A joint team from the IMF’s Monetary and Financial Systems Department (MFD) and the World Bank visited Egypt between May 6 and May 21, 2007 to update the assessment of the Egyptian financial system (FSAP) that had been conducted in June 2002 and completed in September 2002. The work under the FSAP Update aimed to assess progress in reforming the financial sector and strengthening financial sector regulation since 2002, and identify measures that would contribute to the consolidation of the financial sector reform and the further development of the financial sector over the next five years.

The team held meetings with the Minister of Investment and members of the Ministry, the Governor and Deputy Governor of the Central Bank of Egypt (CBE), staff of several departments in the Central Bank, and heads and staff of the supervisory agencies overseeing capital markets, insurance companies, pension funds, and mortgage finance. The team also met with representatives of other government agencies, as well as representatives of the financial sector, and other private sector agents. The team would like to thank the Egyptian authorities for their hospitality and their cooperation before and during this mission.

The team comprised Roberto Rocha (World Bank, Leader), Jodi Scarlata (IMF, Deputy Leader), Sahar Nasr, Laura Ard, James Hanson, Gregory Brunner, Jaehoon Yoo, and Adolfo Rouillon (all World Bank); Andreas Billmeier, Anna Nordstrom, Andre Santos, Henry Schiffman, and Socorro Heysen (all IMF). Cyrus Sassanpour, IMF Resident Representative, attended some of the meetings. The team was assisted by Noha Medhat (World Bank office in Cairo).
I. **Brief Review of the 2002 FSAP Findings**

1. The 2002 FSAP highlighted several deficiencies affecting the performance of the Egyptian financial sector, including the pervasive state ownership of financial institutions, poor regulation and supervision of bank and non-bank intermediaries, weak creditor rights, and heavy management of foreign exchange and money markets. The banking sector accounted for 95 percent of financial institution assets and was dominated by state-controlled banks, including 4 commercial banks, 3 specialized banks, and 17 joint-venture banks with state participation. The insurance sector remained small and also dominated by 4 state-owned companies. The pervasive presence of the state in the financial system and weak regulation had resulted in negligible competition and innovation, poor credit allocation, and the emergence of a large stock of non-performing loans (NPLs) in the banking system — estimated then at 16 percent of total loans. The FSAP noted that the NPLs were probably underestimated and the banks' capital overestimated. Heavy intervention in money and foreign exchange markets had resulted in severe price distortions, including the emergence of a parallel market for foreign exchange. Finally, the stock market was small, although it showed promising signs of development.

2. Based on this diagnosis, the 2002 FSAP recommended the reconsideration of the role of the state, the strengthening of the legal and regulatory framework, including credit information and contract enforcement, the unification of the foreign exchange market, and several other measures designed to improve the resiliency and performance of the financial sector. The FSAP stressed the need for banking sector reforms given the size and importance of the sector in Egypt. The recommended measures included the divestiture of state shares in private banks, and the restructuring and recapitalization of state-owned banks to ensure their solvency and potential privatization. The recommended improvements to the regulatory framework included strengthening of bank governance rules, loan classification rules, and further build-up of the public credit registry system, as well as the collateral regime. The report also indicated that the government would proceed with plans to restructure the insurance sector. Finally, the report stressed the need to strengthen supervision capacity in all segments of the financial system.

II. **Main Findings of the 2007 FSAP Update**

A. Overall Assessment

3. The 2007 FSAP Update found that the government was implementing an impressive and comprehensive reform program that was transforming the Egyptian financial sector, and that most recommendations of the 2002 FSAP were being implemented. The banking sector is being substantially reformed with the exit of several weak banks, large scale financial restructuring, divestiture of state shares in joint venture banks, the privatization of one state bank and advanced preparations to privatize another state bank. The full implementation of the program will reduce state participation from 75 to 43 percent of total bank assets. The program has also included the adoption of a new banking law; regulatory reforms in banking, insurance, capital markets, and other sectors; the strengthening of creditor rights through several improvements in the CBE's credit registry; the establishment of a new private credit information
bureau; improvements in the collateral regime; and ongoing efforts to strengthen financial supervision. In 2007 the government announced the decision to integrate non-banking supervisory functions.

