



INNOVATIONS FOR SUCCESSFUL SOCIETIES

BUILDING THE CAPACITY TO REGULATE: CENTRAL BANK REFORM IN EGYPT, 2003 - 2009

SYNOPSIS

Before 2003, the Central Bank of Egypt (CBE) exerted little control over monetary and foreign exchange conditions. High levels of bad debt in the banking sector and erratic government policies had undermined economic growth. Without a credible, independent supervisory authority, Egypt's economic woes deepened. In the early 2000s, political will for change grew within the ruling National Democratic Party. In June 2003, the Unified Banking Law, pushed through by the party's economic committee, paved the way for revitalizing the central bank. To implement this law's mandate and oversee sweeping banking sector reforms, President Hosni Mubarak appointed Farouk El Okdah in late 2003 as CBE governor. El Okdah realized that the central bank had to be overhauled before it could begin the job of cleaning up the banking sector. El Okdah and his team restructured the CBE, aggressively recruiting private sector talent by amending the Unified Banking Law to permit higher salaries, instituting performance-based promotion, expanding training programs and strengthening information-technology systems. By 2009, the results of this institution building were apparent. The CBE commanded authority in the Egyptian banking sector, engaged in independent open-market operations and issued credible monetary and foreign exchange policies. The bank's structural changes enabled the successful management of a broader banking sector reform effort that mitigated a three-year recession and helped the Egyptian economy weather the global financial crisis.

Deepa Iyer drafted this policy note on the basis of interviews conducted in Cairo in September 2010.

INTRODUCTION

In December 2003, Farouk El Okdah, the new governor of the Central Bank of Egypt, confronted harsh realities. Egypt's banking sector was in shambles. Approximately 50 billion Egyptian pounds of bad debt—about US\$870 million—threatened to cripple the country's financial sector. Large state-owned public sector banks had heavy loads of nonperforming loans on

their books as a result of inattentive management and political interference in decision making. In a crisis four years earlier, Egypt's foreign-exchange reserves—deposits of foreign currencies that central banks hold to keep their currencies stable—had shrunk to just \$15.6 billion from \$22.9 billion in 1996. Growth of per capita gross domestic product had slowed to 1% in 2003 from 4% in 1999. Volatile consumer prices reflected a decade

of erratic management of monetary and foreign exchange policies.

Established in 1961, the CBE had long lacked the independence and the policy tools required to regulate the economy. By the late 1990s, the effects of its poor performance on the national economy had attracted criticism from the ruling National Democratic Party (NDP) and international financial institutions like the World Bank and the International Monetary Fund. Although the NDP in 2003 still held an 85% majority in Parliament, the party's grip was weakening. Its share of seats in Parliament had sunk by 10 percentage points in the 2000 parliamentary elections, and the subsequent rise of Gamal Mubarak, the son of the president, within the party empowered a reformist faction to move changes forward. In June 2003, Parliament passed the Unified Banking Law, creating a framework for strengthening central bank credibility and independence.

The Mubarak government and the NDP chose El Okdah to implement the new legal provisions and manage a broad banking sector reform. Less than a year earlier, the 57-year old El Okdah had taken over as chairman of the National Bank of Egypt, where he quietly and efficiently resolved much of the bank's bad debt. El Okdah held a doctorate from the Wharton School at the University of Pennsylvania and had spent 13 years at the Bank of New York as a vice president in charge of syndicated loans.

From the start, El Okdah recognized that reform of the entire banking sector, slated to begin in 2004, could not occur without a revitalization of the central bank. At the time that El Okdah entered the picture, the CBE suffered from organizational deficiencies that earlier bank governors had concealed. The bank lacked skilled staff and systematic management, and morale was low. Like other Egyptian civil servants, CBE employees were underworked in an organization that guaranteed job security to compensate for low pay. Coordination failures and overlapping

functions between units were common. Some units, including the one that was responsible for monetary policy, were nonfunctioning. New units had to be created to handle banking supervision and regulation to prevent instability in the financial system. Training programs and information technology systems were outdated.

