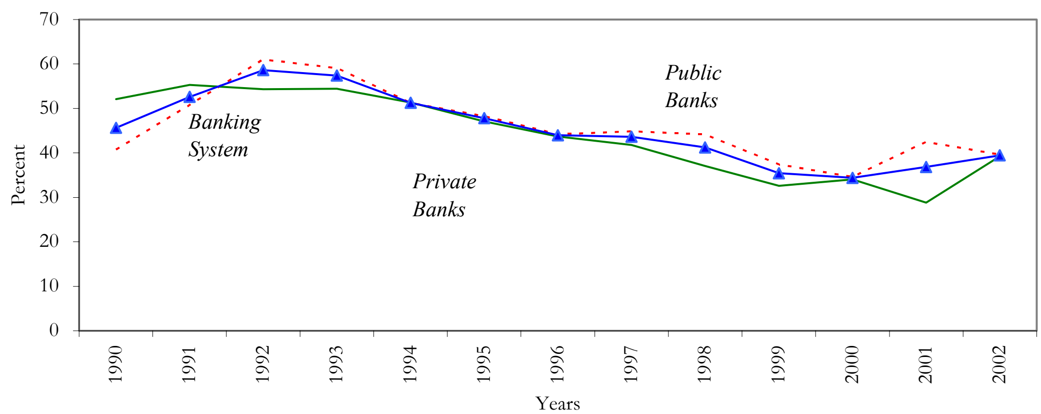
Source: Ministry of Public Enterprise Office

Figure 9: Number of Project Approvals and Cases of Bankruptcy



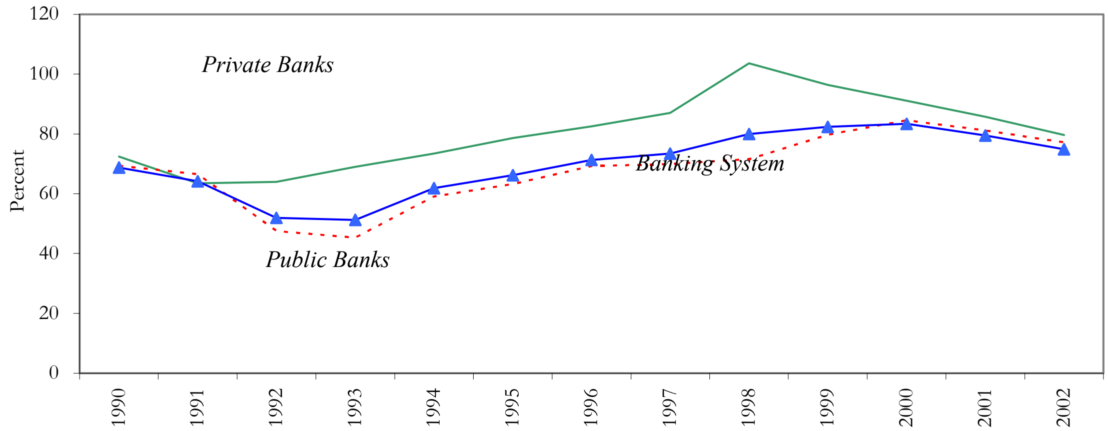
Source: General Authority for Investment (GAFI).

Figure 10: Liquidity Ratio*



Notes: * Liquidity ratio is the ratio of liquid assets (cash, interbank claims of any maturity, government bonds, and treasury bills) to total assets.
Source: CBE, Annual Report (various issues).

Figure 11: Loans-to-Deposits Ratio



Source: CBE, Annual Report (various issues).

Figure 12: Growth Rate of Loans and Deposits (Public Banks)

