

Egypt



Kwamena Aidoo
Rona Shedid
Ahmed Hassanein

Brief history of the country:

The regularity and richness of the annual Nile River flood, coupled with semi-isolation provided by deserts to the east and west, allowed for the development of one of the world's great civilizations. A unified kingdom arose circa 3200 B.C., and a series of dynasties ruled in Egypt for the next three millennia. The last native dynasty fell to the Persians in 341 B.C., who in turn were replaced by the Greeks, Romans, and Byzantines. It was the Arabs who introduced Islam and the Arabic language in the 7th century and who ruled for the next six centuries. A local military caste, the Mamluks took control about 1250 and continued to govern after the conquest of Egypt by the Ottoman Turks in 1517. Following the completion of the Suez Canal in 1869, Egypt became an important world transportation hub, but also fell heavily into debt. Ostensibly to protect its investments, Britain seized control of Egypt's government in 1882, but nominal allegiance to the Ottoman Empire continued until 1914. Partially independent from the UK in 1922, Egypt acquired full sovereignty with the overthrow of the British-backed monarchy in 1952. The completion of the Aswan High Dam in 1971 and the resultant Lake Nasser have

altered the time-honored place of the Nile River in the agriculture and ecology of Egypt. A rapidly growing population (the largest in the Arab world), limited arable land, and dependence on the Nile all continue to overtax resources and stress society. The government has struggled to meet the demands of Egypt's growing population through economic reform and massive investment in communications and physical infrastructure (CIA World Fact Book).

Population

75MM in 2007 (Global Insight 2009)

GDP and GDP per head

USD 129.7Bn, USD 1,718/capita - 2007 (Global Insight 2009) -

Real gross domestic product by sector

(% share of GDP)

	2003	2004	2005	2006	2007
Agriculture	16.3	15.2	14.9	14.1	13.8
Industry	35.7	36.9	36.3	38.4	38.1
Services	48.0	48.0	48.8	47.5	48.0

Source: Economist Intelligence Unit.

Nominal gross domestic product by expenditure

(% share of GDP)

	2003	2004	2005	2006	2007
Private consumption	73.0	71.7	71.6	70.6	70.4
Government consumption	12.7	12.8	12.7	12.3	11.5
Gross fixed investment	16.3	16.4	17.9	18.7	21.2
Stockbuilding	0.6	0.5	0.1	0.0	0.0
Exports of goods & services	21.8	28.2	30.3	29.9	31.5
Imports of goods & services	24.4	29.6	32.6	31.6	34.8

Source: Central Statistical Office.

Source: EIU Country Profile 2008

Most important industries

Egypt - Top Ten Sectors Ranked By Value Added

		Level in 2008	Growth in 2008-09	Share in GDP
		US\$ Billion	Percent	Real ('05) US\$ Basis
1	Agriculture	25.7	7.3%	13.2%
2	Financial Intermediation	16.6	6.9%	10.5%
3	Transport, Storage, Communication	16.4	9.6%	10.2%
4	Public Admin. and Defense	14.9	11.8%	9.2%
5	Mining of Metals and Stone	12.7	1.9%	5.0%
6	Education	10.8	14.8%	6.4%
7	Oil and Gas Mining	10.0	-53.5%	4.2%
8	Retail Trade (excl. Auto)	9.3	6.0%	6.6%
9	Communications Services	8.4	10.1%	5.4%
10	Wholesale Trade	7.7	10.6%	4.9%
	Total of Top 10	132.5		75.5%

Source Global Insight 2009

Macro data and growth rates

	2002/03	2003/04	2004/05	2005/06	2006/07
Economic Performance					
Nominal GDP (LE bn)	417.5	485.3	538.5	617.7	731.2
Nominal GDP (US\$ bn)	80.4	78.7	89.7	107.5	127.9
Nominal GDP Growth Rate (%)	10.2%	16.2%	11.0%	14.7%	18.4%
Real GDP (LE bn)	390.7	407.0	425.2	454.3	486.5
Real GDP Growth Rate (%)	3.2%	4.1%	4.5%	6.8%	7.1%
Per capita GDP (US\$)	1,161	1,117	1,247	1,460	1,706
Consumer Price Index (%)	3.2%	10.3%	11.4%	4.2%	11.0%

Source: Global Research Egypt, Global Investment House¹

Detailed Macro-Economic Indicators									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP (% change)	4.4	6.8	7.1	7.2	2.6	3.0	4.8	4.5	4.2
Nominal GDP (US\$ bil.)	93.2	107.7	129.7	161.4	171.6	182.0	191.7	201.6	211.9
Nominal GDP Per Capita (US\$)	1,279	1,453	1,718	2,100	2,195	2,288	2,370	2,451	2,535
Nominal GDP Per Capita (PPP\$)	4,620	5,005	5,407	5,815	5,920	6,046	6,308	6,575	6,868
Real Consumer Spending (% change)	3.8	5.2	2.7	6.0	2.1	2.5	4.6	2.7	2.4
Real Fixed Capital Formation (% change)	11.5	13.8	31.8	15.5	3.5	3.0	3.0	3.0	7.0
Real Government Consumption (% change)	2.8	3.1	3.2	2.1	3.0	3.2	3.2	3.2	3.2
Real Imports of Goods and Services (% change)	23.7	21.8	28.5	27.9	-2.0	7.2	5.5	5.9	7.0
Real Exports of Goods and Services (% change)	20.2	21.3	23.3	25.5	-2.0	8.0	7.0	9.2	7.6
Industrial Production Index (% change)	6.9	5.9	7.3	5.1	0.7	1.9	3.8	3.6	3.5
Consumer Price Index (% change)	4.9	7.6	9.3	18.1	7.6	6.6	5.3	4.6	4.3
Wholesale-Producer Price Index (% change)	5.3	7.0	10.0	17.1	8.9	6.2	5.3	5.0	4.9
Policy Interest Rate (%)	10.00	9.00	9.00	11.50	10.50	10.00	9.00	9.00	9.00
Short-term Interest Rate (%)	7.22	6.02	6.10	6.59	6.72	6.20	6.20	6.10	6.10
Long-term Interest Rate (%)	13.14	12.60	12.51	12.23	12.24	12.20	12.10	12.10	12.10
Fiscal Balance (% of GDP)	-8.1	-8.7	-6.4	-7.3	-8.6	-8.4	-8.0	-7.6	-7.1
Population (mil.)	72.85	74.17	75.50	76.84	78.19	79.54	80.89	82.23	83.57
Population (% change)	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.6
Unemployment Rate (%)	11.0	10.7	9.8	9.2	9.9	9.8	9.9	9.1	8.3
Current Account Balance (US\$ bil.)	2.1	2.6	0.4	-1.1	-2.1	0.5	0.8	1.4	2.3
Current Account Balance (% of GDP)	2.3	2.4	0.3	-0.7	-1.2	0.3	0.4	0.7	1.1
Trade Balance (US\$ bil.)	-7.7	-8.4	-14.9	-20.4	-17.9	-18.8	-20.4	-22.3	-23.4
Trade Balance (% of GDP)	-8.3	-7.8	-11.5	-12.6	-10.4	-10.3	-10.6	-11.0	-11.0
BOP Exports of Goods US\$bn	16.1	20.5	24.5	31.4	27.1	29.6	32.0	34.4	35.8
BOP Imports of Goods US\$bn	23.8	29.0	39.4	51.8	45.0	48.4	52.4	56.7	59.2
Exchange Rate (LCU/US\$, end of period)	5.73	5.70	5.50	5.51	5.70	5.80	5.93	6.08	6.22
Exchange Rate (LCU/Yen, end of period)	0.05	0.05	0.05	0.06	0.06	0.06	0.07	0.07	0.07
Exchange Rate (LCU/Euro, end of period)	6.76	7.51	8.10	7.67	7.40	7.89	7.94	8.20	8.46

Source: Global Insight, 2009

Banking system:

Since the appointment of the current Cabinet in 2004, the government has positioned the reform of the banking sector in Egypt as a key priority, setting a five-year plan for its completion. The reform plan focused on three directions, namely selling state owned stakes in joint venture banks, privatization and restructuring of the state-owned banks, and improving the quality of the operating banks.