To attract and maintain qualified staff, El Okdah and his board of directors aggressively recruited from the private sector and amended the Unified Banking Law to allow for higher salaries. El Okdah reorganized the CBE, bringing in expertise to staff newly created departments responsible for monetary policy, systemwide regulation, and banking sector supervision. He instituted performance-based pay incentives, expanded training programs and updated IT systems. This comprehensive reform within the central bank enabled effective management of a large-scale banking sector reform effort, part of broad financial sector reforms that were cited as the most successful in the region.

THE CHALLENGE

The 1990s had seen a tug-of-war over monetary and exchange-rate policies between the governors of the CBE and their counterparts in the Cabinet and presidency. Political interests regularly forced the central bank to shift policy stances, resulting in erratic, often contradictory changes in conduct and practice.

A sharp drop in foreign-exchange reserves in 1999 signaled the seriousness of poor central bank performance for the rest of the economy. Then-Prime Minister Kamal El Ganzouri and his Cabinet, fearing the political repercussions of admitting mistakes to NDP leaders, refused to acknowledge warning signs of a foreign exchange squeeze. CBE Governor Ismael Hassan was forced to stand by as Egypt's foreign-exchange reserves shrank to \$15.6 billion in 1999 from \$22.9 billion just three years earlier. Former Economy Minister Mustafa El-Said described the situation: "[Central bank] policies while El Ganzouri was in

office were largely motivated by political interests rather than sound economic criteria. El Ganzouri was keen not to give his rivals in the ruling party a chance to criticize him before President Mubarak. This conflict [between the government and the CBE] left the CBE and economic policies in shambles.”¹

The conflict between the central bank and Cabinet’s political interests worsened after Hassan stepped down as governor in 2001 and was succeeded by his deputy, Mahmoud Abul-Oyoun. Abul-Oyoun clashed with the next prime minister, Atef Ebeid, over the bank’s independence on exchange rate and monetary policies.

Erratic central bank policies in the aftermath of the 1997 Luxor terrorist attack, the 2001 terrorist attacks on the U.S., and the American invasion of Iraq in 2003 slowed per capita economic growth and diminished economic confidence. Policy and political instability helped trigger a recession, with per capita GDP growth averaging around 1.5% between 2001 and 2003. Although the central bank reacted to global shocks like the terror attacks on the U.S. with expansionary policies, the increased money supply during 2001-2003 only heightened inflation and further diluted confidence in a banking sector already plagued by bad loans. Several financial scandals involving high-profile managers of large public banks drew media attention and public scrutiny.

Citizen discontent grew as the economy deteriorated. Egyptians blamed President Mubarak and the NDP, and demonstrated their discontent through public protests. NDP candidates’ comparatively poor performance in the 2000 parliamentary elections and the following years of economic instability persuaded party leaders to try to reinvent the party image as youthful, favorable to business, and reform oriented. Growing recognition within the NDP of poor economic conditions and the need for a more business-friendly environment coincided with the political debut of the president’s son. Gamal

Mubarak’s political ascendancy in 2002, as head of the NDP’s Policies Secretariat, accompanied a makeover of the ruling party with a “New Thought” slogan. A former banker who worked at Bank of America in London and America, Gamal Mubarak made economic reform his platform within the NDP in a bid to enhance his political profile.

At the time, the Egyptian government was facing international censure for its economic performance. To the chagrin of NDP policymakers, Egypt ranked poorly among several international publications on economic growth, credit policies and banking sector health. World Bank assessments of the investment climate and financial sector indicated that Egypt’s government was not friendly to business. For example, because public sector institutions were highly politicized, borrowers often needed political connections to get loans. As a result, many small and medium-size enterprises, critical to the Egyptian economy, found it difficult to obtain funds and capital. The NDP sought to change donor institutions’ perceptions by undertaking broad-based financial reforms to remove such inefficiencies.

Under Gamal Mubarak, the NDP Policies Secretariat focused on the party’s heavily publicized makeover from a patronage organization run by military-affiliated party bosses into a modern party led by technocrats. Mubarak directly backed several former bankers and economists within the party, and he carefully filled his Policies Secretariat with academics, economists and businessmen.

