



The Economic Analysis of the banking system performance in Egypt during the period (2004-2010)

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ABSTRACT

The period from the 1990s until nowadays has witnessed considerable important and effective developments on the level of the world financial and banking conditions. In this framework, the Egyptian banking system should be adjusted in order to adopt with the new economic changes and cope up with the world trend of banking development according to the criteria of governance and those of Basil. Therefore, it is necessary to adopt more effective economic policies through developing the institutions and instruments under an accurate legislative and controlling umbrella to ensure the banking system soundness and its international competitiveness ability. In this line, suitable amendments have been made to the banks and credit laws and economic legislations have been issued. The most important of them are the Act of central bank, the banking system and monetary no. 88 for the year 2003. Therefore, the special significance of the research dwells on the identification of the banking sector performance, particularly after the implementation of the economic reform program, governance and Basil committee criteria and the extent of this sector's benefit from the monetary reforms advantages. Despite the Egyptian banks concern with the governance issues when making credit grating decisions, this concern is no longer considered one of the main pillars to grant credit. The research problem dwells on the validity of answering the following question: What is the role of the banking system in financing the economic sectors after implementing the financial and monetary reforms?. The research is based on the following hypotheses, Egypt adoption of the governance criteria, Basil committee criteria which leads to positive results over the Egyptian banking sector. The research aims to identify the banking system performance and analyze the credit and monetary developments in Egypt during the period (2004-2010). It provides an answer of the research problem and defines the correctness or incorrectness of research hypothesis in order to achieve the research objectives. It depends on the economic analytical technique both quantitative and qualitative when analyzing the conduct of some monetary and credit variables in Egypt closely relevant to the work nature of the banking system.

Keywords : Egypt- Basil committee criteria- governance- economic reform program

Introduction:

The period from the 1990s until nowadays has witnessed considerable important and effective developments on the level of the world financial and banking conditions. These developments are attributed to the economic and political changes that occurred at the international relationships path. The most important of these changes occurred in the field of banking and financial works, banking merging, comprehensive banks trend, and the creation of new banking and financial devices. Banks are no longer only a means for mobilizing and assembling savings, providing financing opportunities, granting credit facilities, but they exceed to further objectives. These objectives are represented in merging the various world economics in one entity working under the umbrella of free market economy and through the opening of world financial markets to each other (Ammer Loutfy,2001). In this framework, the Egyptian banking system should be adjusted in order to adopt with the new economic changes and cope up with the world trend of banking development according to the criteria of governance and those of Basil. Therefore, it is necessary to adopt more effective economic policies through developing the institutions and instruments under an accurate legislative and controlling umbrella to ensure the banking system soundness and its international competitiveness ability (Central bank of Egypt,2003). In addition, the Egyptian banking system is suitable for the market economies or the two-fold banking system. That is, the functions are divided between the Egyptian central bank and the banking institutions. The banking system, in its turn, clearly contributes to finance the Egyptian economy besides the other main sources. The working nature of the banking system depends on the executed trends and paths of the monetary policy (Seham Mohamed Hassan,2003).

Notably, the expansion in establishing different banks in Egypt has led to increasing the competition among them. This has been reflected on the type of provided services that meet the standards of modernization, continued development, particularly after the GATT treaty implementation in the services field. This has affected the reduction of the performance costs of the banking services vis-à-vis their counterparts in the foreign banks (Ezzat Kenawy,2005). In this line, suitable amendments have been made to the banks and credit laws and economic legislations have been issued. The most important of them are the Act of central bank, the banking system and monetary no. 88 for the year 2003.

Significance of the research:

The Egyptian banking system represents one of the important channels for mobilizing and assembling savings in the shape of credit and investment devices. Then, it directs them to the most profitable and efficient productive sectors and activities. Moreover, the banking system plays a role in activating the privatization process, investments attraction to provide financial resources necessary for the development needs. Therefore, the special significance of the research dwells on the identification of the banking sector performance, particularly after the implementation of the economic reform program, governance and Basil committee criteria and the extent of this sector's benefit from the monetary reforms advantages.

