

The Egyptian Banking Reform: “Unified Banking Laws”

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Dalia Ibrahim is a Business administration student with a concentration in marketing and a minor in economics. She is interested in a variety of topics and sincerely has hopes to reform the Egyptian economy through pursuing a successful career related to her field of study.

Abstract

Banking reform is a fundamental branch of economic development that has frequently been used by policy-makers in attempts to stimulate the Egyptian economy. The Central Bank of Egypt (CBE) has a major role in improving the performance of the Egyptian Banking sector. In order to achieve its goal, it has had to increase its strength by passing new banking laws in cooperation with the Egyptian government. These laws include reforms in the systems of banking management, eliminating bureaucracy, encouraging transparency, privatization of banks, modernizing the Egyptian payment system, inter-bank transactions, supervising the performance of banks, and achieving a higher degree of independence of the CBE. These new banking laws, in particular Law No. 88 of the year 2003, that have been introduced by the economic group are a step forward towards improving the performance of the Egyptian banking sector.

Economic reform policies have become an integral part of nations' economic development programs. Egypt, classified by the World Bank as a developing country, has suffered from deteriorating economic conditions over the past thirty years. Throughout Egypt's economic downturns, it has witnessed a number of economic booms that have pushed the economy slightly forward. Banking reform is a fundamental branch of economic development that has been frequently used by policy-makers in attempts to stimulate the Egyptian economy. Since the beginning of the implementation of the open-door policies in Egypt, implemented by former Egyptian President Sadat, by which trade was liberalized and markets made open to free trade and competition, banking reform has been used extensively and has resulted in major improvements in the economy.¹

The Unified Banking Law (Law No. 88 of the year 2003) consists of over 130 articles that set regulations that must be followed by banks operating in the country in order to improve the performance of the banking sector in Egypt². Since the introduction of the law by the new economic group, members of the economic and business sectors have discussed its pros and cons extensively in an attempt to discover the feasibility of the positive effects promised by the

government. In addition, people have questioned whether this new law has given the Central Bank of Egypt (CBE) its *full* independence or merely the appearance of autonomy on paper.

Our Position

We believe that the new laws and regulations introduced will help improve the Egyptian banking sector and thus will result in a positive effect on the Egyptian economy as a whole. The areas that we believe will experience the impact of the law are examined in the following sections.

- 1) The Central Bank of Egypt, its main functions, and controversy surrounding it.
- 2) The Soundness and Modernization of the Egyptian banking sector.
- 3) The CBE's Autonomy.
- 4) The CBE's independence in the formulation of monetary policy.
- 5) Banking Consolidation.
- 6) Inter-Bank Transactions.

The Central Bank of Egypt and its main functions

The Central Bank of Egypt (CBE) is the main influence on the Egyptian banking sector and is responsible for setting the country's monetary policies. Established in 1961, under the rule of former President Gamal Abdel-Nasser, the CBE is considered the main bank Egypt and acts as a supervisory body over all banking activities. According to the CBE's official website, its main functions include:

Maintaining the stability of the Egyptian currency and the soundness of the banking system, and setting the monetary policy targets in agreement with the government, through a coordinating council...Formulating monetary, credit, and banking policy and supervising its implementation...Supervising banks...Issuing banknotes...Regulating and managing foreign exchange market...Recording and following up Egypt's external debt (public and private)...Managing the State reserves of gold and foreign exchange...Supervising the national payment system.³

Through the numerous roles that the CBE undertakes, it can directly affect the banking sector reform process, and thus have a direct impact on the Egyptian economy. There has been a wide controversy about whether the various tasks carried out by the CBE affect the Egyptian economy positively or negatively. Some economists argue that the regulations imposed by the CBE are useless, short-term and may even harm the performance of the economy in the long-run. On the other hand, bank officials whom we have interviewed at the Commercial International Bank (CIB) and the National Bank for Development (NBD) support these reforms. They explained that these changes will significantly affect the economy and will result in improvements as it has been noted that the new regulations have *in fact* resulted in immediate improvements in the performance of the banks in the short-run. Consequently, it is expected that the regulations will continue to positively affect the banking sector's performance as well as the economy as a whole. In addition, supporters of Law No. 88 believe that the CBE has a major role in increasing and maintaining the soundness and modernization of the Egyptian Banking sector.⁴

How does the CBE aim to increase the soundness and modernization of the Egyptian Banking Sector?