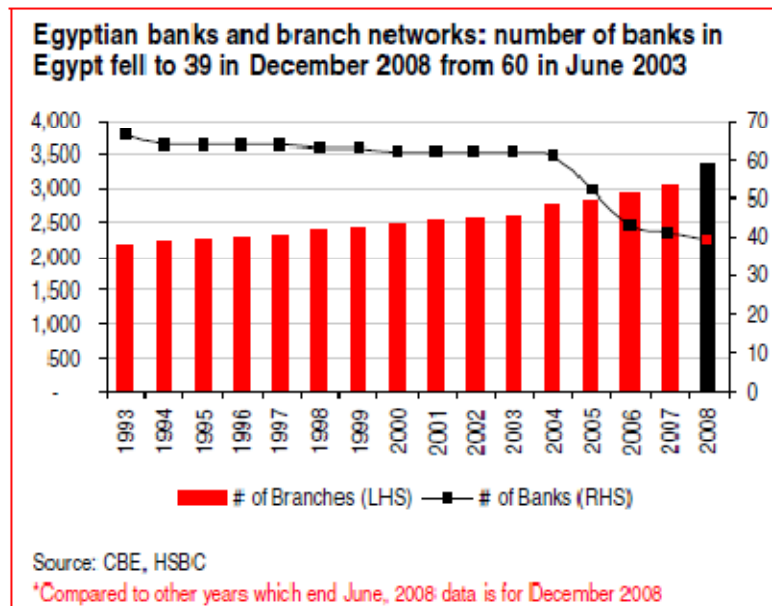
One of the key problems that were tackled by the government was the very high level of non-performing loans (NPLs), which were estimated at 25% of gross loans in the sector as a whole. The first phase of the reform program which ended in December 2008, stipulated that around 90% of the non-performing loans should be settled (which were estimated at E£60 billion at the start of the program, out of which E£50 billion belonged to the public sector banks). All the banks operating in the Egyptian banking sector have complied and some have exceeded, the minimum capital requirement set by the Central Bank of Egypt (CBE), which is E£500 million (US\$92.6 million) for domestic banks or US\$50 million for branches of foreign banks.

Deposit Insurance:

The Central Bank of Egypt (CBE) has prepared a second phase for the banking sector reform program submitted to the President in September 2008 and was set to start in January 2009; however, no details have been released, so far, on the plan, except that it would involve a deposit insurance plan to protect small depositors, which has been officially announced by the Central Bank Governor in a statement commenting on the global banking crisis. The second phase of the financial reform program will also include the approval of the law establishing the non-banking financial sector regulatory body by the beginning of 2009 to start operation by mid-2009. The new body will regulate non-banking financial institutions, including insurance companies, capital market activities, and mortgage finance companies.

Number and size of banks:

There is some discrepancy in reports on the number of banks operating within Egypt, but the number varies between 37 and 39 commercial banks depending on how the data accounts for state ownership. The chart below is an extract from an HSBC report, which was based on data collected from the Central Bank of Egypt. As the chart demonstrates, there were 39 banks operating in Egypt as of December 2008, down from 60 banks in 2003. The chart also shows that the number of branches rose to 3,107 in 2008 from 2,582 in 2003 (Banks Egypt, HSBC Global Research, March 2009)².



Foreign versus domestic ownership:

There are 2 large state-owned commercial banks, namely the National Bank of Egypt and Banque Misr, and 2 smaller and more specialized public sector banks, one for Industry, and one for Real Estate and Agriculture. Moreover, there is one bank (The United Bank) which is owned by the Central Bank of Egypt; and 6 private sector banks in which the government still holds ownership stakes, in some cases more than 50%. There are 7 more private banks that operate as branches of their foreign headquarters and which can only transact in foreign currency. Finally there are 18 banks that are fully or majority owned by regional and international foreign banks, and which are fully licensed to operate in local currency. The table shown below provides financial summaries for some of these banks.

Egyptian Banks 2008 market share data and financial performance trend for 2003-2008

	Assets Mkt Share	Loans Mkt Share	Deposits Mkt Share	CAGR for 2003-2008				
				Assets	Loans	Deposits	Net Income	
<i>Public Banks</i>								
National Bank of Egypt	19.8%	17.9%	20.9%	15.3%	9.0%	9.7%	2.1%	
Banque Misr	9.9%	7.6%	12.1%	13.5%	na	7.8%	4.5%	
<i>Private Banks</i>								
Commercial International Bank (Egypt)	5.3%	6.1%	6.3%	19%	16%	19%	27%	
National Societe Generale Bank	4.3%	5.8%	4.8%	34%	37%	32%	41%	
Bank of Alexandria-Sanpaolo	3.6%	2.5%	4.0%					
HSBC Bank Egypt	2.6%	2.3%	2.9%	36%	38%	33%	61%	
Faisal Islamic Bank of Egypt	2.2%	3.7%	2.0%	11%	7%	11%	-8%	
Credit Agricole Egypt	2.0%	1.6%	2.4%	45%	54%	46%	46%	
Suez Canal Bank*	1.3%	1.4%	1.5%	4%	-3%	5%	-100%	
Export Development Bank of Egypt**	1.2%	1.5%	0.4%	12%	11%	13%	24%	
Al Watany Bank of Egypt*	1.2%	1.4%	1.4%	16%	13%	15%	180%	
Housing and Development Bank	1.0%	1.1%	0.6%	12%	4%	17%	63%	
Piraeus Bank Egypt SAE*	0.9%	0.9%	1.1%	31%	24%	33%	na	
National Bank For Development***	0.9%	1.1%	1.1%	4%	-1%	5%	na	
Egyptian Saudi Finance Bank*	0.9%	1.1%	1.17%	27%	34%	27%	na	
Arab African International Bank*	0.7%	0.7%	1.0%	51%	59%	55%	68%	
Misr Iran Development Bank****	0.7%	0.5%	0.01%	21%	16%	25%	38%	
Blom Bank Egypt	0.6%	0.4%	0.6%	13%	8%	12%	34%	
Arab Banking Corporation- Egypt*	0.6%	0.3%	0.6%	21%	4%	21%	63%	
Ahli United Bank (Egypt)	0.5%	0.6%	0.5%	16%	10%	18%	8%	
Egyptian Gulf Bank	0.5%	0.6%	0.6%	14%	28%	13%	41%	
Union National Bank Egypt*	0.3%	0.2%	0.3%	10%	-5%	5%	na	
Societe Arabe Internationale De Banque	0.2%	0.1%	0.2%	29%	23%	33%	13%	
Remaining Banks-15 in Total Sector	39%	40%	34%					
	100%	100%	100%					