Research problem:

Despite the Egyptian banks concern with the governance issues when making credit grating decisions, this concern is no longer considered one of the main pillars to grant credit. This is attributed to several considerations. The most important of them are the banks themselves lack governance, their boards

of directors and the top executive management are not fully aware of governance. In addition, the domestic culture still considers the governance issues as less important because of the spread of family ownerships. The competition among banks themselves leads to abandon the governance principles in order to maintain the market share and achieve profits. The research problem dwells on the validity of answering the following questions:

- What is the role of the banking system in financing the economic sectors after implementing the financial and monetary reforms?
- Is the banking sector actually capable of diminishing the dollarization phenomenon and what are the executed monetary mechanisms in this regard?
- To what extent does the banking sector succeed in achieving the balance between liquidity policy and the profitability objectives?
- What is the effective of the interest rate increase on some saving shares?

Research hypothesis:

The research is based on the following hypotheses:

- The domestic liquidity increase is attributed to the growth of money supply and semi-money.
- The preference increase of local-currency saving at the expense of foreign currency.
- The increase of granting family-sector loans at the expense of other sectors.
- The industrial sector gets the higher share of credit facilities granted to the economic sectors whether in the local or foreign currency.
- Egypt adoption of the governance criteria, Basil committee criteria which leads to positive results over the Egyptian banking sector.

Research objective:

The research aims to identify the banking system performance and analyze the credit and monetary developments in Egypt during the period (2004-2010). This can be done through identifying the size of domestic liquidity and the counter-assets in Egypt. Then, the banking developments in Egypt are analyzed through the analysis of the gross financial status development of the banking sector in Egypt. The banking deposits gross is analyzed according to the economic sectors in Egypt. The banking lending activity (credit facilities) in Egypt is also analyzed during the period of time in order to identify the points of strength and weakness at the sector. In addition, the relationship of the banking system to the performance of macro economic variables, particularly financial and monetary variables, is identified since they are the basis of decision making at the banking system. The results of governance implementation and the Basil committee criteria at the banking sectors are reviewed. Finally, findings are concluded and suitable recommendations are drawn.

Research approach and limitations:

It provides an answer of the research problem and defines the correctness or incorrectness of research hypothesis in order to achieve the research objectives. It depends on the economic analytical technique both quantitative and qualitative when analyzing the conduct of some monetary and credit variables in Egypt closely relevant to the work nature of the banking system. It has made use of some statistical techniques and financial analysis techniques such as the percentage, financial indicators to analyze published data from the Egyptian central bank reports and the statistical newsletters issued by the banking system branches in addition to books and scientific periodicals in this field. As for the research time limitations, it spans the period of 2004-2010 related to the analysis of credit and monetary developments in Egypt. The study does not include the banks' activities out of the budget scope such as the issuance of guarantee letters and others.

Research plan:

It includes four parts. These parts are as follows:

First: development of domestic liquidity size and counter-assets in Egypt

Second: Analysis of the banking developments in Egypt during the period of 2004-2010, which include:

- Development of the gross financial status of banks in Egypt.
- Development of deposits gross in banks according to the economic sectors in Egypt.
- Analysis of the lending activity of banks (credit facilities) in Egypt.

Third:

implementation of governance and basil committee criteria at the Egyptian banking system.

Fourth: Results and recommendation:

First: development of domestic liquidity size and counter-assets in Egypt :

1. Development of domestic liquidity size:

Table no.1 refers to the growth of domestic liquidity size from about LE 434.9 billion by the end of June 2003 to LE 917.4 billion by the end of June 2010. That is, more than the double with an annual average growth rate estimated 12.2%. The comparison of the 2009-2010 years, the domestic liquidity size increased (by LE 86.3 billion) from LE 831.2 in the year 2009 to reach LE 917.5 in the year 2010. The increase is estimated about 10.4%. The local net assets contribute a large share in this increase as it increased by LE 58.0 billion estimated 10.0%. The foreign net assets increased by the equivalent of LE 28.3 billion by 11.1%. The domestic liquidity increase is reflected in the domestic liquidity of quasi money (non-current local currency deposits and foreign currency deposits) by LE 55.2 billion by 8.5%, the money supply increased by LE 31.1 billion estimated 17.0%.

Table no.1: Development of domestic liquidity and counter assets during the period of (2004-2010) (value in million pounds).