Until this time, the central bank’s top management had been a clear obstacle to implementation of any reform within the CBE. Conflicts between successive CBE governors and prime ministers had stalled progress on important issues, and CBE governors had failed to maintain a degree of independence in the face of Egypt’s top-down political system. Because the NDP faced strong political incentives for economic reform, a window of opportunity was open for change.

Poor CBE supervision of the banking sector partly emanated from rigid laws put in place in the 1950s and 1970s. A new wave of legal revision was needed to enforce CBE control of monetary and exchange rate policies without excessive Cabinet interference. The NDP Economic Policies Committee, chaired by Mahmoud Mohieldin, who later served on the CBE's board of directors and as minister of investment, carefully drafted legislation with input from domestic and international economists on maximizing the CBE's authority and independence in decision making while compromising with the peculiarities of the Egyptian political context—specifically, the power of the presidency and the Cabinet. In June 2003, Parliament passed the Unified Banking Law, which expanded the central bank's independence and set a basis for legitimacy by voiding laws from 1957 through 1998 that had constrained CBE authority.

Under the new law, the CBE and its governor reported directly to the president. The law strengthened the bank's abilities to devise and enforce monetary and foreign exchange policy, to supervise the banking sector, and to enforce rules to preserve the stability of the financial system. Importantly, the law arranged a formal channel of communication between the CBE and the government to prevent impasses with the Cabinet. The governor of the central bank and the ministers of finance, economic development, and trade and industry would meet weekly to discuss and agree on coordinated policies. "We would meet and agree on targets, but would leave the central bank freedom to conduct the policy to achieve the targets," Mohieldin said. "This was one of the main things in the law."

In contrast to past laws that had saddled the CME with multiple, often contradictory goals and mission statements,² the Unified Banking Law set a single primary objective: to preserve price stability. To achieve results, the central bank needed firm, long-term leadership and the authority to make and stick to policy stances based

on sound economic criteria rather than political interests. The CBE had to address internal organizational deficiencies before it could deliver externally on reforming the banking sector. El Okdah's job was to implement the mandate of the Unified Banking Law, manage a broader banking sector reform, and empower the central bank.

FRAMING A RESPONSE

In July 2004, pressures from the disenchanted business community and citizens angry about rising prices forced the resignation of Prime Minister Atef Ebeid. President Mubarak appointed Ahmed Nazif, the former minister of information technology, as the new prime minister amid demands from the business community for privatization and deregulation. Nazif entered office supported by the NDP's interest in making the Egyptian economy more business-friendly. His cabinet was split between trained experts from Gamal Mubarak's Policies Secretariat in the NDP and old-guard army officials.

Two new players appeared on the economic front: Mohieldin as minister of investment and Youssef Boutros Ghali, formerly minister of the economy, as minister of finance. The NDP charged El Okdah, Mohieldin and Boutros Ghali with managing a broad-based financial sector reform program supported by several international financial institutions, mainly via World Bank development policy loans and technical assistance from the U.S. Agency for International Development, the European Central Bank and the IMF. Each of the three men had specific responsibilities: El Okdah for banking sector reforms, Mohieldin for non-bank financial reforms, and Boutros Ghali for fiscal reforms. Coordination between the three was crucial because of the simultaneous, "big bang" nature of the planned economic reforms. Implementation and goal-setting for each area of reform largely fell to the respective entities: El Okdah's CBE, Mohieldin's Ministry of Investment, and Boutros Ghali's Ministry of Finance. On the banking side,

goals included improving the administration of public banks, merging and closing banks to reduce the number in the sector, eliminating nonperforming loans, increasing the returns on equity/assets within the banking sector, and privatizing public banks.

Before El Okdah could deliver on reforming service delivery in the entire banking sector, he had to rebuild and empower the CBE. Because he came to the CBE from Egypt's largest public-sector bank, he was familiar with the inefficiencies confronting the Egyptian banking sector, especially the poor credit policies of large public banks. He also understood international practices, thanks to his experience at the Bank of New York.