Source: Banks, HSBC

*CAGR between 2002-2007

** CAGR between 2004-2008

***CAGR between 2003-2007

****CAGR between 2004-2007

Sources and investment of funds,

Assets

Table 14: Consolidated Assets of Egyptian Banks (End of period)

In LE mn	2002/03	2003/04	2004/05	2005/06	2006/07
Cash	5,557	5,412	6,594	6,813	7,705
Securities and investments in treasury bills	111,337	137,431	172,177	193,965	176,098
Balances with banks in Egypt	110,874	116,290	124,986	121,695	217,363
Balances with banks abroad	29,798	43,290	51,204	72,554	124,366
Loan and discount balances	284,722	296,199	308,195	324,041	353,746
Other assets	35,650	34,814	41,990	42,494	58,645
Total Assets	577,938	633,436	705,146	761,562	937,923

Source: Central Bank of Egypt

Liabilities

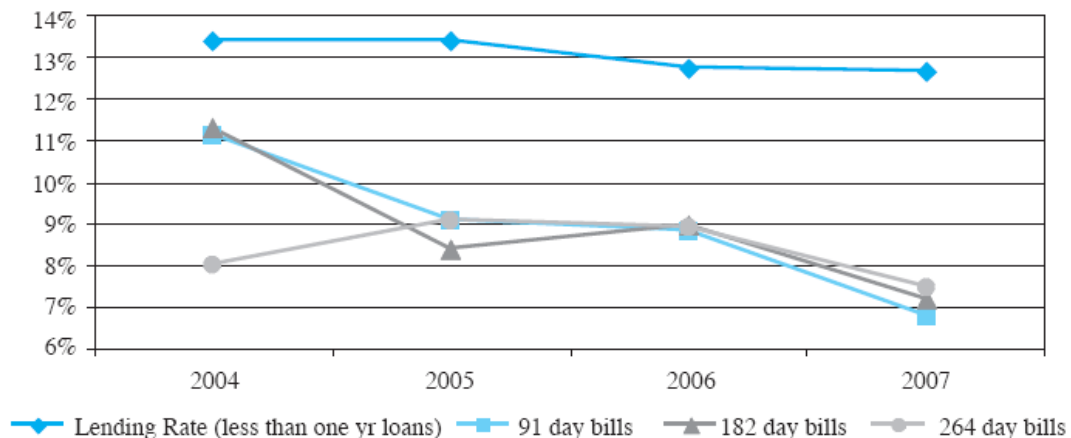
Table 15: Consolidated Liabilities of Egyptian Banks (End of period)

In LE mn	2002/03	2003/04	2004/05	2005/06	2006/07
Capital	18,155	20,346	22,949	27,112	33,037
Reserves	11,805	11,454	12,419	13,418	12,552
Provisions	40,099	44,584	49,541	54,950	53,469
Long-term loans and bonds	14,866	15,012	14,254	17,526	26,351
Obligations to banks in Egypt	35,579	29,933	22,671	21,488	82,619
Obligations to banks abroad	16,247	10,332	12,262	8,770	10,006
Total deposits	403,144	461,697	519,649	568,841	649,953
Other liabilities	38,043	40,078	51,401	49,457	69,936
Total Liabilities	577,938	633,436	705,146	761,562	937,923

Source: Central Bank of Egypt

Deposits, which rose by 14.3% in 2006/07 to reach LE650.0bn, are the primary source of financing for the Egyptian banks. They account for 69.3% of the total banking sector liabilities. The bank's deposits grew at a CAGR of 12.7% between 2002/03 and 2006/07.

The securities and investments in treasury bills account dropped in 2007, for the first time since 2002/03, along with an increase in the total credit facilities offered by banks in Egypt. As the spread between the lending rates and the treasury bills rates widened, the banks were encouraged to increase their lending facilities. In 2006/07, the securities and investments in treasury bills account dropped by 9.2%, the same rate by which the loans and discount balances rose



Bank credit to the private and public sectors:

The non-government sector accounted for the lion's share, 92.5%, of the total credit facilities distribution in 2006/07. Out of the non-government share from the total lending portfolio, 72.7% were in local currency reaching LE237.8bn. The industrial sector accounted for 31.3% of the total credit facilities granted in 2006/07. The services sector came in second with a share of 26.3%, followed by the households and external sector at 23.7%. The total credit to non-government sectors in local currencies grew by only 4.5% during 2006/07. As for the credit facilities in foreign currencies granted to the non-government sectors, again the industry sector had the highest share at 41.2%. Also, the services and trade sectors followed with 36.4% and 13.2%, respectively. It is worth noting that the growth of lending facilities in foreign currencies rose to reach LE89.3bn in 2006/07, an 18.4% rise over 2005/06 figures.

Privatizations:

The reform program initiated since 2005 has been able to impact the banking sector positively. After the successful privatization of Bank of Alexandria, the government announced its plans to privatize Banque du Caire, Egypt's third largest bank, by mid-2008. This has been put on hold however and analysts expect this may not proceed until 2010. The government has indicated that it will retain ownership of the National Bank of Egypt and Bank Misr, the country's two remaining state-owned banks.

Efforts are continuing to clean up banks' balance sheets and reduce non-performing loans.

Defaults by state-owned enterprises have come down through cash infusions, sales of their investments, and settlements with private creditors. Also a comprehensive plan is being implemented to improve bank regulation and supervision and align it with international best practices. The establishment of a private sector credit bureau, regulated by the CBE, is expected to improve contract enforcement and creditor protection, thereby addressing key obstacles to bank lending to small and medium enterprises (SMEs).

Interest spread (lending rate minus deposit rate)

Interest rates (%)

	2003	2004	2005	2006	2007
Lending interest rate	13.5	13.4	13.1	12.6	12.5
Deposit interest rate	8.2	7.7	7.2	6.0	6.1
Money-market interest rate	6.9	10.1	8.6	9.5	6.9

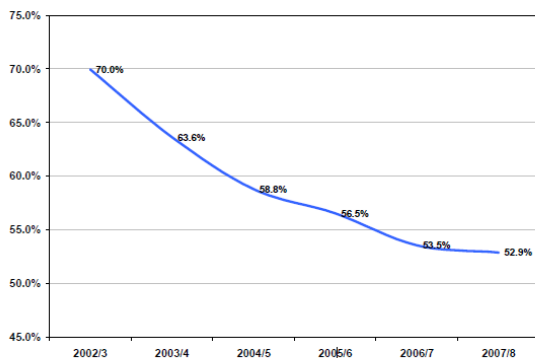
Sources: IMF, *International Financial Statistics*.

Our Source: EIU Report, Country Profile 2008

Loans and Liquidity:

With the commencement of the reform program around 2003, total loans/deposits ratio has declined from 70% to 52.9% in 2007/2008. Even at the current deposits level and without expanding the deposits base, the readily available liquidity level suggested by the system's total loans/deposits ratio of just 52.9% as at June 2008, indicating that the sector can withstand further loan growth without jeopardizing a reasonable liquidity position.