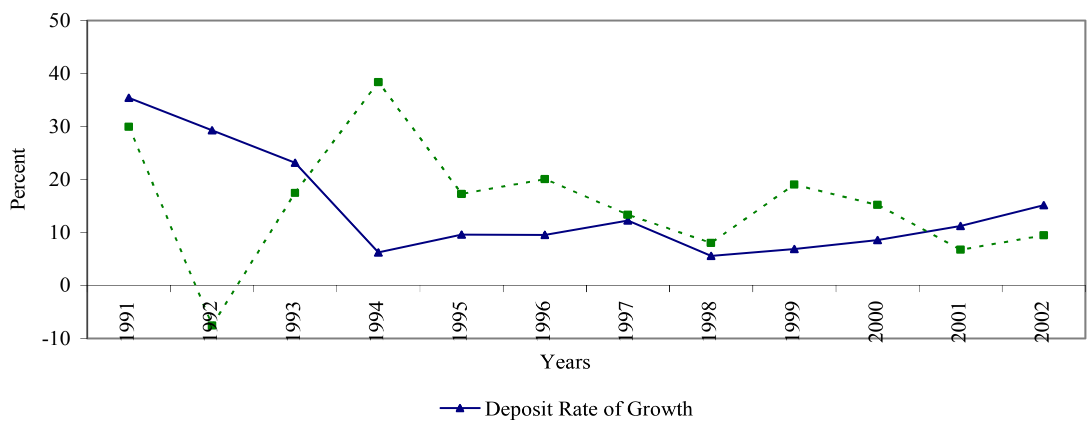
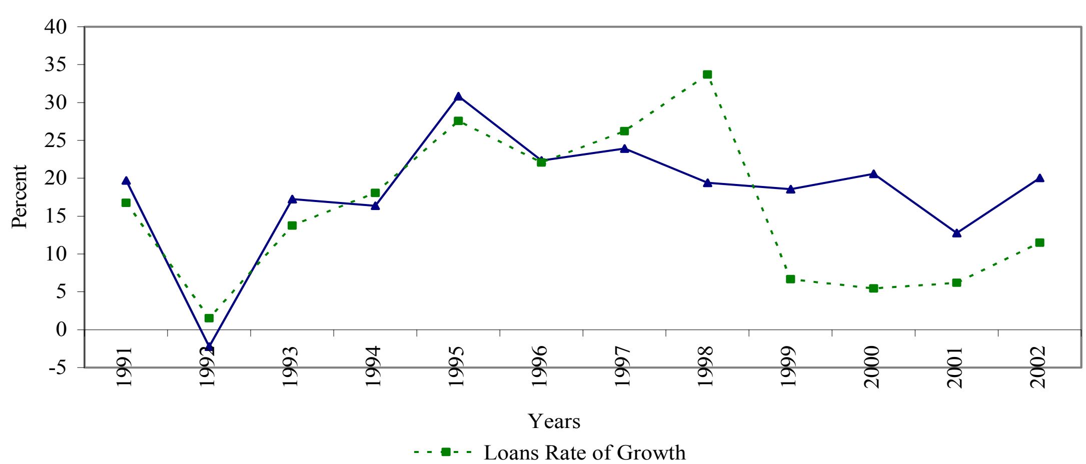
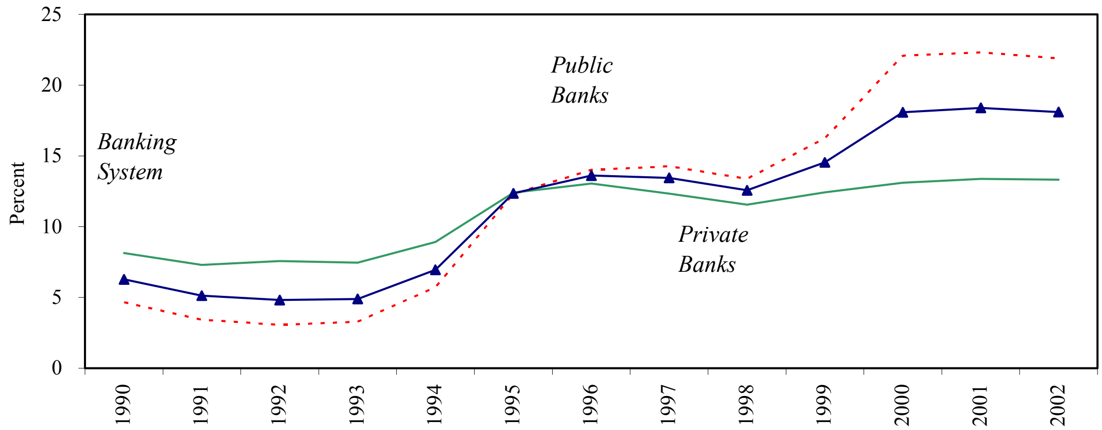


Figure 12: Growth Rate of Loans and Deposits (Private Banks)



Source: CBE, Annual Report (various issues), and "Credit and Monetary Development Report" (various issues).

Figure 13: Medium- and Long-Term Loans*-to-Total Assets



Source: CBE, Annual Report, and authors' estimates.

Table 1: Expense Ratio* (*in percent*)

	Public Banks	Private Banks
1998	75.99	67.41
1999	78.78	73.72
2000	82.99	81.78
2001	84.02	87.65
2002	86.23	92.13

Notes: * Calculated as the ratio of expenses-to-total revenue.
Source: CBE.

Table 2: Earnings per Employee (*LE million*)

	Public Banks	Private Banks
1998	16.32	22.79
1999	18.35	25.21
2000	20.82	28.49
2001	20.45	28.98
2002	19.81	29.14

Table 3: Profitability Indicators (*in percent*)

	Return on Assets*		Return on Equity**	
Year	Public Banks	Private Banks	Public Banks	Private Banks
1994	0.20	1.70	4.10	28.00
1995	0.20	1.72	5.10	21.49
1996	0.25	1.65	5.87	20.19
1997	0.37	1.96	7.83	20.12
1998	0.42	2.03	9.27	19.04
1999	0.43	1.50	10.37	20.35
2000	0.51	1.46	13.48	20.38
2001	0.42	1.40	12.65	18.42
2002	0.38	1.35	10.86	16.02

Notes: * Calculated as net profit after taxes divided by total assets. ** Calculated as net profit after tax divided by equity.
Source: CBE.