The CBE aims to reform the banking sector through a number of methods, and it started by reforming its own systems. In addition to conducting major improvements in the bank's Information Technology and Human Resources departments, the CBE has made work more efficient through its introduction of computers and other high-tech machinery. The new system has made internal communication with the CBE as well as between the CBE and other institutions more efficient and timely and has made the CBE itself more viable and modern.

After its internal restructuring, the CBE began channeling reforms in the direction of the larger banking sector, and has increased its strength through passing new banking laws in cooperation with the Egyptian government. A number of the tasks performed by the CBE that will result in improvements in the banking sector include reforms in the systems of bank management, eliminating bureaucracy, encouraging transparency, privatizing both small and joint-venture banks, modernizing and upgrading the Egyptian payment system and interbank transactions, supervising the performance of banks in order to ensure that they comply with the Basel Accord requirements⁵, and achieving a higher degree of independence of the CBE.⁶

One of the main reasons behind the CBE's desire to improve the supervision over the banking sector is to avoid problems of non-performing loans - loans that are not paid back to the lending banks. This has become feasible by the CBE through Article 133 in the new law, which allows for settlements to occur between those who are unable to repay the loans and the lending banks. This improves the situation for the Egyptian economy as a whole as it allows cash that fled the country to return, even if it is not the full amount that had been lent.⁷

Will the new "Unified Banking Law" grant the CBE its desired state of independence?

When former Prime Minister, Atef Ebeid, addressed the Parliament's economic committee in 2003 on the Unified Banking Law governing the CBE, he emphasized that the role of the CBE will be much stronger than before. The new law states that the CBE will be under the direct supervision of the President himself, rather than the Ministry, and will have the authority to appoint senior officials of its affiliated banks and supervise their performance, thus implying that the CBE will become relatively independent. However, in response to a question raised by Fathy Sorour, speaker of the Egyptian People's Assembly, about why the CBE has not gained the *full* independence to formulate the country's monetary policy, Ebeid explained that, at this stage, the Egyptian economy has not achieved the economic progress that would allow the government to give the CBE its full independence.⁸

Critics of the new law have claimed that it makes the CBE less autonomous than before. One of these critics is Mahmoud Fahmy, former Board Member of the

CBE, who claims that there are four major changes in the law which will adversely affect the autonomy of the CBE. The first of these changes is defining the CBE as a “legal entity” instead of a “legal public autonomous entity”, a definition he anticipates will lead to judicial controversies and conflicts. In addition, Fahmi believes that requiring that the CBE be represented by a minister in the People’s Assembly will necessitate interference on the part of the minister in formulating the laws. Furthermore, Fahmi is critical of the law permitting the dismissal of the CBE governor before the end of his/her four year term, and the amendment making the CBE the “implementer” of the monetary policy rather than the “formulator” of the policy.⁹

Despite Fahmi’s concerns regarding the wording of the new law, our interviews with bank officials at the CIB and the NBD have determined that the CBE is in fact independent. This is evident in the achievements made by the CBE, especially over the past few months. Furthermore, by reviewing the text of Law No. 88 of the year 2003, Article 1 states “The Central Bank shall be a *public* legal person directly subject to the President of the Republic. Its statute shall be promulgated by decree of the President of the Republic”¹⁰ (italics our own). This indicates that the CBE is in fact a public, independent entity, which is under the direct supervision of the President. It is not affected by other financial entities in Egypt, nor is it dependent on them. The importance of the CBE being a *public* entity lies in the fact that in case of a lawsuit against it, the Supreme Constitutional Court shall be the legal entity covering the issue and not ordinary courts. This is a critical issue to the CBE as the judges at the Supreme Constitutional Court are highly specialized and experienced and can thus better judge in lawsuits against the CBE in case they occur. Research has also proven that the CBE does not have a direct representative in the People’s Assembly; the minister in the Assembly is a representative of the Ministry itself, *not* the CBE. Therefore, the fear of a decrease in the autonomy of the CBE in the formulation of the policies is inapplicable.