4. **Substantial progress has been made in eliminating the distortions in money and foreign exchange markets and developing the capital market.** The foreign exchange market has been unified and the parallel market eliminated. The authorities have also introduced a more efficient monetary policy framework in the form of an interest rate corridor, systematic open market operations and reserve requirements. The capital market has benefited from privatizations and regulatory reforms and has grown significantly. The growth of the equity market has been particularly impressive, as indicated by the increase in market capitalization to 90 percent of GDP, the sharp increase in turnover, and the expansion of the retail investor base, both foreign and domestic.

5. **These reforms are building a much more resilient and effective banking system.** The full implementation of the bank reforms and the continuation of the CBE’s program to upgrade bank supervision should result in a well-capitalized and competitive banking system led by private sector banks operating under a much improved regulatory framework. Bank credits should expand in the next few years after several years of decline relative to GDP (a normal outcome in periods of large-scale restructuring and regulatory reform). Moreover, private banks are preparing for lending to under-served sectors, such as housing and SMEs. Non-banking financial institutions have remained small, but the government has made substantial progress in restructuring state insurance companies, as well as introducing regulation that would promote the growth of investment funds. There has been substantial progress in developing the legal and institutional foundations for mortgage finance. These are all positive developments, which should ultimately contribute to a much more resilient, efficient and diversified financial system, able to contribute effectively to Egypt’s long-run growth performance and provide access to a much broader segment of the population.

6. **While the reform program is impressive and its implementation has reached an advanced stage, Egyptian policy-makers still face a number of challenges in coming years.** The financial and operational restructuring of state commercial banks is not yet finalized. The role that the remaining state banks are expected to play in the future is yet to be refined, including those specialized banks focused on mortgage and SME finance. The ambitious program to restructure the insurance sector is not yet fully implemented. The capital market is limited to the equity and government debt markets, and the domestic institutional investor base remains small. There are some issues in the legal and institutional framework that need to be addressed. Finally, building supervisory capacity will require sustained efforts in coming years.

B. The Banking Sector

7. **The reform program initiated in 2004 is transforming the structure of the Egyptian banking sector.** Under the government’s reform program, the minimum bank capital requirement was increased and supervision has been strengthened. As a result, weaker banks have left the system through sales, purchases, mergers as well as exit of some foreign banks’
branches. The number of banks has declined from 57 in 2004 to 40 in 2007, with a corresponding increase in average bank size. The state-owned banks have divested most of their shares in joint venture banks, reducing that element of indirect state ownership and management of banks. One of the four state commercial banks, Bank of Alexandria, was privatized in 2006, and preparations are underway for the privatization of another state-owned commercial bank, Banque du Caire. These measures will result in a significant decline of the share of banks with state participation from more than 75 percent in 2004 to about 43 percent in 2008.

8. The level of non-performing loans (NPLs) has proved much higher than reported by the 2002 FSAP; in response, the government and the CBE initiated programs designed to clean balance sheets and settle NPLs of public and private enterprises. By the end of 2006, the reported stock of NPLs of public and private banks amounted to 25 percent of total loans and 12 percent of GDP. The balance sheets of the two large commercial banks that will remain state-owned are expected to be cleaned in 2008 by cash injections and the cash settlements of NPLs of state enterprises using privatization proceeds, investment sales, and settlements with private creditors. To facilitate settlements with private borrowers, the CBE has encouraged out-of-court settlements. In addition, the existing state-owned banks are being submitted to operational restructuring programs to improve IT, HR, and risk management, including credit underwriting and monitoring procedures.

9. The reported average capital adequacy ratio in commercial banks has risen from 5.4 percent in 2004 to 5.5 percent in 2006, and the risk-weighted capital adequacy ratio has improved from 11.4 to 15.1 percent. The financial situation of Egyptian banks has improved significantly in recent years, although the experience of large scale banking restructuring programs in Central Europe and other regions suggests that capital ratios in Egypt will only be stabilized and measured with accuracy when the reform program is fully implemented.