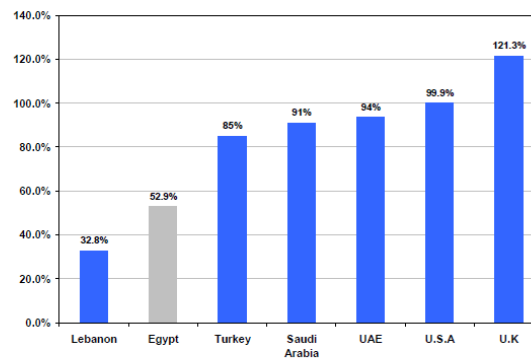
Total loans/deposits of the system



Source: CICR & CBE

Source: CI Capital Research

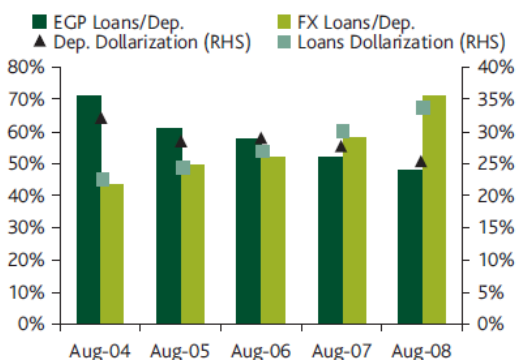
Egypt's loans/deposits vs. others



Source: CICR, Central Banks & Bloomberg

However, FX loan/deposit ratios are becoming more stretched. In spite of the declining trend in the EGP loan/deposit ratio, the FX loan/deposit ratio rose rapidly over the year to 71% in August 2008 from 58% in 2007.

Fig 1.4: Loan-to-Deposit Ratios in FX & EGP and Dollarization*



*At constant exchange rates

Source: CBE, EFG-Hermes

Source: EFG Hermes: Egypt Banking Sector, 29 October 2008

Mortgage Lending:

The mortgage financing market in Egypt continues to evolve. A newly established government institution, the Egyptian Company for Mortgage Refinance (ECMR), will enable the mortgage finance companies to offer more competitive terms. The expansion of the mortgage financing industry has been helped since 2005 by a lowering of property registration fees from 12% to 3% of the purchase price (or a maximum flat fee of LE2,000) and property taxes from 46% to 10%. A new law is also making it easier to prove ownership of property, which facilitates the use of assets as collateral. The entry of new mortgage lending companies should establish a more competitive residential housing market and challenge the traditional shortcomings of informal lending agreements and (mostly) unregistered property trading.

Insurance companies and other financial institutions

The Egyptian Insurance Supervisory Authority (EISA) was formed in 1981 as an independent corporate body with the authority to supervise and control all insurance activities in Egypt, from licensing to closure of insurance company

Size and structure of insurance companies

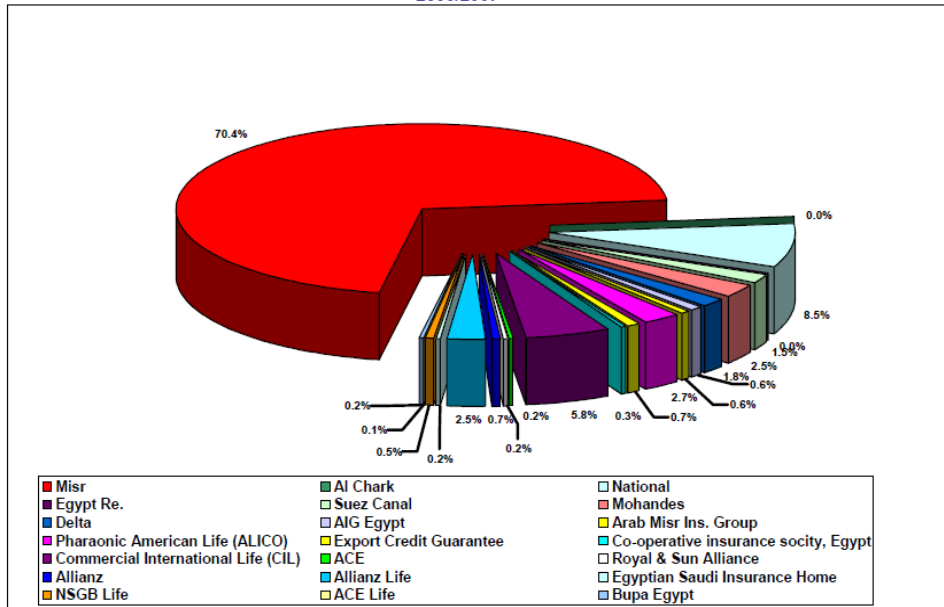
The Egyptian Insurance Supervisory Authority (EISA).
The Entities which transact insurance and reinsurance activities:
Public Sector Companies transacting all classes of insurance
Misr Insurance Company
National Insurance Company
Private Sector Companies transacting all classes of insurance
Suez Canal Insurance Company
Mohandes Insurance Company
Delta Insurance Company
Private Sector Companies transacting property & liability insurance
AIG Egypt Insurance Company
Arab Misr Insurance Group (AMIG)
Allianz Insurance Company - Egypt
ACE Insurance Company - Egypt
Royal Insurance Company
Egyptian Saudi Insurance Home
BUPA Egypt Insurance Company
Egyptian for Takaful Insurance Company (Non-Life)
Wethak for Takaful Insurance Company (Non-Life)
ISKAN Insurance Company
AROB Insurance Company (Non-Life)
Private Sector Companies transacting life insurance
Pharaonic American Life Insurance Company (ALICO)
Commercial International Life Insurance Company (CIL)
Allianz Life Assurance Company - Egypt
ACE life Insurance Company- Egypt
NSGB Life Insurance Company
Egyptian for Takaful Insurance Company (Life)
AROB Insurance Company (Life)
Export Credit Guarantee Company of Egypt
Export Credit Guarantee Company (ECGE)
Co-operative Insurance Societies
Co-operative Insurance Society, Egypt
638 Private Insurance Funds.
The Government Insurance Fund carrying on fidelity insurance for the stock keepers
The Egyptian Insurance Federation
Insurance Pools
Cargo Supervision & Surveying Office of Egypt

		L.E. 000		USD 000	
		2006/2007	2007/2008	2006/2007	2007/2008
Direct Premiums					
Life					
	Insurance Companies	2,413,142	3,277,826	437,503	594,270
	Private Funds	2,186,321	2,495,528	396,380	452,439
Property & Liability					
	Insurance Companies	3,273,802	4,169,950	593,540	756,012
	Government Insurance Fund	7,256	9,018	1,316	1,635
Policyholders' Rights					
Life					
	Insurance Companies				
	Mathematical Reserve	9,555,169	12,524,177	1,732,352	2,270,633
	Outstanding Claims Reserve	128,696	141,673	23,333	25,685
	Private Funds	18,832,212	21,744,470	3,414,280	3,942,272
Property & Liability					
	Insurance Companies				
	Unearned Premiums Reserve	1,117,210	1,362,161	202,550	246,960
	Outstanding Claims Reserve	4,248,544	5,153,206	770,261	934,276
	Loss Ratio Fluctuation Reserve	1,441,326	1,519,680	261,312	275,518
	Government Insurance Fund				
	Reserve Fund	190,514	212,078	34,540	38,450
Shareholders' Rights					
	Insurance Companies	4,575,223	8,535,306	829,488	1,547,451
Investments					
	Insurance Companies	21,257,610	28,994,035	3,854,005	5,256,619
	Private Funds	18,161,006	20,973,985	3,292,590	3,802,583
	Government Insurance Fund	143,258	166,659	25,973	30,215
<i>USD converted at 12/31/08 exchange rate of .1813 USD</i>					

Insurance Companies Investments

Channels	L.E.000				
	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Fixed Deposits	6130606	5975758	6878575	8044388	9229533
Governmental Bonds	3950810	4923127	5762754	6278411	4110701
Securities & Shares	4690175	5072378	5323820	6066786	15355590
Loans	196801	214754	232632	244483	264352
Real Estate	585516	626732	496985	623542	33859
Total	15553908	16812749	18694766	21257610	28994035

Investments by Companies
2006/2007



Central bank and its role in the economy:

The main objectives and functions of the CBE are as follows:-

1. Realizing price stability and the banking system soundness, and setting the objectives of the monetary policy, in agreement with the government, through a coordinating council.
2. Formulating and implementing the monetary, credit & banking policies.
3. Issuing banknotes and determining their denominations and specifications.
4. Managing liquidity in the national economy. It may conduct open market operations.
5. Influencing the banking credit in a way warranting the fulfillment of the actual needs of the different aspects of economic activity.
6. Supervising the units of the banking sector.
7. Managing the gold and foreign exchange reserves of the State.
8. Regulating and managing the foreign exchange market.
9. Supervising the national payments system.
10. Recording and following up Egypt's external debt (public and private).