Table 4: Interbank Participation* (*in percent*)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Banks	36.30	33.72	35.97	13.92	16.59	10.09	13.39	10.17	18.95	25.62	29.56	24.58	21.72
Private Banks	63.70	66.28	64.03	86.08	83.41	89.91	86.61	89.83	81.05	74.38	70.44	75.42	78.28

Source: CBE, Annual Reports (various issues).

Table 5: Composite Index on for Banking Soundness

Year	Public banks	Private banks
1990	-22.19	13.85
1991	-18.01	15.12
1992	-26.22	9.22
1993	-23.23	12.86
1994	-14.38	18.30
1995	-11.54	25.46
1996	-6.54	30.23
1997	-3.77	35.50
1998	-2.60	46.20
1999	2.43	51.57
2000	-0.82	43.72

Source: Authors' calculation.

Annex 1: Microprudential Indicators of the Banking System in Egypt (1990-2002)

Table A1.1: Banking System Credit and Deposits (LE billion)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total Credit	49	61	58	68	88	107	129	152	179	204	227	241	260
Government	9	13	7	8	15	17	18	16	13	12	12	13	14
Public Enterprises	12	15	16	19	24	25	28	32	29	31	32	29	32
Private Enterprises	24	28	29	31	38	50	65	83	105	132	151	165	178
Households	1	2	2	7	9	13	16	20	30	26	29	31	32
Total Deposits	69	93	110	129	139	157	175	201	216	237	260	290	319
Government	6	11	16	20	18	21	27	29	32	32	38	42	46
Public Enterprises	9	11	11	12	14	17	18	20	17	16	15	16	15
Private Enterprises	11	14	13	14	17	20	23	32	36	43	45	46	48
Households	40	55	67	80	89	96	105	118	129	144	161	186	198

Source: CBE, Annual Reports (various issues).

Table A1.2: Ownership Structure of the Banking System

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of Banks													
Public Commercial Banks	4	4	4	4	4	4	4	4	4	4	4	4	4
Specialized Public Banks	4	4	4	4	4	4	4	4	4	4	4	3	3
Private Commercial & J.V. Banks	40	40	40	26	24	24	24	24	24	24	24	24	24
Business & Investment Banks	11	11	11	11	11	11	11	11	11	11	11	11	11
Branches of Foreign Banks	22	22	22	21	21	21	21	21	20	20	20	20	20
Number of Branches													
Public Commercial Banks	656	663	772	811	831	851	866	883	908	918	913	921	921
Specialized Public Banks	909	936	976	959	963	993	1,002	1,012	1,031	1,043	1,069	1,071	1,071
Private Commercial & J.V. Banks	221	251	254	253	261	273	288	298	312	323	340	367	367
Business & Investment Banks	43	45	74	74	80	86	88	90	98	105	112	126	126
Branches of Foreign Banks	45	45	45	36	39	38	41	42	42	45	47	51	51

Source: CBE, Annual Reports (various issues).

Table A1.3: Banking System Distribution of Assets, Loans and Deposits (in percent)

Assets	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Banks	56.82	59.38	63.85	64.03	63.69	62.25	61.58	60.07	59.26	58.58	58.56	59.04	58.57
Public Commercial Banks	49.31	52.55	57.00	58.23	57.83	56.69	55.71	54.04	52.78	51.59	51.69	52.20	51.95
Public Specialized Banks	7.51	6.83	6.85	5.80	5.86	5.56	5.87	6.03	6.48	6.99	6.87	6.84	6.62
Private Banks	43.18	40.62	36.15	35.97	36.32	37.75	38.43	39.93	40.75	41.42	41.44	40.96	41.42
Private Commercial Banks	25.26	24.30	22.66	21.96	23.14	23.42	24.12	26.04	26.42	27.05	26.95	26.79	26.87
Business & Investment Banks	17.92	16.32	13.50	14.01	13.18	14.33	14.30	13.89	14.33	14.37	14.49	14.17	14.55
Loans													
Public Banks	61.31	63.36	61.84	61.49	60.51	63.28	62.87	60.34	57.53	57.99	59.99	60.11	59.67
Public Commercial Banks	48.62	51.43	48.74	49.66	50.57	53.23	53.07	50.04	46.99	47.34	49.40	49.16	48.77
Public Specialized Banks	12.69	11.93	13.10	11.83	9.94	10.05	9.80	10.30	10.54	10.65	10.59	10.95	10.90
Private Banks	38.46	36.54	37.87	38.51	38.44	36.73	37.12	39.66	42.47	42.01	40.01	39.89	40.33
Private Commercial Banks	22.22	20.52	22.23	23.74	24.18	23.46	24.16	26.61	28.62	28.07	26.57	26.46	26.23
Business & Investment Banks	16.24	16.02	15.64	14.76	14.27	13.27	12.96	13.04	13.85	13.94	13.44	13.43	14.10
Deposits													
Public Banks	61.48	61.86	67.58	70.87	69.95	68.18	66.86	65.44	64.02	62.40	61.75	61.42	60.43
Public Commercial Banks	58.95	59.97	65.66	68.94	67.47	65.31	63.51	62.16	60.08	57.96	57.34	57.06	56.11
Public Specialized Banks	2.53	1.89	1.92	1.93	2.48	2.87	3.35	3.28	3.94	4.44	4.41	4.36	4.32
Private Banks	38.52	38.14	32.42	29.13	30.05	31.82	33.14	34.57	35.98	37.61	38.26	38.58	39.57
Private Commercial Banks	27.27	27.75	24.34	21.97	22.79	23.20	24.00	25.66	26.59	27.06	26.72	26.91	27.20
Business & Investment Banks	11.25	10.39	8.09	7.16	7.26	8.62	9.14	8.90	9.39	10.55	11.54	11.67	12.37

