Key findings

Development Banks in Egypt: Overview, Issues and the Way Forward

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Public Development Banks (PDB), like any other bank, serve as a financial intermediary, yet with a strong developmental role. This paper provides an overview of PDBs in Egypt. The latter is of particular interest for two reasons. First, while PDBs have a long history in the Egyptian economy, their role and the intervention are rather limited. This applies to banks that were created during the socialist era of Nasser. Second, the largest share of the PDBs-related projects implemented in Egypt is undertaken by government-owned commercial banks, namely National Bank of Egypt, Banque Misr and Banque du Caire.

Objectives and research questions

The objective of this paper is twofold: first, to analyze how and why the role of PDBs can be played by public banks; second, to highlight the lessons that can be learned from the resilience of the Egyptian financial systems to the succession of crisis/disruptions.

Methods

A survey of 25 questions has been formulated and distributed on public banks.

The main objective of the survey is to determine to what degree public banks in Egypt can qualify as development banks in light of their actual market presence and dominance in government's development projects. The survey questions cover three aspects namely; legal status independence and autonomy, role of the government, and clarity of the public mandate.

The survey questions were sent to representatives from the public banks by email and zoom meetings with the representatives were then conducted to follow up with discussing the questions.

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Results

The paper shows that the three main public banks in Egypt (NBE, BM and BdC) play the role of development banks in Egypt. This role is transmitted through three main channels; first, their role as stabilizers, second their input in promoting SMEs and third their part in enhancing financial inclusion. It is important to understand that there are several factors that have contributed positively in mitigating the outcomes of COVID-19. These variables include capital, liquidity and the legal and regulatory framework.

Recommendations

From a policy perspective, several recommendations are worthy to be mentioned.
1- Development banks can only play their important role if they have independence, flexibility and expertise. The mandate of development banks is of lesser importance.
2- Stress testing is an important tool to mitigate risk. The introduction of stress testing since 2011 has enabled the Egyptian banks to react to several shocks including COVID-19. After the pandemic stress testing can focus on the effects of political challenges, economic fluctuations and natural disasters.
3- COVID-19 has accelerated the complete adoption of digitalization. It is important in that context to have the regulatory frameworks to protect banks and customers from various cyber threats. While the Financial Regulatory Authority (FRA) has drafted a law to regulate non-banking Fintech operations such as nano-finance, consumer tech and insurance tech, the Central Bank of Egypt has not taken visible steps in this direction for the banking sector.
4- Financial resilience is crucial to protect banks and the banking system. Building capital is not an option but a necessity. Liquidity is also of utmost importance, yet the optimal level of liquidity must be determined in order not to suffer from idle money and to avoid credit crunches.
5- The application of a flexible prudential regulation framework to allow banks to operate freely and still maintain high levels of financial resilience.
6- Banks need to apply cost-cutting programs without negatively affecting their relations with their customers.
7- The application of Basel IV principles is a further step in the right direction
8- The future of banking sector will be different and all banks have to equip themselves with all the requirements of the new era, which requires technological infrastructure and knowledge of Fintech and sufficient training on all the new financial tools.