The CBE: Formulator or Implementer of Monetary Policy?

One of the main tasks of the CBE is “formulating monetary, credit, and banking policy and supervising its implementation,”¹¹ yet as a result of the new law, the CBE, as stated before by Mr. Fahmy, is unable to *formulate* the monetary policy; it can only *implement* it. Mr. Mahmoud Mohieddin, the chairman of the ruling National Democratic Party’s economic committee, supports this view and explains that there is a kind of *misinterpretation* of the new banking law¹², where people assumed the new law will give the CBE the authority to *set* monetary policy. This is not the case as the CBE will only *coordinate* with the government on what these policies are,¹³ so the CBE is simply an implementer of monetary policies and not a formulator.

By examining the text of the Law, we found that Article 5 states:

The Central Bank shall *set*, in agreement with the government, the objectives of the monetary policy, through a coordinating council to be

formed by decree of the President of the Republic, and the Executive Regulations shall determine the work system of the said council.

The Central bank shall be concerned with *formulating* and *implementing* the monetary, credit, and banking policies.

The *Governor of the Central Bank* shall *notify* the People's Assembly as well as the Shura Council of these objectives, when the two draft laws of the State's general budget and the general economic and social development plan are laid before them. It shall also notify them of any modifications to these objectives during the financial year.¹⁴

This Article discredits the claims that the CBE is an implementer and not a formulator of monetary policies.

Helping make the CBE stronger is its Board of Directors. The CBE has a Board of Directors (BOD) under the chairmanship of the Governor of the Central Bank which consists of representatives of government agencies, private sector experts, legal experts, public sector banks' representatives, economic consultants, foreign banks' representatives as well as two deputy governors of the CBE, the Chairman of the Capital Market Authority, and representatives of the Ministries of Finance, Planning, and Foreign Trade.¹⁵ The diversity of this BOD does not take away from the CBE's independence but makes the CBE stronger as gives it a deeper insight into the different markets and fields surrounding it. Therefore, the policies formulated by the CBE are stronger, highly effective, and influential. In addition, the fact that these policies must be announced publicly adds transparency and credibility to the organization.

How can Banking Consolidation lead to Banking Efficiency?

A very important part of the CBE regulations is to make sure that banks abide by the international Basel Accord requirements, which include maintaining a certain minimum capital requirement. The new CBE regulations state that all Egyptian banks should have a minimum capital of LE 500 million, while all the branches of foreign banks must maintain a minimum capital of \$ 50 million, by the end of June 2005. As a result, all small banks are trying hard to meet this requirement through several means, including selling shares to investors or to the public, inviting current shareholders to increase their shares, or merging of banks. By merging banks, the banking sector will become more efficient as banks will benefit from economies of scale, competition among Egyptian banks will rise, and Egyptian banks will be placed on the right path to abide by the new Basel Accord regulations.¹⁶ Hopefully, the consolidation of the banking sector will enhance its efficiency and thus improve the Egyptian economy as a whole.

This view is supported by several bank officials who admit that banking consolidation is beneficial to the whole sector, as it results in powerful financial institutions. It is better to have a smaller number of strong, competitive banks, rather than a large number of small, weak banks. This would result in higher and more efficient competition compared to world standards.