Table A1.4: Number of Banking Units and Density for Selected Years per Governorate

	End of June 1990			End of June 1995			End of June 2002		
Governorate	Population (million)	banking units*	Banking density**	Population (million)	banking units	Banking density	Population (million)	banking units	Banking density
Cairo	6.4	285	0.45	7.2	373	0.52	7.4	439	0.59
Alexandria	3.2	115	0.36	3.7	137	0.37	3.6	155	0.43
Port-Said	0.5	26	0.52	0.5	32	0.64	0.5	35	0.70
Suez	0.4	17	0.43	0.4	22	0.55	0.4	20	0.50
Ismailia	0.6	29	0.48	0.6	34	0.57	0.8	46	0.58
Beheira	3.6	124	0.34	4.1	122	0.30	4.4	126	0.29
Damietta	0.8	34	0.43	1.8	42	0.23	1.0	49	0.49
Kafr El Sheikh	2.0	79	0.40	2.1	83	0.40	2.4	91	0.38
Gharbieh	3.1	107	0.35	3.6	112	0.31	3.7	114	0.31
Dakahlia	3.8	123	0.32	4.3	132	0.31	4.6	141	0.31
El Sharkia	3.8	139	0.37	4.3	150	0.35	4.7	165	0.35
El Monoufiah	2.4	74	0.31	2.6	82	0.32	3.0	89	0.30
Qaliubiya	2.9	76	0.26	3.2	83	0.26	3.6	85	0.24
Giza	4.3	115	0.27	4.6	159	0.35	5.2	203	0.39
Fayoum	1.7	51	0.30	1.8	63	0.35	2.2	67	0.30
Beni Souef	1.6	53	0.33	1.7	56	0.33	2.1	62	0.30
Menia	2.9	109	0.38	3.4	116	0.34	3.6	119	0.33
Assiout	2.4	82	0.34	2.9	86	0.30	3.1	103	0.33
Sohag	2.7	96	0.36	3.1	98	0.32	3.4	105	0.31
Kena	2.5	88	0.35	3.0	104	0.35	3.1	109	0.35
Aswan	0.9	38	0.42	0.9	48	0.53	1.1	53	0.48
Red Sea	0.1	10	1.00	0.1	22	2.20	0.2	25	1.25
El Wadi El Gedid	0.1	14	1.40	0.1	16	1.60	0.1	8	0.80
Matrouh	0.2	7	0.35	0.2	6	0.30	0.2	7	0.35
North & South Sinai	0.2	35	1.75	0.3	45	1.50	0.3	48	1.60
Total	53.1	1,926	0.36	59.5	2,223	0.37	64.6	2,464	0.38

Notes: * Including the head office and branches. ** Ten thousand individual per banking unit.

Source: Compiled by the author from Central Bank of Egypt, Economic Bulletin, and Central Agency for Public Mobilization and Statistical (CAPMAS), Yearbooks, (various issues).

Table A1.5: Equity-to-Assets Ratio (non-risk weighted) (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	1.76	4.70	4.02	3.85	3.73	3.53	3.50	3.18	4.27	4.52	4.41	4.10	3.74
Public Commercial Banks	1.29	4.53	3.87	3.67	3.55	3.36	3.22	2.94	3.75	3.94	3.89	3.65	3.35
Public Specialized Banks	4.82	6.00	5.26	5.65	5.42	5.24	6.14	5.27	8.48	8.79	8.33	7.55	6.83
Private and JV Banks	5.81	4.85	5.46	5.15	6.51	6.38	6.33	6.48	6.97	7.00	7.01	6.73	6.29
Private Commercial Banks	5.29	4.66	5.07	4.87	6.02	6.08	5.87	5.81	6.80	6.89	7.05	6.67	6.14
Business & Inv Banks	6.54	5.14	6.10	5.58	7.37	6.87	7.10	7.72	7.28	7.20	6.95	6.86	6.57
Banking System	3.51	4.76	4.54	4.32	4.74	4.61	4.58	4.49	5.37	5.55	5.49	5.18	4.80