End of June	2004	2005	2006	2007	2008	2009	2010
Domestic liquidity	434911	493884	560356	662688	766664	831211	917459
Dollarization rate in liquidity (%)	28.4	24.5	24.4	23.2	25.5	25.4	22.5
a. Current payment means	77606	89685	109274	131290	170579	182991	214040
Deliberated cash outside the banking system	55933	63029	74239	86860	104656	118146	135209
Local-currency current savings	21673	26656	35035	44430	65923	64845	78831
b. quasi money	257305	404199	451082	531398	596085	648220	703419
non-current local currency deposits	232610	283020	314188	377424	436268	481054	545303
Current and non-current foreign currency deposits	123695	121179	136894	153974	159817	167166	158116
Second: counter assets							
Foreign assets net	45241	80913	133385	218629	303680	254134	82408
Domestic credit	422040	466771	509532	531314	570953	695326	775268
Other items net	-32370	-53800	-82561	-87255	-107969	-118249	-140217

Source: Central bank of Egypt , annual report, different volumes

* The rescheduled debts according to Paris Club Agreements were settled

It is noted that the annual growth rate of the domestic liquidity size was the double of the annual growth rate of gross domestic production in the fixed prices. This achieves the monetary policy objective of preserving the suitable degree of monetary stability. The increase of domestic liquidity represents the growth of both money supply and quasi money as follows (Central bank of Egypt: annual report 2009/2010):

A. Development of money supply (quantity of current payment means) :

Table no. 1 shows the money supply quantity has tripled increase during the study period. It increased from LE 77.6 billion by the end of June 2004 to LE 214 billion in 2010. The increase of payment means quantity represents the increase outcome in both the money circulated outside the banking system and the local currency current deposits as the annual growth average reached 18% and 9% respectively during the period of the study. The money increase issued from the money circulated outside the central bank treasuries is considered as a reflection of the circulated money restructure policy which the central bank adopts in order to rationalize the use of banknotes and achieve suitable balance of the different issued-money with the market needs (Salwa Al-Antary,2001).

B. Quasi-money quantity:

Table no. 1 clarifies as well that quasi money quantity (local currency non- current deposits and foreign current and non-current deposits) achieved an upwards growth during the study period. They increased from about LE 357.3 billion at the end of June 2004 to LE 703.4 billion in 2010 with an average annual growth rate estimated 21% during the study period. The local non-current deposits increased to LE 545.3 billion at the end of June 2010 compared to LE 2336 billion at the end of June 2004, with an average annual growth rate of 17.4% during the study period (Ahmed Abdel Hafez,2001). The foreign deposits increased as well by 18.4% in average during the same period and reached LE 158.1 billion at the end of June 2010 compared to LE 123.6 billion at the end of June 2004. The increase of local currency non-current deposits is mainly attributed to the growth of family sector deposits and the private sector deposits by 14.2% and 6.3% in average respectively during the period (2004-2010). Meanwhile the public sector deposits declined by 1.9% in average during the same period.

2. Development of counter-assets size: it includes the following:

1. Foreign assets net:

Table no. 1 indicates that the foreign assets net increased from LE 45.2 billion in 2004 to LE 282.4 billion in 2010. The increase estimated 63%. The reserved money (derived from the central bank budget) increased by LE 28 billion as it increased from LE 118.1 in 2009 to LE 135.2 billion in 2010. The increase rate estimated LE 135.2 in 2010 by about 16.0%. The increase is attributed to the increase of central bank foreign assets net by LE 18.5 billion and the increase of local assets net by LE 9.5 billion. The increase reflected in the growth of local currency banks deposits at the central bank by LE 10.0 billion and the circulated money outside the central bank by LE 18.0 billion. The circulated money increase resulted from the issued money increase by LE 18.3 billion estimated 14.3% as its fund reached LE 146.2 billion at the end of June 2010. This is mainly attributed to the effect of exchange rate change in addition to the outcome increase of oil sales and the increase of Suez Canal crossing revenues (Salwa Al-Antary,2004).

