

BANKING SECTOR DEVELOPMENTS IN EGYPT

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EXECUTIVE SUMMARY

The banking system in Egypt is a cornerstone of its financial architecture and evidently plays a crucial role in overall economic development and growth. During the 1990s, at the time of Egypt's Economic Reform and Structural Adjustment Program (ERSAP), banking performance was unable to keep pace with other sectors. Sluggish privatization progress, market recession and an outflow of non-performing loans all led to a state of imbalance in the banking system by the start of the decade. Consequently, from then on, increased attention has been given to comprehensively improving the performance of banks.

Banking reform gained full momentum in October 2004, with the establishment of a new and business-oriented reformist cabinet. This was part of a wider four-year Financial Sector Reform Program (FSRP). Consolidation and liberalization are integral parts of this ongoing reform program which aims to reach fully efficient banking system.

The largest number of mergers and acquisitions took place between 2004 and 2007. The government divested its shares in joint-venture banks, while small, private sector banks either merged or were acquired by stronger ones. This came as a golden opportunity for the entry of more foreign banks that saw a lucrative market ahead. Today the banking system is more consolidated, with increasing stakes held by the private sector.

In October 2006, the Bank of Alexandria (BoA) became the first fully state-owned bank to be privatized in what has been described as the most successful privatization process in Egypt. Now the BoA is under the leadership of Intesa Sanpaolo; Italy's biggest bank and the third largest in the Euro zone.

Increased economic activity and improved economic conditions, coupled with a more efficient banking system, have encouraged banks to approach new fields of investment. This is helping them to increase and diversify their portfolios, and to play a stronger role in the economy.

This study begins with an overview of contemporary global banking issues. It then examines the Egyptian banking system in its new state of reform, with focus on large market players and new entrants. Recent consolidation and privatization activity in the sector is tracked and performance indicators are presented. A set of factors clearly affecting the progress of the banking system are outlined before a concluding SWOT analysis.

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