Interbank: Pros and Cons

The lending process of foreign currency that takes place between banks is known as the Interbank system. This system of interbanking will help the Egyptian foreign exchange market to function more efficiently. Banks with surplus of foreign currency can easily lend other banks suffering from shortage of foreign currency. However, many banks are not really keen to perform this interbank mechanism as they lack liquidity of foreign currency and are more concerned with other problems, such as the non-performing loans. Wagdy Rabbat, the chairman and CEO of Misr Exterior Bank, said that the interbank mechanism is a beneficial mechanism but it is not enough to treat the foreign exchange market problems. However, comprehensive monetary policies must be applied for the economy to work efficiently and effectively.¹⁷

Another criticism of this mechanism is that it will simply have a short-term effect, and that the foreign exchange rates will increase again in time. Conversely, bank officials whom we have interviewed at the CIB and the NBD believe that this new system will work out fine, as there is a sufficient amount of foreign currency in the country; however the problem lies in its management. Thus, it is simply an issue of *mismanagement* of those currencies, and the positive effects on the foreign exchange rates will not rebound anytime soon. Most Egyptian economists are looking forward to how the improved efficiency in the trading of foreign currencies will result in an enhancement of the Egyptian banking sector. In addition, it is believed that the stabilization of the Egyptian Pound compared to foreign currencies, that resulted from this interbank mechanism, will attract more foreign direct investment into Egypt as investors would feel more secure as they are assured that the fluctuations in the Egyptian Pound will be minimal, and thus the price of the currency will be almost the same at the time they enter the Egyptian market to invest and at the time they complete their investment and leave.

Conclusion

Law No. 88 of the Year 2003 is beneficial and will improve the Egyptian banking sector. Through interviewing the bank officials, it has been determined that the banking sector is a major driver of economic activity and thus any reforms and improvements in the banking sector will directly result in reforms and improvements in the Egyptian economy as a whole. By eliminating bureaucracy and making the CBE more independent, and by allowing it to directly report to the President of the Republic, all of the laws formulated by the CBE become more efficient and timely.

In conclusion, it is important to point out that final concrete judgments about the long-term effects of Law No. 88 cannot be made. Studying the effects of the new law on the banking sector and, consequently, the effects on the economy as a whole is a long-term process that cannot be seen immediately. Although the short-term effects of the law are positive and have been witnessed, the long-term effects remain unclear, even if there is a high probability that they will be positive as well.

End Notes

1. Egypt State Information Service, "The Banking Sector in Egypt," *Investing in Egypt 1999*, <http://www.sis.gov.eg/inv99/html/bank1.htm#T>.

2. The Unified Banking Law is Law No. 88 of Year 2003 which promulgate major banking reforms. For reviewing the law, visit the site of The Central Bank of Egypt at <http://www.cbe.org.eg/Banking%20Laws.htm>.

3. The Central Bank of Egypt, *About Central Bank of Egypt*, (Egypt, 2005), <http://www.cbe.org.eg/about%20us.htm>.

4. The Central Bank of Egypt, *Egyptian Banking Sector Reform Policy: Areas of Future Actions*, 2003 (Egypt, 2005), 2, http://www.cbe.org.eg/public/Egyptian%20banking%20reform%20policy_WB.doc.

5. Definition of Basel Accord:

The Basel Conference takes place in Switzerland; it discusses issues relating to banks and their performance. In 1975, the central bank governors of only ten countries established the first Basel Committee. In July 1988, the Committee released the Basel Accord I, and in 2001, the Committee introduced some improvements to it that resulted in the New Basel Accord (Basel II). Currently, the Basel Committee consists of 100 nations, and Egypt is one of those members.

The Basel Committee has two main objectives relating to the regulation of the international banking system. First, strengthening the "soundness and stability of the international banking system; and secondly that the framework should be in fair and have a high degree of consistency in its application to banks in different countries with a view to diminishing an existing source of competitive inequality among international banks" ("Basle Committee...").

The New Basel Accord is divided into three main pillars; the "Minimum Capital Requirements," the "Supervisory Review Process," and the "Market Discipline." The first pillar, the minimum capital requirements, states that central banks worldwide should

require banks operating within their country to keep a minimum amount of capital as a cushion preventing the bank's failure. The Basel Accord emphasizes that one of the important measures that should be used to assess the performance of banks is the capital adequacy ratio; this amount is set as 8%. The Basel Committee gives national authorities the full discretion to set higher percentages for their required capital adequacy ratio according to what they see appropriate in their country.