Source (Central Bank of Egypt website, <http://www.cbe.org.eg/cbe.htm>)

Monetary and Fiscal Policy regulation:

The Central Bank of Egypt (CBE) is the regulatory body responsible for setting and coordinating the monetary and banking policies in Egypt. It is responsible for supervising, controlling, and enhancing disclosure and stability of the banking sector.

Monetary Policy Indicators								
	2006	2007	2008	2009	2010	2011	2012	2013
Policy Interest Rate (% , end of period)	9.00	9.00	11.50	10.50	10.00	9.00	9.00	9.00
Short-term Interest Rate (% , end of period)	6.02	6.10	6.59	6.72	6.20	6.20	6.10	6.10
Long-term Interest Rate (% , end of period)	12.60	12.51	12.23	12.24	12.20	12.10	12.10	12.10

Source: Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF). Written analysis may include references to data made available after the release of the GIIF bank.

Source: Global Insight, 2009

Exchange Rates: Fixed vs. Float:

From early 2005 through mid-2007, the authorities were managing the exchange rate in a way that ensured stability of the LE/US\$ rate, despite a de jure managed float. This approach reflected concerns that greater exchange rate flexibility could lead to a large appreciation—hurting non-hydrocarbon exports and tourism—and that volatility could weaken confidence in the interbank foreign exchange market established in December 2004. However, maintaining a stable nominal LE/US\$ exchange rate akin to a peg has complicated the conduct of monetary policy and has carried rising sterilization costs. Since mid-2007, the exchange rate has been managed more flexibly, akin to a managed float regime (IMF, Arabic Republic of Egypt: Selected Issues, December 2007).

Stock market:

The Egyptian Exchange (EGX), most recently referred to as the Cairo and Alexandria Stock Exchange (CASE) is one of the oldest stock exchanges in the world. The CASE actually began in 1885 as the Alexandria Futures Market - a place where Egyptians and Non-Egyptians alike could trade cotton and to a lesser extent, other commodities.

Shortly thereafter Maurice Cattai Bay and a group of Cairo merchants and brokers grew wary of making deals in cafés and decided to establish a formal market in Cairo. Thus, the Bourse and Banking Company of Egypt Limited was established in 1903.

Over the course of the next four years, the Egyptian economy boomed, and the two exchanges grew as well. By 1907, the Cairo and Alexandria exchanges ranked at a top five exchange in the world when viewed together. Nevertheless, the two operated separately until around 1997 when they came together to create CASE. In the summer of 2008 the CASE officially merged into the Egyptian Exchange.

(www.egyptse.com - history page, IMF Working Papers: <http://www.imf.org/external/pubs/ft/wp/2007/wp07179.pdf>, Middle East Economic Digest - 4/9/09 article)

Markets: Listed Securities, OTC, and NILEX

Listed securities are traded on the Listed Securities Market. All listed companies are classified into 17 sectors: Banks, Basic Resources, Chemicals, Construction and Materials, Financial Services Excluding Banks, Food and Beverage, Healthcare and Pharmaceuticals, Industrial Goods and Services, Automobiles, Media, Oil and Gas, Personal and Household Products, Real Estate, Retail, Technology, Telecommunications, Travel and Leisure, Utilities.

De-listed and low-liquidity securities are traded in the Over-the-counter (OTC) Market.

NILEX was launched by EGX in October 2007 specifically for trading growing small and medium enterprises (SMEs). It is the first of its kind in the MENA region. Currently there are 5 companies listed on NILEX

Trading Platforms

EGX is currently in the process of transitioning to a fully automated trading system. In 2008 EGX purchased the X-Stream product from the Nasdaq OMC Group. The new system allows for simultaneous trading of numerous products such as equities, bonds, and futures. The new system can also support E-trading.

Regulation

The Capital Market Authority (CMA) is the regulatory which oversees the EGX.
(5 April 2009 The Handbook of World Stock, Derivative & Commodity Exchanges)

Price Limits

EGX maintains a 5% ceiling/floor restriction over the stock prices, compared to the closing price in the last trading except for the 182 most actively traded stocks, which have a 20% limit. The 5% rule applies to 95% of total trading on the exchange.

Primary Dealers System

There are currently 15 primary dealers who underwrite the initial offerings of government securities and act as market makers.

Intra-day Trading Rules

In 2008 the CMA issued intra-day trading rules allowing dealers to sell all or part of the shares purchased on the same day of trading, so long as it does not violate individual investor volume restrictions.

Margin Trading Rules

Since the Minister of Investment's Decree no. 192 in 2005, only custodians are allowed to engage in margin trading.

Official Trading Hours

Sunday – Thursday

OTC – Deals Market 9:45am – 2:00pm

OTC – Orders Market 12:00pm – 1:00pm

Listed Securities Market

Pre-Opening Session 9:45am – 10:15am

Random Closing 10:15am – 10:30am

Official Trading Session 10:30am – 2:30pm

Companies listed

Since officially forming the CASE in 1997, management has made a concerted effort to clean up the number of inactive (or low activity) companies listed on the exchange. In 2005 there were 744 listed companies but only 59% of these were actually traded during the year. After getting this ratio up to 86% in 2008, 2009 has already seen a large drop in the number of traded companies. Currently there are 351 listed companies and 228 traded companies on the exchange.

MAIN MARKET INDICATORS

Indicators	2005	2006	2007	2008	2009
Volume of listed securities	4,198.9	7,757.1	11,377.6	21,938.9	5,463.7
Volume of unlisted securities	1,111.6	1,323.4	3,713.7	3,617.2	1,739.9
Total volume (million)	5,310.4	9,080.5	15,091.3	25,556.1	7,203.6
Value traded (listed securities)	150,924.0	271,107.8	321,524	475,881.2	48,107.2
Value traded (unlisted securities)	9,710.7	15,631.9	41,522	53,743.0	12,683.5
Total value traded (LE million)	160,634.7	286,739.7	363,047	529,624.1	60,790.7
Average monthly value traded (listed securities)	12,577.0	22,592.3	26,794	39,657	16,035.7
Average monthly value traded (unlisted securities)	809.2	1,302.7	3,460	4,479	4,227.8
Total (LE million)	13,386.2	23,895.0	30,254	44,135	20,263.6
Number of transactions (Listed securities)	3,922,301	6,590,196	8,712,584	12,750,940	2,750,778
Number of transactions (unlisted securities)	217,791	231,244	303,532	705,378	313,180
Total number of transactions	4,210,092	6,821,440	9,016,116	13,456,318	3,063,958
Number of listed companies	744	595	435	373	351
Number of traded companies	441	407	337	322	228
Average monthly traded companies	186	183	199	213	207
Market capitalization end of year (LE billion)	456.3	534	768.3	473.6	393.7
Turnover Ratio (%)	31.14	48.70	38.70	70.3*	9.90