First, El Okdah and his board of directors conducted a baseline assessment to sort out goals and priorities. Sahar Nasr, lead economist at the World Bank in Cairo, described El Okdah's strategy: "From day one, he acted quickly, looking carefully to identify any problems and packaging them with solutions."

El Okdah and his team surveyed staff capacity, salary structures and IT systems, and they studied former monetary, exchange rate, and banking regulation policies. To develop goals and establish a vision for the CBE, the team visited central banks in other countries, including the European Central Bank, Banque de France and the U.S. Federal Reserve.

The assessments and field visits illuminated key areas for improvement, most of which were interrelated, and El Okdah and his team decided that the CBE needed simultaneous, comprehensive reform on five fronts. First, the CBE required structural reorganization, as departments had to be created to handle new tasks. Second, the central bank had to raise its salary scales in order to attract outside expertise to manage the new departments; existing staff lacked qualifications, mainly because civil service salaries were too low to compete with the private sector. Third, in order for the CBE to recruit successfully from the private sector, management had to shift

to a performance-based pay and promotion system from one based on seniority. Fourth, employee training programs required expansion to build consistency among employees and between departments. Fifth, data systems had to be reorganized to accommodate new hires, new functions and new departments.

GETTING DOWN TO WORK

Because the reform effort was politically sensitive, it first needed the approval of President Mubarak. Nasr said that El Okdah, unlike former central bank governors, "was very transparent. He acknowledged challenges, announced them to the public, and concurrently came up with a comprehensive reform program aimed at strengthening the central bank and public sector banks." With deteriorating economic conditions providing the impetus, El Okdah received Mubarak's clearance to move ahead.

Structural reorganization

The central bank first had to fill key gaps within its own structure. El Okdah and the CBE's board of directors created several new departments and sub-departments to fill mandates defined by counterparts at international banks and the specific needs of the banking sector reform effort.

Three of the new units covered the critical areas of monetary policy, banking supervision and nonperforming loans. Each of the three received initial technical help from different international financial organizations: the monetary policy unit from the IMF, the banking supervision unit from the World Bank and the European Central Bank, and the nonperforming loans unit from the World Bank.

Each unit had distinct mandates largely defined by international standards. For example, the monetary policy unit was responsible for developing monetary strategy, maintaining policy stances, and implementing expansionary or contractionary interest rate policies. The banking supervision unit's mandate involved ensuring

compliance with the Basel Accords, international guidelines for capital and banking regulations set out by the Basel Committee on Banking Supervision. The unit was also responsible for identifying and analyzing risks to the banking system, and for implementing an increased minimum capital requirement for all banks.

The nonperforming loans unit tackled the 50 billion Egyptian pounds (US\$870 million) of bad loans that weighed on the banking sector. The unit used cash from the privatization of the previously public Bank of Alexandria and from World Bank development policy loans to eliminate the public debt. To address private sector debt in the absence of a suitable court, the unit set up its own arbitration system. For approximately 14,000 small bad loans, El Okdah and the unit supported an amnesty program that spanned mid-2006 to 2008 and succeeded in eliminating small delinquencies.

El Okdah and the board of directors also strengthened the research, publishing and development department, allocating funding and staff to improve the quality of annual and quarterly economic reports. From the start, the collection of monetary and banking data was key to formulating policies on markets. Consumer price indices required compilation as the framework for an inflation-targeting system, while daily interbank rates, interest rates and liquidity data, among other indicators, needed constant analysis. El Okdah and the board of directors had all of this information, as well as all bank publications, posted to the CBE's website for access by the public.

Recruitment

The reorganization of the central bank required skilled and knowledgeable individuals to head departments that formulated policies based on economic criteria. However, such employees were in short supply at the CBE. Work in the private sector paid far more, and connections

rather than qualifications usually determined staff appointments.

In early 2005, El Okdah succeeded in getting Parliament to amend the Unified Banking Law, allowing the CBE to detach its salary scale from the civil service. El Okdah funded higher salaries through a workers' profit-sharing system, in which the board of directors of the central bank designated a segment of bank profits as the workers' share before net profits were transferred to the state treasury.