2. Domestic credit: Table no. 1 refers that the continued growth of domestic credit. It increases by an average growth rate of about 16.7% during the period of study. It increases from about LE 422 billion in 2004 to LE 775.2 billion in 2010. The private sector demands increase is the main reason behind the increase of domestic credit rates. The annual growth

rate average estimated about 19.2% during the study period. The banking system demands from the public sector (including the public economic corporations) increased as the indebtedness net estimated LE 214 billion representing 32.4% of the gross domestic credit in 2010 compared to LE 126.3 billion representing 29.5% of the gross domestic credit in 2004 achieving an annual growth rate average of 19.9% during the study period (Mohamed Othman Mostafa,2004).

3. Other items net:

While the domestic credit and foreign assets net experienced an expansion effect on domestic liquidity, the other items net experienced a diminishing effect on then in most of the study years. Table no.1 shows the negative fund reduction of the other items net (accounts of capital, assets net and unclassified liabilities) by LE 32.3 billion in June 2004 to LE 141.2 billion in 2010.

Second:

Analysis of banking developments in Egypt during the period (2005-2010): Banks are notably active during this period. This is clarified through the main characteristics of that activity:

1. Development of banks gross financial status: Table no. 2 refer to the increase of banks gross financial status by about LE 633.4 billion at the end of June 2004, LE 703.6 billion in 2005, LE 1083.3 billion in 2008 to LE 1220.6 billion in 2010, with an annual growth rate of 27.4% during the study period. The liabilities increase mainly reflects the deposits increase whose funds reached LE 461.6 billion representing 72.9% of total liabilities in 2004, then highly increased to LE 892.4 billion in 2010. The comparison of the two last year 209 and 2010 clarifies that about two-thirds of the liabilities increase (64.4%) concentrated on the deposits growth increased by LE 82.8 billion estimated 10.2%. Banks liabilities in Egypt recorded an increase of LE 22.9 billion (an upwards liabilities outcome for the central bank estimated LE 25.9 billion, decrease of other banks liabilities by LE 3.0 billion). Banks sustained their equity rights by LE 12.2 by 19.3%. Their allocations increase were restricted to LE 0.7 billion estimated 1.0%. As for assets, this upwards trend reflects the following points:

- Increase of Egyptian banks funds reached LE 200.7 at the end of June 2010 compared to LE 116.3 billion at the end of June 2004 with an annual growth rate average of 19.6% during the study period.
- Increase of lending and liabilities funds reached LE 465.9 billion represented 38.2% of the banks total financial status at the end of June 2010 compared to LE 296.2 billion represented 24.3% of the banks total financial status at the end of June 2004, with an annual growth rate average of 14% during the study period.
- Increase of banknotes and investments reached LE 405.9 billion represented 33.3% of the banks total financial status at the end of June 2010 compared to LE 137.4 billion and represented 17.6% of the banks total financial status at the end of June 2004, with an annual growth rate average of 14.6% during the study period. Notably, most of the increase occurred in the treasury bonds.

Table no. 2: Banks total financial status during the period (2004-2010) (value in million pounds)

End of June	2004	2005	2006	2007	2008	2009	2010
Assets							
Cash	5412	6594	6813	7705	10261	11128	12448
Banknotes and investments on treasury bonds	137431	170659	193965	176098	201858	332597	405898
Central banks share	-	-	21563	17617	-	-	-
Banks funds in Egypt	116290	124986	121695	217363	278185	173482	200719

Banks funds abroad	43290	51204	72554	124366	122792	77120	57371
Lending and liability funds	296199	308195	324041	353746	401425	429957	465990
Other assets	34814	41990	42494	58645	68790	67709	78232
Assets=liabilities	633436	703628	761562	937823	1083311	1091993	1220655
liabilities							
Capital	20346	22949	27112	33037	37576	41550	46598
Reserves	11454	12419	13418	12552	19763	21371	28486
Allocations	44585	49541	54950	53469	62314	69748	70418
Long term bonds and loans	15012	14254	17526	26351	22285	22045	21697
Liabilities for banks in Egypt	29933	2671	21488	82619	98699	31004	53881
Liabilities for banks abroad	10332	12262	8770	1006	13327	18195	20305
Gross deposits	461697	519649	568841	649953	747199	809694	892492
Other liabilities	40078	49883	49457	69936	82148	78386	86778