Securities include stocks, bonds and mutual funds listed on the exchange

Market Capitalization = no. of listed shares x market price end of year

Turnover Ratio (%) = value traded of listed securities / market capitalization

* After excluding deals

As of December 31, 2008

Top Companies by Market Capitalisation	Value (EGP)	%Total Market
1. Lafarge Building Materials Holding Egypt	71bn	14.99%
2. Orascom Construction Industries (OCI)	30bn	6.33%
3. Telecom Egypt	28bn	5.91%
4. Orascom Telecom Holding (OT)	27bn	5.70%
5. Egyptian Company for Mobile Services (Mobinil)	15bn	3.17%

Top Companies by Traded Volume	Volume (Shares)
1. Egyptian Electrical Cables	3,090m
2. TMG Holding	2,255m
3. El Nasr Clothes & Textiles (Kabo)	1,425m
4. Egyptian for Tourism Resorts	1,299m
5. Arab Cotton Ginning	1,051m

Main Indexes

CASE (EGX) 30 (benchmark), Dow Jones Case Egypt Titans 20 Index, 12 sector indices (launched in 2007)

The EGX 30 Index

EGX 30 Index, previously named CASE 30 Index, is designed and calculated by EGX. EGX started disseminating its index on 2 February 2003 via data vendors, its publications, web site, newspapers etc. The start date of the index was on 2/1/1998 with a base value of 1000 points.

EGX 30 index value is calculated in local currency terms and denominated in US dollars since 1998. EGX started publishing its dollar denominated index on 1st of March 2009.

EGX 30 index includes the top 30 companies in terms of liquidity and activity.

EGX 30 Index is weighted by market capitalization and adjusted by the free float. Adjusted Market capitalization of a listed company is the number of its listed shares multiplied by the closing price of that company multiplied by the percent of freely floated shares.

For a company to be included in EGX 30 index, it must have at least 15% free float. This ensures market participants that the index constituents truly represent actively traded companies and that the index is a good and reputable barometer for the Egyptian market.

CASE 30 Index Constituents' Weights as of February 1, 2009

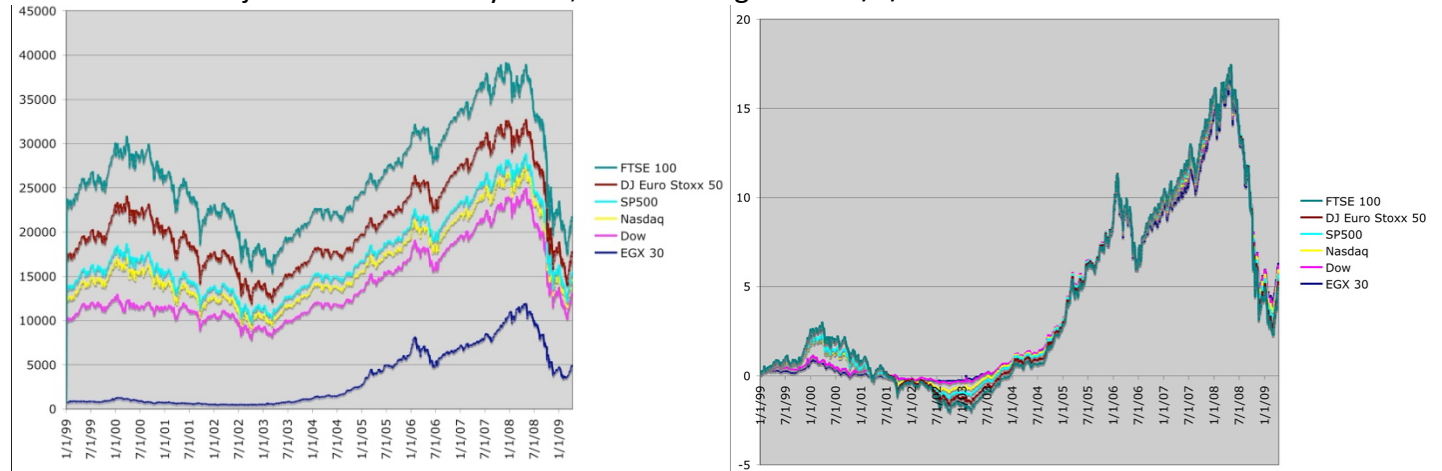
ISIN Code	Reuters Code	Company Name	Weight (%)
EGS65901C018	OCIC.CA	Orascom Construction Industries (OCI)	17.47%
EGS74081C018	ORTE.CA	Orascom Telecom Holding (OT)	15.79%
EGS60121C018	COMI.CA	Commercial International Bank (Egypt)	14.72%
EGS48031C016	ETEL.CA	Telecom Egypt	7.77%
EGS48011C018	EMOB.CA	Egyptian Company for Mobile Services (MobiNil)	6.44%
EGS69101C011	HRHO.CA	Egyptian Financial Group-Hermes Holding Company	6.33%
EGS69082C013	EKHO.CA	Egyptian Kuwaiti Holding	5.46%
EGS691S1C011	TMGH.CA	T M G Holding	4.08%
EGS3G0Z1C014	SWDY.CA	El Swedy Cables	3.85%
EGS3C251C013	ESRS.CA	El Ezz Steel Rebars	2.47%
EGS44012C010	MOIL.CA	Maridive & oil services	2.01%
EGS380S1C017	SKPC.CA	Sidi Kerir Petrochemicals	1.76%
EGS65571C019	MNHD.CA	Medinet Nasr Housing	1.70%
EGS691L1C018	PIOH.CA	Pioneers Holding	1.65%
EGS38381C017	EFIC.CA	Egyptian Financial & Industrial	1.21%
EGS3C351C011	SVCE.CA	South Valley Cement	1.00%
EGS65851C015	OCDI.CA	Six of October Development & Investment (SODIC)	0.88%
EGS32221C011	ACGC.CA	Arab Cotton Ginning	0.88%
EGS69031C010	OLGR.CA	Olympic Group Financial Investments	0.79%
EGS69182C011	NAHO.CA	Naeem Holding	0.62%
EGS65591C017	HELI.CA	Heliopolis Housing	0.61%
EGS65071C010	ELKA.CA	El Kahera Housing	0.58%
EGS07061C012	IFAP.CA	International Agricultural Products	0.45%
EGS69021C011	AFDI.CA	El Ahli Investment and Development	0.26%
EGS32331C018	APSW.CA	Arab Polvara Spinning & Weaving Co.	0.26%
EGS33061C010	KABO.CA	El Nasr Clothes & Textiles (Kabo)	0.25%
EGS10001C013	ASCM.CA	Asek Company for Mining - Ascom	0.22%
EGS67181C015	ABRD.CA	Egyptians Abroad for Investment & Development	0.20%
EGS65341C017	EHDR.CA	Egyptians Housing Development & Reconstruction	0.18%
EGS42051C010	ETRS.CA	Egyptian Transport (EGYTRANS)	0.12%

(www.egyptse.com)