El Okdah capitalized on his contacts and expertise to bring several Egyptian expatriates into the CBE from international investment banks, international financial institutions, and large Egyptian banks. The CBE hired new employees in all departments, recruiting heavily at universities to bring in younger workers. The bank hired recent Egyptian-expatriates who had doctorates in economics from American universities to head up various departments.

Recruitment in both the CBE and Egypt's banking sector became more meritocratic with the 2007 establishment of an assessment center within the Egyptian Banking Institute, the training arm of the CBE. The CBE sent job applicants to the assessment center for written and role-play assessments that were used along with interviews to make decisions on hiring.

Performance-based promotion

El Okdah recognized that merit-based promotions had to replace the central bank's seniority-based system in order to keep skilled workers and reward strong employee performance. Incoming employees took subject-based assessments at the Egyptian Banking Institute's assessment center to establish baseline skills and technical competencies. If recommended later for promotion by their supervisors, employees underwent an evaluation at the banking institute's assessment center. Employees who failed to achieve adequate scores for promotion received

further training before reconsideration.

Training

The banking institute's role expanded to include training of both central bank staff and managers and directors of other banks, which paid membership dues to the institute. Instruction expanded to include diverse topics such as complying with the Basel Accords, asset and liability management, credit management, risk management, human resource management, accounting, and credit for small and medium enterprises. The number of long-term certificates and short-term courses offered, as well as the number of participants, increased as the central bank's reforms unfolded.

As the recruitment effort brought in new workers with high-level skills, new training programs bolstered the capacity of the existing staff. El Okdah and his team arranged for extensive training opportunities for "reform minded" employees, and they offered managerial training to staffers who were eager for change and knew the bank's inner workings. "It was like trying to fix Egypt itself, with its 5,000 years of ancient civilization," Mohieldin said. "To have a new, modern building is easier than fixing an old building and making it relevant to the new world. The central bank, though, did this. It invested very well in its people through training and really maximized human capital."

Data management and organization

El Okdah and his team emphasized the importance of strengthening human resource management and payroll systems along two lines: creating a single repository for human resource information and upgrading payment systems. The CBE in 2007 partnered with Oracle Systems, of the U.S., to develop a centralized repository for employee data to present an accurate view of recruiting, performance management, learning, compensation, benefits, payroll and time management. The CBE adopted Oracle's E-

Business Suite Human Resource Management system to computerize information and provide an integrated view of all staff data. Tarek Raouf, a sub-governor at the CBE, said, "The constant growth of the bank and its objectives led us to assess the value of our existing human capital and how it would impact the bank's future growth plans. But, as there was no single repository in place for crucial employee data, the valuation process became complicated and almost impossible, considering our large number of employees. Vital information such as appraisals, skill sets, salaries, and training records were previously stored separately, but now we have centralized this data with our new Oracle system."³

The CBE also instituted a system, managed by a newly created subunit, to ensure the proper execution of all types of payments and reduce payment-processing delays. In addition to increasing security and restoring confidence in payments, the system allowed the CBE to improve oversight of its economic indicators, setting a framework for sound monetary policies.

OVERCOMING OBSTACLES

El Okdah and his team faced several hurdles in trying to implement changes at the CBE. First, the recruitment of highly skilled workers was inherently controversial. "Bringing in new, talented people capable of implementing reform ... means that there are old people who are unwilling to adapt, or who may be resentful," said Ingi Lotfi, a senior economist and Egyptian banking sector specialist at USAID in Cairo. El Okdah and his team were careful to share information with staff members in an effort to enlist their support for the reform process. Managers explained the importance of changes in solving long-term problems.

Veteran employees who were skilled and knowledgeable—and who bought into the reform agenda—sometimes received promotion to high positions (several deputy governors, for example) as

well as additional training. “El Okdah’s team pushed forward the staff who were competent, had institutional memory, and more importantly, who were reform-oriented,” Nasr said. Many employees who were unwilling to adapt were transferred to low-risk departments that did not make sensitive policy decisions based on economic criteria. Others left for private sector jobs. “Today, if you go to the central bank, you wouldn’t really recognize who is new and who is old,” Mohieldin said in 2010. “All the people are marching in the same direction.”