Source: Central bank of Egypt, annual report, different volumes

2. Development of banks gross deposits according to the economic sectors: Table n. 3 refers to banks deposits growth by an annual growth rate average of 24.3% during the study period reached LE 892.5 at the end of June 2010 compared to LE 461.7 billion at the end of June 2004, of which the local currency deposits constitute about 71.3% whereas the foreign currency deposits constitute 28.7%. The domestic currency deposits distribution during the study period refers to the growth of family sector deposits by 14.3% in average. They increased from LE 205.4 billion, represented 66.1% of gross domestic currency deposits at the end of June 2004, to LE 477.9 billion; represented 60.3% of gross domestic currency deposits in 2010. The deposits of private works sector and the government sector increased from LE 35.2 billion and LE 54.1 billion respectively in 2004. they reached LE 114.4 billion and LE 58.5 billion respectively in 2010 achieving an annual growth rate average of 7.3% and 16.2 successively. Meanwhile the public sector deposits raised from LE 15.4 billion in 2004 to LE 32.7 billion in 2010. The abroad world deposits raised from LE 742 billion in 2004 to LE 2.6 billion in 2010. The family sector deposits have also contributed to most of the foreign currency deposits during the study period. These deposits grew by about 23.2% in average to reach about LE 96.9 billion constituted 47.2% of the foreign currency gross deposits at the end of June 2010 compared to LE 90.9 billion; represented 51.4% of foreign currency deposits gross at the end of June 2004.

The comparison of the last two years of 2009 and 2010 clarifies that banks deposits (including government deposits) recorded an increase of LE 82.8 billion by 10.2% during the year of 2009/2010 compared to LE 62.5 billion by 8.4% during the 2008/2009 year and reached LE 892.5 billion; represented 73.1% of the banks financial status at the end of June 2010. The increase of domestic currency deposits exceeded the gross deposits increase as they raised by LE 87.5 billion by 14.6% and reached LE 686.1 billion; represented 76.9% of the banks gross deposits at the end of June 2010. Meanwhile the foreign currency deposits declined by LE 4.7 billion estimated 2.2%. This reflects the continued preference of local currency savings. A large increase portion of local currency deposits increase (73.5%) in the family sector deposits growth. Its local currency deposits increased by LE 64.4 billion estimated 15.5% and reached LE 477.9 billion; represented 69.7% of the gross local currency deposits at the end of June 2010. The private works sector deposits reached LE 10.1 billion by 9.7%. The government sector deposits raised by LE 8.9 billion by 18.0%, the public sector deposits raised by LE 3.9 billion by 13.6%. AS for the foreign currency deposits, their diminish is mainly attributed to the decline of the private sector deposits by LE 3.4 billion; the family sector deposits by LE 3.3

billion; the public sector deposits by LE 2.3 billion, whereas the government sector deposits increased by LE 4.1 billion and the abroad deposits increase restricted to LE 0.2 billion.

Table no.3: Development of banks gross deposits according to the economic sectors during the period (2004-2010):

End of June	2004	2005	2006	2007	2008	2009	2010
Gross deposits	461697	519649	468841	649953	747199	809694	892492
Local currency deposits	310870	369067	401143	463320	552079	598587	686052
Government sector	54120	57649	49422	37233	44789	49564	58496
Public works sector	15414	16727	20399	23464	29434	28800	32726
Private works sector	35219	39668	41444	77504	119716	104250	114372
Family sector	205375	253865	287973	321793	354119	413558	477842
Abroad sector **	742	1158	1905	3326	4021	2415	2616
Foreign currency deposits	150827	150582	167698	186633	195120	211107	20644
government sector	26187	27252	29290	30329	33203	41481	54618
Public works sector	3432	4195	5668	6721	9146	8735	6474
Private works sector	29550	31337	39263	49093	57202	58321	54907
Family sector	90899	85813	92174	98321	93653	100210	96875
Abroad sector **	759	1985	1303	2159	1916	2360	2566

Source: Central bank of Egypt, annual report, different volumes

* it includes the public sector companies subject to Act 203, 1991 and the other non-subjected public sector companies

