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DIRECTORATE GENERAL XV

Internal Market and Financial Services

General matters and coordination, free movement of persons and direct taxation

External dimension of the internal market and financial services

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EGYPT

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Introduction

GDP in Egypt reached EGP 180 bn (43 bn ECU¹) in 1994, the real GDP growth was 3.9%. Egypt has a population of 60 mn, this represented a GDP per capita of 3000 EGP (718 ECU).

CREDIT INSTITUTIONS

During the period of 1957 - 1974, state-owned banks were the only players in the market, due to the 1956 nationalisation campaign. The period since 1974, has seen foreign banks establishing in Egypt. Access to the market for foreign banks has been permitted since 1974. Such access is either in the form of joint venture with 49/51 foreign/local participation which enjoys equal treatment with domestic banks, or as a foreign branch with operations restricted to foreign currency only. This rule was eventually relaxed in 1992 and 1993 allowing existing foreign bank branches to deal in local currency on the condition that their capital be no less than \$15 million, or the equivalent in foreign currency.

The Egyptian banking market is regulated by the Central Bank of Egypt (CBE), which is responsible for monetary, credit, banking policies and supervision. The CBE sets reserve and liquidity levels and produces guidelines for loan classification and provisions. Under the 1992 banking law, the minimum paid-in capital requirement is LE 50 million.

Reserve levels are 15% of the banks' local currency deposits and 10% of foreign currency deposits. These reserves are placed in non-interest bearing accounts with the CBE. Foreign exchange reserves earn interest rate equivalent to Libor for three-months deposits. The CBE requires banks to keep 20% of their local currency deposits and 25% for foreign currency deposits liquid.

There are 64 foreign and domestic banks operating in Egypt, with 1407 branches in addition to 784 village banks as branches of the Agricultural Bank. The banking market consists of 28 commercial banks (4 government owned, 24 joint venture and private sector commercial banks), 11 joint venture investment and business banks, 21 foreign bank branches of which 3 from EU. Overall these banks have 2191 units (branches), giving a banking density of one unit for 25,000 inhabitants. Moreover, there are 4 specialised banks, and 3 banks established under special laws that exempt them from the CBE supervision.

The Egyptian banking market is dominated by four state-owned commercial banks - National Bank of Egypt (NBE), Bank Misr, Cairo Bank, and Bank of Alexandria. The domination is due to the monopoly years of nationalisation.

¹ Exchange rates :
At 1993 year end 1 ECU = 3.8141 EGP
At 1994 year end 1 ECU = 4.1735 EGP

Table 1 - Banking sector indicators - June 1994

	Number	Assets (in bn EGP)	Deposits (in bn EGP)
Commercial banks	28	171	126
. State-owned banks	4	122	95
. Private commercial bank and joint ventures of which	24	49	31
- EU joint ventures	6	n.a.	n.a.
Investment banks	11	28	10
Foreign banks branches, of which	21	n.a.	n.a.
. EU foreign banks branches	3	n.a.	n.a.
Specialised banks	4	12	3

Source : Central Bank of Egypt

Presence and market share of EU and other foreign banks

In June 1993, deposits by foreign bank branches totalled EGP 3 bn, which was 2.2% of the total bank deposits. Additionally, loans totalled EGP 2.3 bn, which was 3.4% of the banking sector's total loans in Egypt.

Establishment

A minimum of 51% Egyptian ownership requirement was first imposed in 1974, for joint venture commercial and investment banks wanting to establish in Egypt and is still in force. A number of European banks have established joint ventures with the state-owned banks under the Investment Law (with a minimum 49% foreign ownership). The National Bank of Egypt owns a dominant participation of joint ventures with Crédit International d'Egypte (BHF - CCF) and Société Générale (NSGB). Misr Exterior Bank and Misr International Bank have a dominant and over 51% share in joint ventures with Banco di Roma (Italy) and Banco Exterior de España. Another leading institution in Egypt, the Banque du Caire has a joint venture with Barclays International (Britain), and is also involved with the Banque Nationale de Paris, in the Banque du Caire et Paris.