The Basel Committee emphasized that it is not sufficient to assess the bank's performance by relying only on the measurement of the capital adequacy ratio. Other items are important such as the Supervisory Review Process and the Market Discipline, and they were both introduced in the New Basel Accord. Furthermore, the Basel II points out that credit risk is not the only type of risk that affects the bank's performance. There are other important risks that should be taken into consideration; interest rate risk, and investment risk.

It is important to note that the Capital Adequacy ratio divides banks' assets into four main categories according to the risk associated with each. The categories are divided as follows:

Category #1 which holds assets of 0% relative risk

Category #2 which holds assets of 20% relative risk

Category #3 which holds assets of 50% relative risk

Category #4 which holds assets of 100% relative risk

The second pillar of the Basel II is the "Supervisory Review Process." This pillar "discusses the key principles of supervisory review, risk management guidance and supervisory transparency and accountability produced by the Committee with respect to

banking risks, including guidance relating to, among other things, the treatment of interest rate risk in the banking book, credit risk (stress testing, definition of default, residual risk, and credit concentration risk), operational risk, enhanced cross-border communication and cooperation, and securitization” (“Basle Committee...”).

The third pillar of the New Basel Accord is the “Market Discipline.” This was created as the Committee members believed in the importance of disclosure and transparency in the international banking system. It would “allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution” (“Basle Committee...”). In short, the main purpose of this pillar is “to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2)” (“Basle Committee...”).

6. Ibid. ,3.

7. The Central Bank of Egypt, *The Law of The Central Bank, The Banking Sector And Money*, (Egypt, 2005), <http://www.cbe.org.eg/Banking%20Laws.htm>.

8. Gamal Essam El-Din, “Compromising the CBE?,” *Al-ahram Weekly*, April 10-16, 2003, <http://weekly.ahram.org.eg/2003/633/ec1.htm>.

9. Aziza Sami, “A Double-Edged Sword?,” *Al-ahram Weekly*, January 16-22, 2003, <http://weekly.ahram.org.eg/2003/621/ec1.htm>.

10. The Central Bank of Egypt, *The Law of The Central Bank, The Banking Sector And Money*.

11. The Central Bank of Egypt, *About Central Bank of Egypt*.

12. Niveen Wahish, “Waiting to See the Light,” *Al-ahram Weekly*, April 24-30, 2003, <http://weekly.ahram.org.eg/2003/635/ec1.htm>.

13. Ibid.

14. The Central Bank of Egypt, *The Law of The Central Bank, The Banking Sector And Money*.

15. The Central Bank of Egypt, *The Law of The Central Bank, The Banking Sector And Money*.

16. Niveen Wahish, "Banking Consolidation," *Al-ahram Weekly*, December 2-8, 2004, <http://weekly.ahram.org.eg/2004/719/ec5.htm>.

17. Yasser Sobhi, "Banking on the Interbank," *Al-ahram Weekly*, November 20-26, 2003, <http://weekly.ahram.org.eg/2003/665/ec1.htm>.

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Egypt State Information Service. “The Banking Sector in Egypt.” *Investing in Egypt 1999*.
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Essam El-Din, Gamal. “Compromising the CBE?” *Al-ahram Weekly*, April 10-16, 2003.
<http://weekly.ahram.org.eg/2003/633/ec1.htm>.

German-Arab Chamber of Industry and Commerce. “Egyptian Banking Sector on Reform.” *AHK*.
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Middle East North Africa. Financial Network. “Capital Increase Move Puts Pressure on Egyptian Banks.” *MENAFN.COM*.
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“Regulation Shake-up Bodes Well for Egypt.” *The Banker*.
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Sami, Aziza. "A Double-Edged Sword?" *Al-ahram Weekly*, January 16-22, 2003.
<http://weekly.ahram.org.eg/2003/621/ec1.htm>.