** it includes deposits versus US financial aids

3. Lending activity analysis: (credit facilities):

The lending activity occupies a large part of the banks functions. Table no. 4 indicates that the credit facilities funds reached about LE 296.2 billion; constituted 46.8% of the banks gross financial status at the end of June 2004. They increased to LE 466.0 billion; represented about 38.2% of the banks gross deposits in 2010. It is noted that industry sector has the large share of the granted credit facilities during the study period and reached about LE 94.8 billion; constituted 41% of the total foreign currency granted credit facilities at the end of June 2010 compared to LE 77.7 billion; constituted 29% of total local currency granted credit facilities at the end of June 2004. It is followed by the services sector represented 26.5% and reached LE 71 billion in 2010 compared to LE 60.5 billion and represented 22.5% in 2004. In spite of the credit facilities growth granted for the trade, agriculture and non-distributed sectors reached LE 5.2 billion, LE 4.8 billion and LE 91.9 billion respectively in 2010 compared to LE 4.8 billion, LE 5 billion, and LE 36.4 billion successively in 2004, the relative importance has decreased to 20.1%, 1.9% and 15.2% successively in 2010 compared to 21.3%, 2.2% and 16% respectively in 2004. As for the foreign currency granted credit facilities, it is noted that the industry sector has the largest share of these facilities whose proportion reached 51% at the end of June 2010 compared to 38.3% at the end of June 2004. The services sector obtained 35.6% in 2010 compared to 27.3% in 2004. The trade sector obtained 27.3% compared to 17.5%, whereas the agricultural sector obtained about 0.6% compared to 0.8 during the same period.

Table no. 4: Development of the granted credit facilities according to the economic activity during the period (2004-2010) (value in million pounds)

End of June	2004	2005	2006	2007	2008	2009	2010
Gross liabilities and lending funds	296199	308195	324041	353746	401425	429957	465990
Local currency funds	228159	233141	238926	248544	267166	295192	313654
Agriculture	5051	5822	4902	6986	5758	5137	94810
Industry	77722	81844	77734	80497	76793	94674	94810
Trade	48479	45648	43564	37476	42456	44079	51241
Services	60505	59870	61679	67035	71208	96766	70931
Non-distributed sectors	36438	39957	51047	56550	70951	81536	91816
Foreign-currency funds	68040	75054	85115	105202	134259	134765	152336
Agricultures	550	619	829	929	863	2165	1554
Industry	28569	34957	38517	51399	67690	61808	79423
Trade	12552	11893	13930	11837	15319	14646	15134
Services	23941	24188	26983	33842	35594	39117	38084
Non-distributed sectors	2428	3397	4856	7195	14793	17029	18141

Source: Central bank of Egypt, annual report, different volumes

As for the banks granted foreign and local currencies loans according to the sectors, Table no. 5 as compared to the last two years 2009 and 2010 show the increase of local currency granted lending and liabilities funds. The increase slightly exceeds half increase of the loans granted by banks. They raised by LE 18.4 billion estimated 6.3% and reached LE 313.7 billion at the end of June 2010. About 62.0% of the increase concentrated in the above-mentioned currency loans granted to the family sector. These loans increased by LE 11.3 billion estimated 14.5% compared to an increase of LE 9.0 billion estimated 12.9% during 2008/2009. The loans granted to the private works sector raised by LE 8.6 billion estimated 4.8% whereas the loans granted to the government sector increased by LE 2.7 billion estimated 18.9%. The loans granted to both public works sector and the abroad world declined by LE 2.7 billion estimated 11.3% and LE 1.3 billion estimated 5.2% successively. As for the foreign currency granted loans and liabilities, they increased by LE 17.6 billion estimated 13.0% and reached about LE 152.3 billion at the end of June 2010. the achieved increase during 2009/2010 is considered as an outcome of the upwards funds granted to the private works sector equivalent to LE 10.7 billion and those granted to the government sector equivalent to LE 6.2 billion and to the abroad world sector equivalent to LE 4.3 billion. Those granted to the family sector declined by the equivalent of LE 3.2 billion and to the public works sector declined by the equivalent of LE 0.4 billion.