The need to manage external banking sector reforms complicated the task of revamping the CBE internally. Mohieldin recalled, “This [internal change] was very hard to do, especially because we were required to do it while the economy was running, while the monetary and banking challenges were there. We didn’t have the luxury of closing shop for a few days to appear in a better shape for clients later on. We had to do that while maintaining monetary and banking requirements.” El Okdah and his team set short- and long-term internal and external benchmarks and did not hesitate to recalibrate targets during the process. They prioritized maintaining the stability of markets over jumping the gun to the next reform. For example, although the bank initially hoped to start full inflation targeting in 2008, it pulled back on these plans in order to first improve consumer price-index data and publish a core inflation index.

Because banking sector reform was inherently controversial, El Okdah also faced the hurdle of public opinion. Previous administrations had told citizens that Egypt’s banks were symbols of national pride and often covered up problems or blamed them on international conditions. Elements of the reforms managed by the central bank, including the privatization of large public-sector banks, stirred controversy and were still underway in late 2010. At that point, one large public bank, the Bank of Alexandria, had been privatized, and three other privatizations were

planned. Scathing criticism, especially from opposition groups and old-guard ministers from army backgrounds, plagued the entire process. Several banking sector reforms, as well as economic reforms at the central bank, reflected liberal economic principles that were perceived as too Western or capitalist by outspoken segments of Egyptian society.

In addition, central bank reforms often took a back seat to rising food and fuel prices on the public’s list of priorities. The benefits of the broad-based financial sector reform did not directly affect the public in the short term.

These factors—as well as political tension surrounding succession plans for the president and the clash between reform-minded newcomers and the army old guard in Ahmed Nazif’s Cabinet—weighed on the central bank’s reform trajectory.

ASSESSING RESULTS

Under El Okdah’s leadership, the central bank burnished its image within the Egyptian banking sector and among international financial organizations. The Unified Banking Law of 2003 set the stage for credibility and independence, and El Okdah’s management, communication and coordination initiatives effectively implemented the law and restored trust in the institution. Mohieldin, the main drafter of the Unified Banking Law, said, “The issue of implementation was very much understood by the new central bank management. They knew very well that it is not just about laws. The world moves ahead. They needed to empower the central bank. ... Only with the capacity to lead, do things get done efficiently.”

The changes wrought by El Okdah and his team generated an atmosphere of professionalism and esprit de corps within the central bank. “Staff are proud of the institution. It is more sustainable and performing much better,” Nasr said. This professionalism was reflected in the way that the central bank presented benchmarks and coordinated policies

with the Cabinet, the Ministry of Investment and the Ministry of Finance, while retaining its commitment to implementation. This coordination emerged, in part, from the formal communication channels established by the Unified Banking Law between economic ministries and the CBE, as well as from the influx of private-sector talent into the organization. Instead of hiding problems or subordinating policies to the Cabinet, the CBE acknowledged problems to the president, to the Cabinet, and to the public, and paired problems directly with solutions—a function, perhaps, of enhanced CBE independence. Indeed, Noha Farrag and Ahmed Kamaly, economists at the German University in Cairo and the American University in Cairo, demonstrated empirically that central bank independence of political interests, as defined by legal and behavioral indices, increased in the years after the Unified Banking Law, although they found room for improvement.⁴

On a more fundamental level, several interviewees credited El Okdah for his success in maintaining the institutional memory of the central bank by offering reform-oriented CBE veterans additional training even as new skilled workers were being hired. In a country where new ministers often created parallel agencies-within-agencies to get work done, this meshing of staff was unusual. Traditionally, when ministers left for other positions, their key staff went with them. This effectively halted any budding reforms and consigned policies to failure beyond a minister's tenure. The central bank stepped out of this pattern. "If the governor leaves tomorrow, these staff will stay, and the changes will endure," Nasr said. "They truly have loyalty to the organization, not to the individual."