Table A1.6: Private Sector Loans-to-Assets (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	15.38	12.72	11.16	8.97	10.39	13.30	16.96	19.52	23.88	29.73	33.53	33.61	32.89
Public Commercial Banks	9.99	7.91	7.04	8.06	9.51	12.46	16.26	18.59	23.03	28.96	33.10	32.91	32.04
Public Specialized Banks	50.75	49.77	45.41	18.17	19.08	21.87	23.59	27.91	30.88	35.35	36.76	38.99	39.49
Private and JV Banks	28.27	25.98	26.16	27.69	31.26	33.96	37.51	39.45	43.72	48.57	47.58	45.59	43.68
Private Commercial Banks	32.51	29.06	27.36	30.96	33.09	36.79	40.15	42.11	46.98	51.54	50.13	47.62	45.36
Business & Inv Banks	22.28	21.40	24.15	22.57	28.03	29.33	33.07	34.47	37.71	43.00	42.83	41.76	40.58
Banking System	19.48	16.95	15.52	14.85	16.97	19.98	23.48	25.92	30.02	35.08	36.82	36.05	35.04

Table A1.7: Household Sector Loans-to-Assets (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	0.90	0.70	0.74	3.79	4.76	6.25	7.10	7.47	8.01	9.20	9.50	8.74	8.17
Public Commercial Banks	0.65	0.50	0.56	0.77	1.72	3.08	3.58	3.66	4.00	4.79	4.71	4.27	3.91
Public Specialized Banks	2.53	2.25	2.25	34.09	34.76	38.57	40.59	41.59	40.67	41.70	45.55	42.88	41.59
Private and JV Banks	1.62	1.69	2.59	3.44	3.92	4.77	4.62	5.19	10.90	5.15	4.89	4.92	4.67
Private Commercial Banks	1.78	1.74	2.68	3.86	4.22	5.54	5.49	5.99	6.25	5.56	5.06	5.01	4.53
Business & Inv Banks	1.40	1.61	2.46	2.77	3.41	3.51	3.16	3.69	19.48	4.37	4.58	4.76	4.92
Banking System	1.12	1.03	1.32	3.46	4.21	5.39	5.81	6.19	8.63	7.03	7.10	6.72	6.30

Table A1.8: Government Sector Loans-to-Assets (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	11.20	11.79	4.51	4.73	9.35	9.41	9.60	7.34	4.94	4.34	4.06	3.98	3.63
Public Commercial Banks	10.22	11.24	3.14	3.47	8.58	8.30	8.67	6.30	3.88	3.38	3.40	3.58	3.28
Public Specialized Banks	17.68	11.43	12.07	11.22	11.44	11.99	12.59	13.00	13.53	14.93	15.16	15.05	14.15
Private and JV Banks	3.30	3.15	2.99	3.08	3.19	3.15	2.84	2.39	2.19	2.02	2.09	1.88	1.96
Private Commercial Banks	0.10	0.16	0.13	0.23	0.31	0.51	0.68	0.62	0.56	0.49	0.68	0.52	0.80
Business & Inv Banks	7.80	7.60	7.80	7.56	8.26	7.46	6.48	5.70	5.19	4.89	4.71	4.45	4.10
Banking System	7.24	7.75	3.70	3.91	6.72	6.67	6.61	5.06	3.59	3.16	3.03	2.92	2.75

Table A1.9: Public Sector Loans-to-Assets (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	16.73	15.14	13.97	14.16	17.37	15.98	16.30	16.00	13.20	13.34	12.85	10.35	9.56
Public Commercial Banks	19.26	17.10	15.64	15.56	19.12	17.54	18.02	17.78	14.82	15.14	14.56	11.55	10.65
Public Specialized Banks	0.11	0.00	0.08	0.09	0.08	0.08	0.00	0.00	0.00	0.00	0.00	1.19	1.01
Private and JV Banks	1.62	1.35	0.90	0.77	0.95	1.41	2.02	2.32	2.50	2.60	2.10	1.58	1.52
Private Commercial Banks	32.51	29.06	27.36	30.96	33.09	36.79	40.15	42.11	46.98	51.54	50.13	47.62	45.36
Business & Inv Banks	1.97	1.69	0.59	0.29	0.47	0.97	1.77	3.05	3.60	3.66	2.71	1.80	2.07
Banking System	9.49	8.93	8.65	8.83	10.78	9.93	10.22	9.94	8.30	8.31	7.86	6.32	5.84

Table A1.10: Foreign Currency-Denominated Lending as a Percent of Total Loans (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	12.38	12.43	11.21	14.34	15.28	13.99	14.18	16.88	19.34	18.32	16.88	16.73	16.15
Public Commercial Banks	13.40	13.66	11.96	15.97	16.70	15.54	15.88	19.58	22.99	21.86	20.00	19.99	19.31
Public Specialized Banks	8.56	7.16	8.52	7.50	7.41	5.79	4.99	3.76	3.03	2.62	2.33	2.12	2.00
Private and JV Banks	38.13	35.55	45.08	44.18	42.66	35.41	36.45	38.29	33.03	30.44	25.49	24.05	25.53
Private Commercial Banks	25.35	22.03	37.05	39.80	39.73	30.67	32.74	34.81	32.30	27.35	23.10	23.39	25.84
Business & Inv Banks	53.87	52.07	55.04	51.20	47.63	43.79	43.35	45.39	34.18	36.69	30.22	25.35	24.95
Banking System	22.57	20.99	24.51	25.82	24.81	21.86	22.45	25.37	25.48	23.43	20.32	19.65	19.93