Sobhi, Yasser. "Banking on the Interbank." *Al-ahram Weekly*, November 20-26, 2003.
<http://weekly.ahram.org.eg/2003/665/ec1.htm>.

Soliman, Hassan. Personal interview. 17 April 2005.

The Central Bank of Egypt, *About Central Bank of Egypt*. Egypt, 2005.
<http://www.cbe.org.eg/about%20us.htm>

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Wahish, Niveen. "Banking Consolidation." *Al-ahram Weekly*, December 2-8, 2004.
<http://weekly.ahram.org.eg/2004/719/ec5.htm>.

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“Bank Rankings.” American Chamber of Commerce in Egypt.
<http://www.amcham.org.eg/BSAC/StudiesSeries/Report45.asp>.

Abstract:

This article discusses the issue of how the Egyptian situation has improved; The ranking of Egypt, as a country, has been improving and thus more opportunities are available to everyone.

“Basle Committee on Banking Supervision- International Convergence of Capital Measurement and Capital Standards.” July 1988. 17 April 2005.
<http://www.bis.org/publ/bcbs04A.pdf>.

Abstract:

The Basel Conference takes place in Switzerland; it discusses issues relating to banks and their performance. In 1975, the central bank governors of only ten countries established the first Basel Committee. In July 1988, the Committee released the Basel Accord I, and in 2001, the Committee introduced some improvements to it that resulted in the New Basel Accord (Basel II). Currently, the Basel Committee consists of 100 nations, and Egypt is one of those members. The New Basel Accord is divided into three main pillars; the “Minimum Capital Requirements,” the “Supervisory Review Process,” and the “Market Discipline.”

“Basle Committee on Banking Supervision- International Convergence of Capital Measurement and Capital Standards-Revised Framework.” June 2004. 17 April 2005.
<http://www.bis.org/publ/bcbs107.pdf>.

Abstract:

The Basel Conference takes place in Switzerland; it discusses issues relating to banks and their performance. In 1975, the central bank governors of only ten countries established the first Basel Committee. In July 1988, the Committee released the Basel Accord I, and in 2001, the Committee introduced some improvements to it that resulted in the New Basel Accord (Basel II). Currently, the Basel Committee consists of 100 nations, and Egypt is one of those members. The New Basel Accord is divided into three main pillars; the “Minimum Capital Requirements,” the “Supervisory Review Process,” and the “Market Discipline.”

Egypt State Information Service. “The Banking Sector in Egypt.” *Investing in Egypt 1999*.
<http://www.sis.gov.eg/inv99/html/bank1.htm#T>.

Abstract:

This article explains in detail the banking Sector in Egypt, the banking reform and liberalization plans, and the recent amendments to the Banking Law in Egypt. It discusses the history of the banking sector in Egypt, and explains the Central Bank of Egypt's (CBE) rules and regulations. It also discusses how the banking sector in Egypt started and how it improved. Last but not least, it provides statistics about selected banking sector indicators as well as graphs showing the performance of the Egyptian banking sector.

Essam El-Din, Gamal. "Compromising the CBE?" *Al-ahram Weekly*, April 10-16, 2003.
<http://weekly.ahram.org.eg/2003/633/ec1.htm>.

Abstract:

This article mainly focus on what Mr. Atef Ebeid, ex-prime minister, had said, while addressing the parliament's economic committee, on the Unified Banking Law governing the Central Bank of Egypt (CBE). He actually emphasized that the role of the CBE will be very much stronger than before. It will have the authority to appoint senior officials of its affiliated banks and supervise their performance. He also pointed out some of the advantages of the new law. This article also addressed two questions which were raised by the Parliamentary Speaker Fathy Sorour and some members of the parliament. These questions were: Why did the banking law bill take so long to reach the People's Assembly? And, why the CBE did not gain full independence to formulate the monetary policy? The answer of the first question was that the bill had to be revised several times by economic experts, opposition parties and the National Democratic Party and that was the reason for the delay. However, the answer to the second question was that the Egyptian economy did not reach yet the economic progress that would allow the government to give the CBE full independence.