There is still a prohibition on 100% foreign-owned bank subsidiaries from establishing in Egypt. Since October 1993, the CBE have not been approving applications of either foreign or domestic new banks. Such approval is conditioned by an economic needs test, which criteria are set by the Minister of Economy and Foreign Trade. New branches of existing banks have to comply with the capital adequacy and prudential requirements of the CBE.

Activities

Following the amendment of the banking law in March 1993, a limited number of foreign bank branches were allowed to engage in local currency operations on the condition that their capital be no less than \$15 million, or the equivalent in foreign currency. Foreign banks established in Egypt can now operate in the same activities as private Egyptian banks. Foreign banks even have access to the Central Bank discount window.

INSURANCE

The Egyptian insurance market, measured in terms of annual premiums sold by insurance companies is small.

In 1993, total premiums were EGP 1,134 mn (ECU 297 mn). That represented a real growth of 12% versus previous year. On the other side, premiums as percentage of GDP reached 0.6% in 1993, very low relative to developing countries. In terms of total premiums per head, in 1993, were about 5 ECU, corresponding 1 ECU to life insurance and 4 ECU to non-life insurance.

The Egyptian insurance market is highly regulated and concentrated. The state plays an important role in the market. 85% of total premiums corresponding to state-owned insurance companies. In addition, public insurance companies hold partnership of private insurance companies operating in both the Egyptian and Free Zone markets, especially with regard to the entire structure of prices of the insurance market. Low competition is reflected in low product development.

	Life	Non-life	Total
Premiums (in EGP mn)	261.0	873.0	1134.0
Premiums as % of GDP	0.1	0.5	0.6
Premiums per capita (in EGP)	4.6	15.5	20.1

Source : SIGMA

MARKET ACCESS AFFORDED TO EU INSURANCE UNDERTAKINGS

The legal framework prohibits foreign investment in the whole insurance sector, except in the small market in the Free Zone areas (Cairo, Alexandria, Port-Saïd, Suez) where joint ventures with foreign capital are allowed, after approving of the GAFI (General Authority for Investment).

SECURITIES

The Cairo and Alexandria Stock Exchanges are the only capital market intermediaries in Egypt. Both Stock Exchanges have been partly computerised, and are now interconnected. The Stock Exchanges operate as autonomous bodies, but remain supervised by the Capital Market Authority (CMA).

During the Nasser Administration and the period of nationalisation, the securities market in Egypt was severely crippled. In 1992, the government adopted the Capital Market Law 95 in an effort to breath life into the securities market. However, compared to the size of the economy, the primary stock and bond markets are small. There is only one foreign securities firms which has taken advantage of the free access to the Egyptian securities market, and are even allowed to compete in the same securities activities as domestic firms.

Of the 656 companies listed on the two Stock Exchanges, less than 25% are publicly owned, and the remaining 75% are closed companies. Only 30 companies are actively trading.

Turnover in equity shares (EGP mn)	1214.0
Turnover as % of GDP	0.7
Capitalisation equity shares (EGP mn)	14480.0
Number of listed companies publicly owned	155

Source : CMA

Presence of foreign securities firms on the securities market

There has been a great reluctance by foreign securities firms to enter the Egyptian securities market. The reluctance is due partly to the slow government process of privatisation, to the general underdevelopment of the market and the lack of financial disclosures of listed companies..

Establishment and Activities

With the approval of the CMA (Capital Market Authority) (law 95/1992), establishment of Egyptian and foreign securities companies are permitted to conduct one or more of the following activities : underwriting of subscriptions, participation in the establishment of companies issuing securities, venture capital, clearing and settling of securities dealings, forming and managing securities portfolios and mutual funds, and acting as brokerage firms. Foreign bank branches are allowed to establish securities affiliates to conduct any of the mentioned activities. The bond market is still at the development stage. Recently, two foreign corporate bonds were issued. Foreign securities can also be listed and traded on the stock exchange, but do not benefit from income tax and stamp duty exemptions on dividends, given to publicly owned shares held by local companies.

The CMA does not allow futures, forward dealings or options. Private bonds must be approved, as must different forms of share/bonds which have floating rates.