Table A1.11: Provisions-to-Loans Ratios (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	10.14	9.22	13.67	16.67	14.46	14.81	14.04	14.57	15.05	13.98	12.35	12.95	13.25
Public Commercial Banks	10.90	9.44	14.81	18.08	18.33	15.91	15.21	16.10	16.83	15.46	13.37	13.73	13.94
Public Specialized Banks	7.27	8.26	9.57	10.75	10.49	8.96	7.68	7.14	7.15	7.22	7.58	9.49	10.16
Private and JV Banks	14.54	15.10	17.99	16.79	15.64	14.84	13.68	12.20	11.56	11.04	11.73	12.83	13.74
Private Commercial Banks	13.43	14.61	16.82	15.14	14.35	13.19	12.15	10.77	10.54	10.49	11.20	12.42	13.46
Business & Inv Banks	16.07	15.72	19.64	19.44	17.82	17.74	16.53	15.11	13.66	12.16	12.76	13.63	14.27
Banking System	11.62	11.28	14.96	16.72	14.87	14.82	13.90	13.63	13.00	12.73	12.10	12.90	13.45

Table A1.12: Indicators of Public Enterprises Financial Performance In billion of Egyptian pounds, unless otherwise specified

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Operating revenues	36.7	44.07	48.89	50.38	52.38	55.45	55.08	58.94	46.57	33.84	32.98	32.64	29.61
Other revenues	4.5	5.84	6.76	6.65	7.11	7.48	4.3	NA	NA	NA	NA	5.19	3.85
Wages and salaries	4	4.47	4.75	5.16	5.5	5.79	6.07	6.03	4.13	4.89	NA	NA	NA
Earnings before interest & tax	NA	4.65	6.28	7.49	8.45	9.06	9.8	6.7	5.69	7.15	4.57	2.5	2.9
Interest	1.8	2.17	3.33	4.02	4.22	4.07	4.14	4.13	NA	NA	NA	2.95	2.6
Profits of profitable companies[1]	1.5	1.78	2.12	2.51	3.12	3.56	3.94	4.34	3.73	3.68	3.15	2.34	2.23
Losses of losing companies	-0.3	-0.59	-1.62	-2.47	-2.39	-2.45	-3.29	-2.51	-2.08	-1.6	-1.9	-2.7	-2.3
Net profits	1.2	1.2	0.5	0.04	0.73	1.11	0.65	1.55	1.66	3.54	NA	NA	NA
Net profit margin (%)	NA	NA	1	0.1	1.4	2.1	1.2	4.3	5.4	8.1	NA	NA	NA
Return on investment (%)	NA	NA	NA	0.05	0.86	1.26	0.72	1.63	3.09	3.29	NA	NA	NA
No. of profitable companies	260	254	224	204	214	202	184	180	165	168	150	116	117
No. of losing companies	54	60	90	108	99	88	92	82	59	41	50	62	62
No. of Co. left under Law 203	314	314	314	312	313	290	276	262	224	209	200	178	179
Carried loss balances[2]	-2	-2.37	-3.91	-6.17	-7.89	-9.76	-12	-13.28	-15.36	-10.28	NA	NA	NA
Net assets	NA	62.53	69.56	76.73	84.85	88.28	90.27	94.86	53.57	63.1	62.1	60.4	62.5
Total debt	NA	47.13	53.5	60.79	67.58	70.4	74.88	74.37	NA	NA	NA	27.92	24.94
Net equity	NA	10.73	10.65	9.91	9.45	10.14	8.59	12.02	NA	NA	NA	NA	NA

Source: Compiled by the author from the Public Enterprise Office. It should be noted that these are figures for companies under Law 203 and that this base number is decreasing with time, and hence comparing figures may be somewhat misleading.

1 Profitable companies are those which achieve a return on sales of 10% or more.

2 It should be noted that even in cases where a profitable company has an outstanding historical balance of carried losses, and is at present making profits it tends to allocate only a very small percentage of its profit to reducing its loss balance.

Table A1.13: Loans-to-Assets Ratio (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	44.75	41.27	31.71	32.75	42.77	45.79	50.39	50.62	50.80	57.32	60.76	57.41	54.76
Public Commercial Banks	40.75	37.79	27.86	29.08	39.92	42.30	47.00	46.66	46.58	53.10	56.68	53.11	50.46
Public Specialized Banks	71.07	68.04	63.69	69.57	70.90	81.32	82.55	86.15	85.15	88.45	91.40	90.30	88.48
Private and JV Banks	38.55	35.48	36.18	36.47	40.04	43.84	47.66	50.04	60.08	59.09	57.27	54.92	52.32
Private Commercial Banks	36.37	32.61	31.95	36.82	39.56	45.13	49.40	51.49	56.69	60.55	58.49	55.70	52.45
Business & Inv Banks	41.63	39.75	43.26	35.93	40.89	41.75	44.71	47.32	66.33	56.35	55.02	53.44	52.09
Banking System	39.14	36.43	31.19	32.22	39.47	42.68	46.61	47.52	51.26	54.26	55.50	52.78	50.41