German-Arab Chamber of Industry and Commerce. "Egyptian Banking Sector on Reform." *AHK*.
<http://ahkmena.com/Details.aspx?News=940>.

Abstract:

This article discusses the privatization process of the banking sector in Egypt. It clearly distinguishes between the different types of banks in Egypt, and it covers the

issues in the banking sector that will help in reform. In addition, the article tackles issues such as mergers between small banks.

Middle East North Africa. Financial Network. "Capital Increase Move Puts Pressure on Egyptian Banks." *MENAFN.COM*.

http://www.menafn.com/qn_news_story_s.asp?StoryId=83835.

Abstract:

This article discusses the improvements that have taken place in the Egyptian banking sector as a result of the Central Bank of Egypt's new regulations, such as minimum capital requirement. In addition, it covers methods by which banks can improve their situation. Moreover, the article explains the positive changes that have recently occurred in the stock/bond market.

"Regulation Shake-up Bodes Well for Egypt." *The Banker*.

http://www.thebanker.com/news/fullstory.php/aid/2338/Regulation_shake_up_bodes_well%20for%20Egypt.html.

Abstract:

This article tackles the economic reform issues in Egypt since the new cabinet headed by HE Prime Minister, Dr. Ahmed Nazif took over. The articles cover reforms in the Egyptian taxing system, as well as the banking sector. In addition, the article points out the positive role of the Central Bank of Egypt, and how the new economic group is focused on increasing the growth rate of the Egyptian economy.

Sami, Aziza. "A Double-Edged Sword?" *Al-ahram Weekly*, January 16-22, 2003.
<http://weekly.ahram.org.eg/2003/621/ec1.htm>.

Abstract:

This article actually questions a very important issue which is whether the Unified banking Law will make the Central Bank of Egypt (CBE) more autonomous or less? This question was actually answered by Mr. Mahmoud Fahmy, CBE board member, who believes that the new law actually makes the CBE less autonomous. He actually states four major changes in the law which will inversely affect the autonomy of the CBE. The first one is in defining the CBE as "legal entity" instead of "legal public autonomous entity". He says that this new definition will lead to judicial controversies and conflicts. The second one is having a minister representing the CBE in the People's Assembly and of-course this necessitates that the minister should take part in formulating the laws. The third change in the law made the dismissal of the CBE governor, before his four years term ends, possible. The fourth change is in making the CBE the "implementer" of the monetary policy instead of being the "formulator" of the policy. Finally, Mr. Fahmy suggests that the CBE governor should be nominated either by the parliament or by the president to the parliament because the CBE is a very important institution.

Sobhi, Yasser. "Banking on the Interbank." *Al-ahram Weekly*, November 20-26, 2003.
<http://weekly.ahram.org.eg/2003/665/ec1.htm>.

Abstract:

This article discusses the lending between banks in foreign currency, which is known as interbank in dollars. It appears in the article that this system of interbanking

will help the Egyptian foreign exchange market to function more efficient. Banks with surplus of foreign currency can lend other banks suffering from shortage of foreign currency. However, many banks are not really keen to perform this interbank mechanism as they lack liquidity of foreign currency and they are more concerned about the problems they have such as the non-performing loans. Mr. Wagdy Rabbat, the chairman and CEO of Misr Exterior Bank, said that the interbank mechanism is a beneficial mechanism but it is not enough to treat the foreign exchange market problems. However, comprehensive monetary policies must be applied for the economy to work efficiently and effectively.

The Central Bank of Egypt, *About Central Bank of Egypt*. Egypt, 2005.
<http://www.cbe.org.eg/about%20us.htm>.

Abstract:

This is the official website of The Central Bank of Egypt (CBE). It provides information about the CBE such as when it was established and under whose rule. It also provides the main objectives and functions of the CBE.

The Central Bank of Egypt, *The Law of The Central Bank, The Banking Sector And Money*. Egypt, 2005.
<http://www.cbe.org.eg/Banking%20Laws.htm>.