Performance versus Other Countries

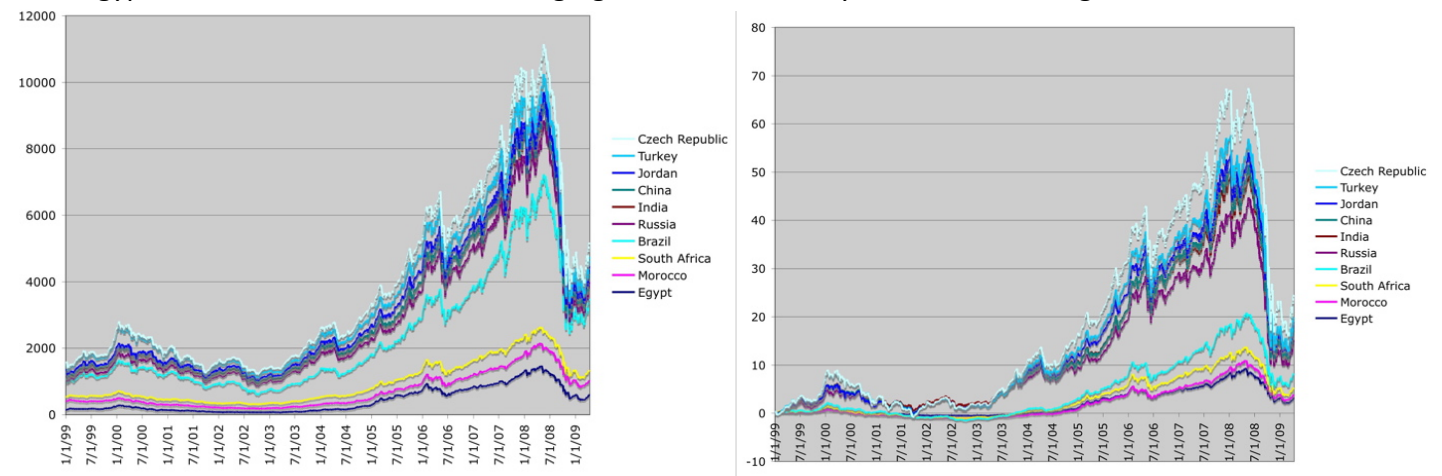
While Egypt is often included in emerging markets conversations, the behavior of the market has been more closely aligned with major indexes such as the S&P 500 and the DJ Euro 50. Additionally, Egypt has not shown immunity to global financial crises. An analysis of index level performance since 1999 will show a slight dip in 2001, a larger decline in 2006, and a decline in 2008 that brought the index back to 2005 levels.

EGX 30 Versus Major Stock Indexes by level, and % change since 1/4/1999



(Bloomberg)

MSCI Egypt Index versus other MSCI Emerging Market Indexes by level and % change since 1/4/1999



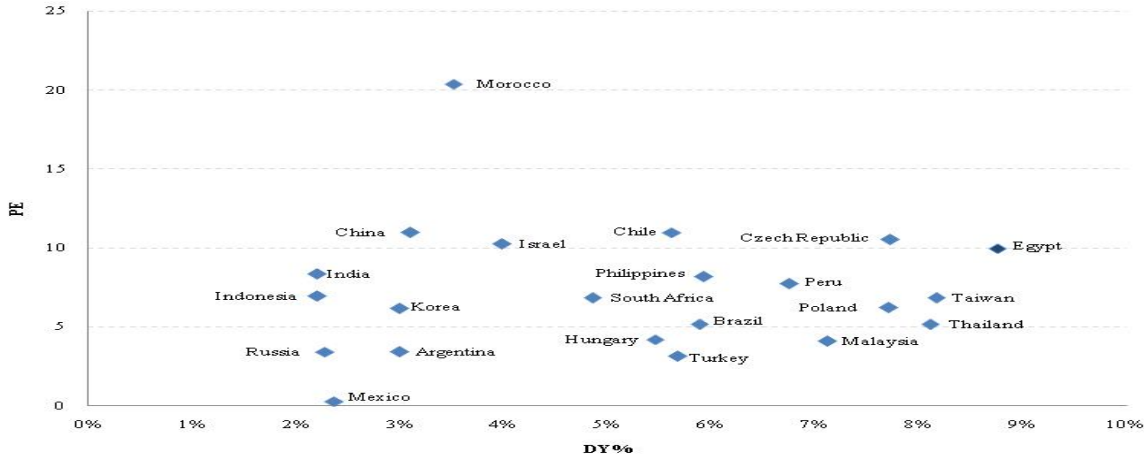
(Bloomberg)

EGX versus Other Emerging Markets

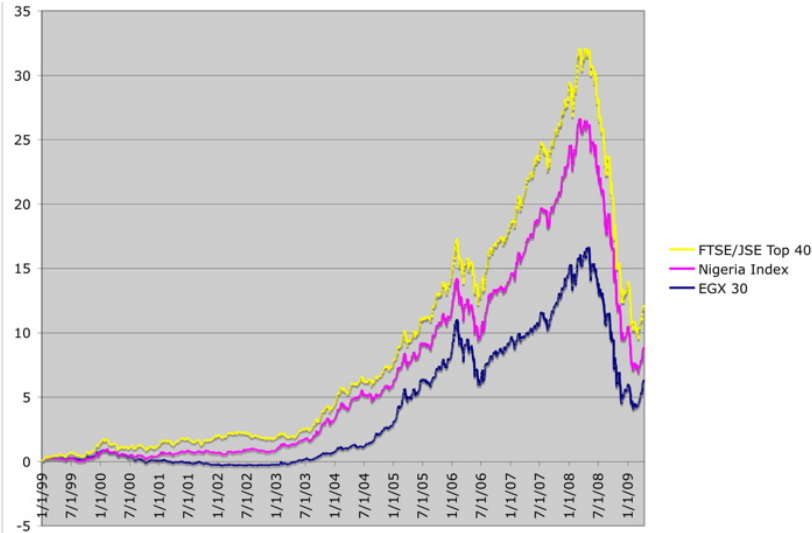
While the EGX has not seen the steep increases that countries like the Czech Republic and Brazil have seen in recent years, it has fared better in terms of volatility and has avoided some of the equally remarkable declines

that these countries have seen (2008 excluded). Additionally, when comparing countries based on earnings relative to dividend distribution, Egypt continues to stand out as one of the most attractive emerging markets. (Bloomberg, Global Investment House February 2009 market report)

S&P / IFCI PE against DY for emerging markets (as of end of Nov. 2008)



EGX 30 Versus Other African stock indexes by level, and % change since 1/4/1999



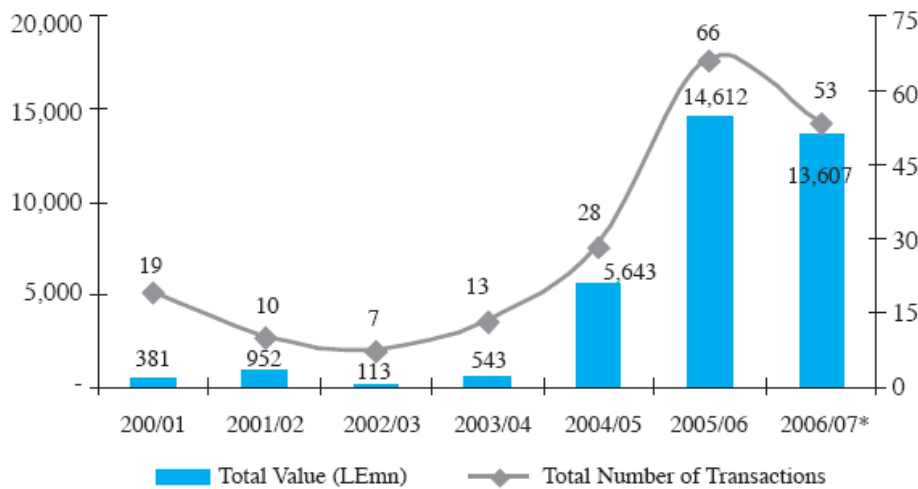
Privatizations Through the stock market:

The enactment of Law 203 (the public enterprise law) in 1991 signaled the beginning of public sector reform in Egypt, and privatization has been taking place in line with the law's provisions. In the same year, the Public Enterprise Office was established, to oversee public sector reform and privatization under the supervision of the Minister of Public Enterprise. Law 203 allows for the privatization of some 314 public sector enterprises, which make up about 70% of the country's industrial sector. In 1999, the IMF announced that

Egypt's privatization program ranked fourth in the world. However, since then the pace has slowed and in 2002 the government introduced a number of incentives. The government is now committed to addressing problems relating to debt settlement and excess labor in companies up for sale, and offers certain tax exemptions (Global Insight 2009).