Table A1.14 Loans-to-Equity Ratios (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	1482	791	689	780	935	1038	1187	1245	1047	1123	1152	1155	1190
Public Commercial Banks	3147	834	719	792	1123	1258	1461	1586	1241	1347	1457	1455	1508
Public Specialized Banks	687	700	630	756	657	742	841	886	834	879	830	836	855
Private and JV Banks	636	774	709	644	555	608	630	613	911	782	792	780	792
Private Commercial Banks	663	731	663	709	615	687	753	773	862	845	817	816	832
Business & Inv Banks	1474	1134	1211	1231	1309	1552	1344	1633	1004	1006	1097	1197	1296
Banking System	2541	878	788	850	1148	1297	1441	1594	1189	1268	1377	1400	1465

Table A1.15: Number of Projects Approved and Cases of Bankruptcy

	1995	1996	1997	1998	1999	2000	2001	2002
No. of Bankrupt Co.	17	18	21	25	27	47	27	22
No. of Newly Approved Co.	1,416	1,835	3,027	4,156	3,893	3,258	2,772	2,286

Source: General Authority for Investment (GAFI).

Table A1.16: Liquidity Ratio[3] (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	40.72	50.78	61.05	59.08	51.22	48.28	44.18	44.89	44.15	37.42	34.61	42.46	39.60
Private and JV Banks	52.12	55.27	54.33	54.43	51.34	47.08	43.69	41.79	37.07	32.59	34.04	28.79	39.21
Banking System	45.65	52.61	58.62	57.41	51.26	47.83	43.99	43.65	41.26	35.42	34.37	36.86	39.44

Table A1.17: Loans-to-Deposits Ratio (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	69.33	66.52	47.55	45.34	59.07	63.21	69.29	69.97	71.58	79.73	84.60	81.19	77.15
Public Commercial Banks	57.13	55.61	38.39	37.64	51.90	55.51	61.58	61.08	62.29	70.03	75.02	71.47	67.90
Public Specialized Banks	353.7	412.5	361.6	320.0	254.2	238.5	215.5	238.7	213.3	206.5	209.2	208.4	197.3
Private and JV Banks	72.4	63.5	64.0	69.0	73.4	78.6	82.5	87.0	103.6	96.4	91.1	85.8	79.6
Private Commercial Banks	56.47	47.97	47.22	56.38	60.92	68.86	74.15	78.69	85.74	89.66	86.61	81.56	75.34
Business & Inv Banks	111.18	104.8	114.5	107.7	112.6	104.9	104.5	111.4	154.1	113.7	101.4	95.41	89.07
Banking System	68.8	64.1	51.9	51.2	61.8	66.2	71.3	73.5	79.9	82.4	83.4	79.5	74.9

3 Liquidity Ratio is the ratio of liquid assets (cash, Inter Bank claims of any maturity, government bonds & treasury bills) to total assets.

Table A1.18: Rate of Growth of Deposits (in percent)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	35.42	29.30	23.16	6.21	9.60	9.54	12.26	5.59	6.86	8.58	11.23	15.17
Public Commercial Banks	36.91	29.60	23.29	5.31	8.85	8.62	12.26	4.32	5.77	8.55	11.28	15.11
Public Specialized Banks	0.57	19.89	18.48	38.00	30.14	30.51	12.12	29.68	23.59	9.02	10.54	16.00
Private and JV Banks	19.70	(2.22)	17.25	16.37	30.82	22.34	23.91	19.40	18.57	20.59	12.78	20.03
Private Commercial Banks	16.34	2.18	26.62	20.59	29.38	24.43	30.14	21.85	16.68	20.84	12.63	18.29
Business & Inv Banks	24.29	(7.86)	3.93	9.07	33.56	18.46	11.76	13.83	23.17	20.01	13.11	24.07
Banking System	23.87	(3.53)	16.06	30.82	21.20	21.21	17.86	18.67	13.94	10.99	6.71	10.53

Table A1.19: Rate of Growth of Loans (in percent)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	29.92	(7.57)	17.43	38.37	17.28	20.09	13.36	8.01	19.03	15.22	6.74	9.43
Public Commercial Banks	33.28	(10.53)	20.89	45.22	16.41	20.49	11.36	6.40	18.90	16.29	6.02	9.36
Public Specialized Banks	17.29	5.10	4.85	9.62	22.12	17.93	24.15	15.88	19.65	10.49	10.12	9.79
Private and JV Banks	16.74	1.51	13.73	18.07	27.55	22.08	26.20	33.69	6.67	5.44	6.18	11.47
Private Commercial Banks	16.34	2.18	26.62	20.59	29.38	24.43	30.14	21.85	16.68	4.65	6.07	9.26
Business & Inv Banks	17.23	0.69	(2.25)	14.03	24.43	17.94	18.86	57.83	(9.10)	7.02	6.40	15.82
Banking System	24.70	(4.21)	15.98	30.56	20.85	20.82	18.12	18.20	13.49	11.10	6.52	10.25