Abstract:

This is the official website of The Central Bank of Egypt. It provides the draft of Law No. 88 of Year 2003. The Law consists of 135 Articles, which affirm different banking reform policies.

The Central Bank of Egypt. *Egyptian Banking Sector Reform Policy: Areas of Future Actions*, 2003. Egypt, 2005.

http://www.cbe.org.eg/public/Egyptian%20banking%20reform%20policy_WB.doc.

Abstract:

This is a document published by the Central Bank of Egypt (CBE). It discusses the role of the Central Bank of Egypt in reforming the Egyptian economy, and the banking sector in particular. In order to increase the strength of the CBE, the government, with the help of the CBE, had passed a new banking law. The document provides an overview of the accomplished tasks of the CBE such as the new CBE, Banking Sector and Money law. In addition to the new rules and regulations that will improve the banking sector performance. The tasks also included improvement of the banking management. The document also provides a quick overview of four important issues: monetary policy, foreign exchange rate and management, payment systems modernization and the anti money laundry. It provides reasons for our backwardness, and explains what should be implemented to become successful. It states some facts and provides valid solutions to them.

Wahish, Niveen. "Banking Consolidation." *Al-ahram Weekly*, December 2-8, 2004.

<http://weekly.ahram.org.eg/2004/719/ec5.htm>.

Abstract:

This article is actually concentrating on one of the laws that had been issued in June 2003, which deals with increasing the minimum capital requirements of all banks to 500 million pounds. The Central Bank of Egypt (CBE) had also put a deadline for all banks in order to meet the new minimum capital requirements. All banks are now worried about how they will meet this capital requirement on time. The problem is more

serious in small banks than in large ones. However, Mr. Nabil Hashad, the chairman of the Arab Centre for Financial and Banking Studies and Consulting, suggested that small banks have several ways to increase their capital, for example selling shares to investors or the public, inviting current shareholders to increase their shares or merging of banks. It was also suggested by Mr. Amr Bahaa, the Egyptian Commercial Bank general manager, that the CBE should provide incentives for the merging banks. Some advantages of the capital increase and banking consolidation were pointed out in the article such as enabling banks to benefit from economies of scale, raising competition among Egyptian banks and putting the Egyptian banks on the right path to abide by the new Basel Accord.

Wahish, Niveen. "Waiting to See the Light." *Al-ahram Weekly*, April 24-30, 2003.
<http://weekly.ahram.org.eg/2003/635/ec1.htm>.

Abstract:

This article discusses the effects of two draft laws on Egypt's economic position, the banking law and the competition law. Mr. Mahmoud Mohieddin, the chairman of the ruling National Democratic Party's economic committee, emphasized a very important point as there was some kind of misinterpretation of the new banking law. People thought that this new law will give the Central Bank of Egypt (CBE) the authority to set monetary policy, however this is not the case. The CBE will only coordinate with the government on what these policies are, so the CBE is an implementer of monetary policies and not a formulator. Through out the article, Mr. Mohieddin points out the positive aspects of the new banking law. He also says that the law states that the government, and not the CBE, is the one responsible for choosing the country's foreign exchange system. He also talked

about the competition law which aims to abolish all non-competitive practices and regulate mergers.

Appendix: Interview Questions

➤ To: **Banks' Authorities**

1. How did the new Unified Banking Laws affect the performance of your bank?
2. How do you assess the relationship between the CBE and the banking sector before and now?
3. After the issuance of the Unified Banking Laws, what were the changes or new requirements that the CBE introduced to you?
4. How do you plan to meet these requirements before the set deadline?
5. What do you think of banking consolidation?
6. What do you think of the CBE tasks? Do you believe it is a formulator or simply an implementer of policies?
7. What do you think of the interbanking mechanism? How has it affected the performance of your bank?
8. How does the level of independence of the CBE affect the performance of the banking sector?
9. Do you think that reforms that take place in the banking sector have a significant effect on the performance of the whole economy?
10. In your opinion, which economy in the world was able to use banking sector reforms to enhance the performance of the economy as a whole?