Table no.5: Development of gross granted facilities according to the economic sectors during the period (2004-2010) (value in million pounds)

End of June	2004	2005	2006	2007	2008	2009	2010
Gross liabilities and lending funds	296199	308195	324041	353746	401425	429957	465990
Local currency funds	228159	233141	238926	248544	267166	295192	313654
Government sector	9963	10938	11285	10788	9698	12946	15389
Public works sector*	27690	30164	26296	18079	19475	23725	21051
Private works sector	154162	152193	150491	163292	167258	177107	185694
Family sector	35955	39354	50158	55453	69838	78827	90266
Abroad world	389	492	72851153	914	897	2587	1254

Foreign currency funds	68040	75054	85115	105202	134259	134765	152336
government sector	6240	11080	9712	15896	21460	17802	23995
Public works sector*	7740	7078	6373	6091	7177	9155	8761
Private works sector	51668	53502	64184	76020	90829	90778	101454
Family sector	1059	913	3017	4485	8494	5762	2526
Abroad world	1333	1481	1829	2710	6299	11268	15600

Source: Central bank of Egypt, annual report, different volumes

* it includes the public sector companies subject to Act 203, 1991 and the other non-subjected public sector companies

Third: implementation of governance and basil committee criteria at the Egyptian banking system:

It means performance control on the part of board of directors, higher bank administration, protection of shareholders and depositors rights in addition to the concern of their relationships with the outer doers which are determined through regulatory framework and the authorities of corporation's control.

The banking sector governance is applicable to public, private and common banks. The fundamental elements of governance process are represented in two groups (Azab, B., 2007). The first group represents the inner doers, namely shareholders, board of directors, executive administration, controllers, and internal auditors. While the second group represents the outer doers, namely the depositors, deposits insurance fund, mass media, credit evaluation and rating corporations and the controlling, regulatory and legal framework. Governance focuses- mentioned earlier- on main elements that should be available tightly complete the effective surveillance over banks performance. These elements are transparency, information availability, implementation of international accounting criteria and development of human capabilities level through training.

The success of banking sector governance is not only linked to laying out controlling rules, but also to the importance of its sound implementation which depends on the central bank and its surveillance on the one hand and the bank concerned and its administration on the other hand (Andrei Shleifer and Robert Vishny, 2003). The bank administration should be convinced of the importance of such rules and constrains in order to facilitate their implementation. This reveals the roles of board of directors- with its executive and non-executive sections- the following-up committees that provide the necessary data on the bank performance for the board, examination committee within the banking sector that submit its reports to the board of directors and the shareholders who should perform their controlling role on the bank performance besides providing the capitals whenever the banks are in need for them.

Generally, governance sound practice leads to the support and soundness of the banking system through the Basel Committee's criteria. Basel Committee is a controlling committee on the banks which organizes and controls the banking industry. The most important criteria are as follows (BIS, 2006):

- Declaration of the banking system and the banks' strategic goals and determination of the administration's duties.
- Assertion of the effectiveness of members of boards of directors and their full understanding of the governance concept and the non-existence of intended errors on the part of the highest administration.
- Effectiveness guarantee of the controllers' role and the understanding of their controlling role's importance.

- Necessity of providing transparency and disclosure in all actions and activities of the bank and its administration.

The emphasis on the practices of sound governance at the banking sector should go through two ways: the first stage led by the central banks as they are in charge of regulating and controlling the banking system. Whereas the second way is represented in the items per se as the absence of governance means anarchy and decline. In addition, the auditing and scrutiny procedures conducted by the banks and the bank's adherence to the inner and outer scrutiny procedures and the role of the central bank in scrutinizing their actions, the troubles, which banks have suffered from, have shown the need for the evaluating and strengthening the auditing process (Charles P. Oman, 2001).

The banks' concern of the corporate governance's issues and providing its sound practices during the decision-making process by granting credit to customers are the main approaches encouraging corporations to implement and adopt the governance concepts. The provision of governance's sound practices is an effective factor in two ways: the first way represents governance as one of the credit-decision pillars. This leads the borrowers to adopt governance's sound practices to facilitate getting the credit. The trend contains the interest rates granted to customers should be flexible towards the customers' adherence to governance sound practices. The customers will, then, get convinced of the governance benefits and roles in facilitating the process of getting low-interest rates credit.

In spite of the banks' concern of the governance issues during the decision-making of granted credit, this concern cannot be considered yet as one of the main pillars of granting credit. This is attributed to several considerations. The most important ones are the banks, themselves, lack of governance and their boards of directors and highest administrations do not have full awareness of the governance importance. In addition, the local culture still considers the governance issues as less important issues because of the spread of family ownership. Furthermore, the competition among the banks themselves leads to abandon the governance's principles in order to maintain their market shares and achieve profits (Mohamed Hassan Youssef, 2007).