The Egyptian government succeeded in privatizing 53 companies and properties with a total consideration of LE13.6bn during 2006/07.

Privatization



Source: Global Research Egypt, Global Investment House

Since 2006, the government has been shying away from using IPOs to privatize companies due to the decline the market indicators. There were no privatization transactions through the stock market in 2008 and 2007.

Other types of financial markets

Corporate Bonds Market

The overwhelming majority of the bonds listed on the CASE are government bonds. The biggest corporate bond issue in 2008 was El-Ezz Steel Rebars' EGP 11MM issue.

Corporate Bonds Currently Outstanding on the CASE						
Bond Name	Reuters	Issue Date	Maturity Date	Value	Last Closing Price	Curr.
Corporate Bonds						
Contact Cars	EGCOSC13=CA	12/24/2008	12/20/2013	3,920,000		100 L.E
Contact Cars	EGCOSC11=CA	12/26/2006	12/31/2011	1,590,000		101.9 L.E
Contact Cars	EGCOSC12=CA	12/25/2007	12/20/2012	2,750,000		100 L.E
Egyptian Arab Land Bank	EGCFE17=CA	6/8/2007	4/8/2017	750,000		947.24 L.E
Egyptian Arab Land Bank	EGCFE13=CA	6/19/2006	6/16/2013	500,000		100 L.E
Egyptian Co. Securitization	EGECSE12=CA	1/4/2008	12/31/2012	3,600,000		100 L.E
El Ezz Steel Rebars	EGELEZ14=CA	6/30/2008	12/31/2014	11,000,000		100 L.E
Golden Pyramids Plaza	EGGPC14=CA	8/19/2007	6/30/2014	2,850,000		100 \$
Telecom Egypt	EGTELEB10=CA	4/2/2005	4/2/2010	10,000,000		40.69 L.E
Telecom Egypt	EGTELEA10=CA	4/2/2005	4/2/2010	10,000,000		40.57 L.E

Source CASE website

Government Bonds

Egypt's government bond market has developed rapidly during its short lifetime. The government has issued bonds in Egyptian pounds since 2007 and in foreign currencies, including a series of Eurobonds, beginning in 2001 (Source Daily News Egypt)

Bonds are issued through a public auction. The average interest rate reached 9.675 percent at the end of June 2008 and 6.781 percent at the end of June 2007.

Government's Domestic Debt

Balances at End of June	2007		2008		Change
	Value	%	Value	%	+ (-)
Net Government Debt	478.2	100.0	478.7	100.0	0.5
-Balances of Bonds & Bills	562.9	117.7	568.9	118.4	6.0
• Notes and bonds	444.2	92.9	422.4	87.8	(21.8)
Of which, tradable on exchanges	61.0	12.8	82.4	14.5	21.4
• Treasury bills	118.7	24.8	146.5	30.6	27.8
- Deposits of the SIFs at the Treasury	4.5	1.0	2.3	0.5	(2.2)
-Net Balances at the Banking System	-89.2	-18.7	-92.5	-19.3	(3.3)
• Facilities	23.6	4.9	28.4	5.9	4.8
• Deposits	-112.8	-23.6	-120.9	-25.2	(8.1)
Net government debt/GDP (%)	64.2		53.4		

Source: Ministry of Finance, CBE and NIB

Ratios are calculated in terms of LE million.

* Including Treasury bonds; housing bonds; bonds denominated in foreign currencies with public commercial banks; the 5 percent ratio retained from profits of corporations subject to Law No. 97 of 1983 for the purchase of government bonds; and the holdings of resident financial institutions (banking system and insurance sector) of dollar-denominated sovereign bonds tradable on world exchanges.

The secondary market for government bonds is relatively limited, as most of them are held with banks and institutional investors.

Derivatives

Derivatives market is not yet established in Egypt.

Other types of finance:

Microfinance

Microfinance (MF) Services Offered:

Credit Services

Credit services provided in Egypt are dominated by two types of products: individual loans that provide working capital to existing enterprises (predominantly retail and mercantile) and group lending for income-generating activities of women. Some microcredit programs provide uncollateralized agricultural credit, but these programs have been small in scope. Asset-based lending and micro-leasing products have not been provided on a significant scale.

Savings and Deposit Services

The National Postal Authority remains the dominant provider of micro-savings due to its extensive outreach and low-cost application procedures. However, low-income savings are often informal due to the reluctance of entrepreneurs to deal with the banking system and banks unwillingness to deal with small savings accounts.

Insurance Services

State-owned companies continue to be the main providers of insurance to this sector. Misr Insurance, Al Chark Insurance and Al-Ahli Insurance together with the private sector Egyptian Reinsurance Co. account for 90% of market share.

Institutional Setup of Microfinance Institutes and Other Relevant Stakeholders:

Micro lending in Egypt is provided through two main channels. The first is through public and private banks, which are regulated by the Central Bank of Egypt (CBE) and operate under the new banking law, Law No. 88 of 2003. The second is through NGOs, which are regulated by the Ministry of Social Solidarity (MSS) and are governed under Law No. 84 of 2002 on Non-Governmental Societies and Organizations. Savings/Deposits and insurance are provided by formal financial institutions (i.e. banks and licensed insurance companies, respectively). Other institutional stakeholders include the Social Fund for Development (SFD) and the nascent Egypt Microfinance Network (EMFN). The following paragraphs provide a brief introduction to the relevant service providers and stakeholders:

- Public and Private Banks
- NGOs
- Community Development Associations (CDAs)
- The National Postal Authority

- The Social Fund for Development (SFD)
- Egypt National Microfinance Network (EMFN)

Microfinance Strategy:

The Central Bank of Egypt (CBE) has implemented a nationwide strategy to promote the development of microfinance in Egypt. The strategy takes a tri-level approach:

The Micro-Level:

To promote the development of a diverse range of sustainable MFIs that compete to offer various effective financial services to micro enterprises and the poor, and that cater to evolving market demand.

The Meso Level:

To support the sound functioning of existing apex institutions and national guarantee mechanisms.

The Macro Level:

To develop a policy and regulatory environment conducive to an inclusive financial system that encourages the growth and development of microfinance.

Source: *Regulation and Supervision of Microfinance in Egypt* by Magdy Moussa, Planet Finance, January 2007

References

¹ Egypt Economic & Strategic Outlook, Gaining Momentum, Global Investment House, February 2008

² Banks Egypt, Initiating Coverage of Egyptian Banks, Defensive Appeal, HSBC Global Research, March 2009