Table A1.20: Central Bank Credit to Banks-to-Liabilities (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	2.63	3.19	2.70	4.92	5.26	5.85	5.53	5.24	5.22	1.94	2.41	2.36	2.28
Public Commercial Banks	0.33	1.45	1.12	3.63	4.14	4.85	4.65	4.35	4.39	0.74	1.27	1.18	1.26
Public Specialized Banks	17.68	16.59	15.86	17.91	16.25	16.02	13.92	13.19	11.95	10.78	10.96	11.37	10.24
Private and JV Banks	8.81	8.83	8.26	11.76	9.30	8.47	7.65	6.58	4.24	3.56	3.50	2.66	2.39
Private Commercial Banks	2.15	1.61	1.59	2.27	2.37	2.54	2.83	2.48	1.53	1.15	1.82	1.18	1.22
Business & Inv Banks	18.19	19.60	19.45	26.64	21.45	18.16	15.80	14.28	9.23	8.09	6.61	5.47	4.55
Banking System	5.30	5.48	4.71	7.38	6.72	6.84	6.35	5.77	4.82	2.61	2.86	2.48	2.28

Table A1.21: Banks' Liabilities to Foreign Correspondents-to-Total Liabilities (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	9.36	9.52	6.45	2.04	1.10	0.52	0.60	0.73	1.68	2.30	2.64	2.69	2.42
Private and JV Banks	11.21	7.69	6.68	7.27	5.73	4.08	4.18	10.44	15.12	11.76	7.36	6.73	5.77
Private Commercial Banks	2.60	1.26	0.96	1.33	0.74	0.81	1.37	3.38	2.58	2.62	1.31	2.43	2.28
Business & Inv Banks	8.61	6.43	5.72	5.94	4.99	3.27	2.81	7.06	12.53	9.14	6.05	4.30	3.49
Banking System	15.68	13.34	10.61	7.78	5.99	3.88	3.65	8.65	14.52	11.55	8.23	6.90	5.87

Table A1.22: Medium- and Long-Term Loans-to-Total Assets (in percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks	4.65	3.43	3.06	3.29	5.70	12.31	14.01	14.28	13.37	16.25	22.08	22.31	21.90
Private and JV Banks	8.13	7.31	7.57	7.46	8.93	12.41	13.05	12.33	11.55	12.42	13.10	13.38	13.33
Private Commercial Banks	3.89	3.18	3.30	3.74	6.11	12.78	13.86	12.70	11.39	11.90	13.03	13.64	13.44
Business & Inv Banks	14.10	13.45	14.75	13.28	13.87	11.82	11.67	11.66	11.84	13.40	13.23	12.90	13.13
Banking System	6.28	5.12	4.81	4.88	6.95	12.35	13.62	13.45	12.58	14.54	18.08	18.39	18.10

Source: CBE and author's estimates, unless otherwise specified.

Table A1.23: Capital Structure of Joint Venture Banks as of 2002

Joint Venture Bank	National Bank of Egypt	Banque Misr	Banque du Caire	Bank of Alexandria	Total Public Banks	Other Public Entities*	Total Public Share
Alexandria Commercial & Maritime Bank			5.0		5.0	52.2	57.2
Banque du Caire et de Paris			22.0		22.0		22.0
Cairo Barclays International Bank			40.0		40.0		40.0
Cairo Far East Bank			29.0		29.0	20.0	49.0
Commercial Arab Bank				9.8	9.8		9.8
Commercial International Bank (CIB)	19.6				19.6		19.6
Credit Internationale d'Egypte							0.0
Egypt Arab African Bank						0.7	0.7
Egyptian American Bank (EAB)				35.3	35.3		35.3
Egyptian Gulf Bank			0.0		0.0	24.4	24.4
Egyptian Saudi Finance Bank	7.7		8.5	7.4	23.6	12.7	36.3
Trade and Development Bank	17.0	16.0	16.5	9.7	59.2	27.2	86.5
Export Development Bank	11.5	11.5	11.5	10.1	44.5	40.0	84.5
Housing & Development Bank					0.0	62.5	62.5
Islamic Bank for Investment & Development	20.0	20.0	20.0	20.0	80.0		80.0
MIBank		24.8			24.8	4.0	28.8
Misr America International Bank			32.8		32.8	67.2	100.0
Misr Exterior Bank		19.5			19.5		19.5
Misr Iran Development Bank				37.5	37.5	37.5	75.0
Misr Romanian Bank		33.0			33.0		33.0
National Bank for Development					0.0	11.9	11.9
National Societe General Bank	19.3				19.3		19.3
Suez Canal Bank	4.3				4.3	11.8	16.1

Notes: * "Other Public" includes public insurance companies, NIB and public specialized banks and authorities.
Source: Joint venture banks and public sector banks annual reports.

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