The review of the banks' credit policies reveals the need for including a specific action in these policies which pays attention to the corporate governance within the bank's vision and objectives. The bank's definition should also include the concept of best customers who are granted prime lending rate. These are the customers who have sound practices of the corporate governance's principles. Even though, the customers rating process is practically concerned with the governance's issues, its further activation is considered as one of the instruments through which banks can reinforce the corporate governance's principles. Such principles can at last reduce risks and ensure the avoidance of sudden changes occurrence (Alamgir, M. 2007). The inclusion and strengthening of the corporate governance culture within the dominant culture managers and those in charge of credit is inevitable to reinforce and sustain that trend whenever the small and medium enterprises are considered. Such enterprises should adopt different principles and policies of corporate governance from those adopted by the bigger corporations (National bank of Egypt, 2003). It is notable that the central bank of Egypt has adopted a number of procedures in light of the fundamental rules endorsed by the Basel Committee. The legal, controlling and regulatory framework of the central bank of Egypt devises cautious controlling rules over the bank's business. These rules include determination of the size and field of each bank's activity; proportions of reserves and liquidity and controlling the implementation of capital sufficiency criteria. The central bank of Egypt has decided to increase this proportion from a percent to 10 percent and asked the banks to adhere to these proportions (Freeland, 2007).

In this context, the central bank of Egypt has paid attention to the assets rating technique and allocation determination appropriate for each group, since the banking safety can only be realized whenever the rating is soundly performed. It has also paid attention to the criteria of one-customer or one-currency loan concentration, in order to protect the bank against the fluctuations that might occur to any of these groups. It has paid attention as well to lending to associated parties or relevant parties; a matter which can cause crises for the banking system. In this regard, the central bank of Egypt made a decision in November 2002 which entails the necessity of strongly cautious handling of this type of lending. The governance success in the banking system requires the existence of punishment whenever an error occurs and the existence of error-correction mechanism (Egyptian Banking Institute, 2006).

Fourth: Results and recommendation:

In line of the above-mentioned clarifications, the following group of results can be concluded:

- Increase the banking credit role in benefiting from the monetary reform advantages and achieving the paramount importance of providing the funding resources necessary for the development projects.
- The banking credit bias in favour of the private sector in accordance to the economic reform plan in supporting the private sector role to play a more important role in the development process. This led to disequilibrium in the credit facilities structures.
- The non-continued follow up of the banking system to guarantee the soundness of granted finance to different sectors. This led to the stumbling phenomenon of accumulated.
- The increase of domestic liquidity is attributed to the growth of both money supply and quasi money. The increasing preferences of local-currency savings at the expense of foreign-currency savings.
- The possession of industry sector over the highest proportion of credit facilities granted to the economic sectors whether in local or foreign currencies.
- Egypt's adoption of the governance and Basil committee criteria has led to positive results of the banking system in Egypt.
- the interest rate increase of the Egyptian-pound savings which leads to diminishing the dollarization phenomenon and developing the domestic savings market in line of mobilizing and attracting savings.
- The interaction increase between monetary and development policies while taking into considerations other policies in order to achieve structural reforms in the Egyptian economy. This matter has finally led to curbing inflation and reducing the public budget deficit.

In light of the above-mentioned results, the research recommendations are as follows:

- Disequilibrium correction of the credit facilities structure granted to the economic activities while observing the non-prejudice in favour for certain economic sectors at the expense of others.
- Banks should support investors and review their positions to overcome the stagnancy circle while creating adequate banking controlling systems over credit.
- Activating the banking system role in financing long-term investments and providing suitable environment to activate the market money in Egypt.
- It is necessary to observe that loans-deposits gross proportion should not exceed the normal limits ranging from 65% to 75%. This can be done through controlling the expansion of domestic credit process.
- Activating legislations related to monetary and credit, particularly the necessity of preserving the central bank independence in light of the final decision in this concern.
- The coordination necessity between the monetary and credit policies to support the structural reforms of the Egyptian economy.

- Curbing the increasingly growing phenomenon of dollarization through creating mechanisms that encourage local currency-savings.

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