Results Profile: Egypt Financial System Reform

Overview
For the past five years, the Government of Egypt and the World Bank have worked together on the most far-reaching, substantive and comprehensive drive toward financial sector strengthening so far in Egypt and the Arab World. This partnership has led to tangible results, most notably reflected in the fact that the banking sector in Egypt is now majority-owned by the private sector and open to competition, and resilient to the adverse consequences of the global financial crisis.

Challenge
The financial sector in Egypt suffered over the years from public sector dominance. Public banks did not adhere to international best practice, financed state-owned enterprises, and accumulated non-performing loans. Private banks operated in a non-competitive environment that resulted in inefficient banking practices, that limited access to financial services, and created a lack of suitable instruments. Non-banking institutions did not have a suitable regulatory environment in which to develop.

Approach
Supported by the International Bank for Reconstruction and Development (IBRD), the Financial Sector Reform Program comprises a major restructuring of banks, non-bank financial institutions, and markets, which is underpinned with strengthening of the legal, regulatory and supervisory framework, as well as an improvement in the institutional infrastructure. In terms of lending, the first Financial Sector Development Policy Loan, amounting to US$500 million was prepared in response to the government’s request to support the implementation of Phase I of the Financial Sector Reform Program, covering the period July 2004–June 2006. The significant progress achieved under this facility was encouraging, and the Bank prepared the Second and Third

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Results

As a result of reform, Egypt's banking sector moved from a state dominated to a stronger, more effective, private sector led system. For the first time in recent history, the banking sector is now majority-owned by the private sector and open to competition. This was achieved by:

- Privatization of the fourth-largest state-owned bank, the Bank of Alexandria;
- Divestiture of 94 percent of state-owned bank shares in joint venture banks;
- Consolidation of the banking sector where the number of banks decreased from 57 to 39 banks;
- Other achievements include the financial, operational, and institutional restructuring of the remaining state-owned banks evident in the full settlement of all non-performing loans of state-owned enterprises, and the operational restructuring of the state-owned commercial banks in three critical areas (human resource development, risk management, and information technology).

These reforms led to a substantial strengthening of the balance sheets of the banks which was validated by the resiliency of the system to the recent global financial crisis and an improvement in returns on capital and relative to assets. Furthermore, access to finance in Egypt has been enhanced substantially in terms of lending, deposit-taking, and physical access through banks and ATMs. Between 2006 and 2009, branch density rose by 60 percent, the number of ATMs by 26 percent, number of deposit accounts by 15 percent, and number of loans by 165 percent. Egypt also has one of the two largest microfinance markets in the Arab world, with more than 1.3 million active clients and a total outstanding loan portfolio of over US$337 million.

Toward the Future

With the success of the financial sector reform program, the Bank will undertake further analytical work to help solidify gains achieved so far and identify areas of possible future assistance. The Bank is currently undertaking a new Finance and Growth Study that will highlight priority reform areas for the coming ten years.