Strong policy decisions taken by the CBE represented another area of success. Several interviewees noted that it was no longer acceptable for commercial banks, for instance, to

set their own interest rates without the central bank's endorsement. In El Okdah's first few years at the CBE, the bank successfully introduced open market operations, a monthly consumer price index, and a successful monetary policy system in which a policy committee met every six weeks to set benchmark overnight rates. Interviewees pointed to the bank's success in managing capital flows and international reserves, and in maintaining stability in the foreign exchange market.

A general trend across all of these functions was the movement from uninformed decision making to expertise-based decision making. Econometric models governed rather than political interests. In this sense, El Okdah's initiatives to recruit talent and train veteran employees bore fruit. According to Mohieldin, the best indicator of this success was the relative stability achieved during the global financial crisis of 2007-2010. "As far as stability was concerned, the biggest test for Egypt was the financial crisis itself," Mohieldin said. Experts pointed out that the Egyptian economy remained surprisingly resilient during this period, thanks in part to accommodative and preventative central bank policy measures. Mohieldin further felt that shocks to the financial system, such as the volatility of food and fuel prices and terrorism attacks, represented good tests for the bank's capacity to deal with problems. "It's like having a good goalkeeper that you've been training—getting him to play in big matches to practice protecting the objectives of his team," Mohieldin said.

Service delivery in terms of banking supervision improved significantly under the CBE's management of banking sector reforms.⁵ Between 2004 and 2009, the number of banks shrank to 39 from 57 because of mergers and acquisitions. The market share of state-owned banks fell to 51% from 58%, while that of private banks rose to 49% from 42%; the share held by foreign banks rose to 32% from 11%. The number

of bank branches more than tripled to 2,499 from 795, while the number of automated teller machines soared to 4,507 from 1,288. Profitability of banks in the Egyptian banking sector rose, given the administrative and financial restructuring of public banks and a stringently enforced minimum capital requirement that was increased. Importantly, approximately 90% of total nonperforming loans (excluding the debts of public sector businesses) had been eliminated by 2008. Egypt's position in the World Bank's *Doing Business* rankings improved to 99 in 2010 from 164 in 2005, and the *Doing Business* project named Egypt a "top reformer" from 2007 to 2010.

REFLECTIONS

In a 2007 interview with *Emerging Markets* online magazine, Farouk El Okdah said, "It is very pleasing to see both domestic and

international investors starting to analyze and predict the next move of the Egyptian central bank two or three weeks ahead of each policy meeting. By virtue of being under scrutiny, we know that the markets are following the direction set."⁶

As governor of the Central Bank of Egypt, El Okdah presided over internal reforms that allowed him to revitalize the banking sector. Although the first phase of the interministry financial sector reform program ended in 2009, a second phase began in early 2010 and focused on improving access to finance and on extending credit to small and medium-size businesses. As of October 2010, internal reforms were still in progress in several departments, especially in terms of instituting an inflation targeting system, entrenching standards of performance management, and furthering IT and training improvements.

¹ El-Din, Gamal Essam. "Independence for central bank: President Mubarak has dismantled the Economy Ministry and given control of monetary policy to the central bank." *Al-Abram Weekly*. Issue 560, 15-21 November 2001.

² Farrag, Noha and Kamaly, Ahmed. (2007). "Measuring the degree of central bank independence in Egypt." German University in Cairo, Faculty of Management and Technology. Working Paper No. 4.

³ "CBE focuses on human resources to drive strategic transformation." AmeInfo, the Ultimate Middle East Business Resource. 10 April 2010. Accessed at <<http://www.ameinfo.com/116287.html>> on 17 November 2010.

⁴ Farrag and Kamaly.

⁵ "An Egypt Case Study of Financial Sector Reform". (2007). Financial and Private Sector Development Forum, World Bank. Accessed at <<http://info.worldbank.org/etools/bspan/PresentationView.asp?EID=941&PID=2046>> on 5 November 2010.

⁶ Alexander, Phillip. "Central bank Governor of the Year, Middle East." *Emerging Markets*. 19 October 2007.

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