10. The legal and regulatory framework for banking has been substantially improved through Law No. 88 of 2003 and subsequent issue of amendments and regulation, but some gaps remain. Significant changes included reinforcing the independence of CBE, clarifying the CBE’s role in prescribing regulation, strengthening loan classification rules, and providing more specific parameters for remedial actions. However, notwithstanding the progress made to date some areas of regulation will need to be strengthened further. For example, the legal framework for corporate governance is fragmented and lacks a clear delineation of the fundamental duties and responsibilities of bank directors, including their responsibility to ensure that key internal systems are in place with which to prudently oversee their bank. The government’s implicit blanket deposit guarantee poses potential systemic risks, as the perception that no bank will be allowed to fail elevates moral hazard and hampers market discipline. Law 88 provides for the creation of partial cover deposit insurance, but has yet to be implemented.

11. Bank supervision is undergoing a reform process that aims at bringing supervision in Egypt up to international best practices by end 2008, in line with the program launched in 2004. Under this reform, bank supervision will shift from a compliance approach to a risk based focus. The reform plan is comprehensive and involves changes in regulation, supervisory processes, organization, information systems and human resources. An internal control
regulation has been drafted which sets risk management requirements and emphasizes board responsibilities in risk management. New onsite manuals have been drafted emphasizing risk-oriented procedures. Off-site supervision is in the process of recruiting new staff, building analytical skills, and has just completed its first cycle of annual analyses of each supervised bank. A macro prudential unit has been created to monitor systemic issues.

12. **However, supervisory management is faced with challenges as it implements its strategic plan.** The onsite process must build additional skills to evaluate bank strategies and to conduct risk assessment while drawing conclusions about overall institutional condition. As indicated by the CBE, the offsite function is perhaps faced with a greater challenge. It must raise its level of understanding of bank risks and risk management through building efficient data management systems and enhanced financial analysis supported by streamlined regulatory reporting, including regular and accurate reporting of banks’ classified assets and credit risk condition. The offsite function should also assume the responsibility of maintaining current and accurate risk rating of banks, prepare more effective remedial action plans, and consolidate and enhance the licensing process. Consolidated supervision must still be introduced. The temporary ownership and administrative arrangements of the CBE that have been justified during the restructuring period should be revised, as they involve potential conflicts of interest with the legal mandate of the CBE and its supervisory responsibility.

C. The Insurance and Pension Fund Sectors

13. **The insurance sector is small and under-developed.** Only around one million Egyptians use insurance products. Total insurance premiums represent only about 0.8 percent of GDP, and assets amount to less than 3 percent of GDP, low ratios by comparison with other middle-income countries. The three state-owned insurance companies continue to dominate the non-life market which has made limited progress over the past decade. The better performance of the life insurance market is related mainly to the strong growth of private insurers. The overall lack of development in the insurance sector can be largely attributed to the lack of awareness of insurance by the population, a failure by the state-owned insurers to develop effective distribution channels and the poor reputation of the state insurers, particularly in mis-selling and poor claims settlement. The inefficiencies of state-owned companies are aggravated by flaws in the regulatory framework, including Motor Third Party Liability Insurance (MTPL) where premiums have not increased in nearly 20 years yet payouts have, leading to large losses for the state companies.

14. **The government has been moving forward with the restructuring of state-owned insurers, as well as several important regulatory reforms.** A new holding company was established in October 2006 to take over ownership of the state-owned insurance companies. A major step was taken in November 2007, when three companies were merged, including the reinsurance company. A new Insurance Act was approved by Parliament in May 2008, strengthening the independence of the regulator, separating the life and non-life business, increasing minimum capital, and introducing corporate brokers. Furthermore, MTPL premiums will be raised to provide that the business is no longer loss-making and eventually lead to full
market-based pricing. This should invigorate the insurance market and encourage innovation and competition.

15. **Private pension funds are occupational pension arrangements designed to supplement state social security benefits and have also remained small.** There are around 700 funds but total assets amount to only about 3 percent of GDP. The funds are described as defined benefit (DB) funds because benefits are typically related on some base salary calculation. EISA estimates that only 34 funds are in a poor funding position, but the problem may be broader, especially among funds not supervised by EISA. There is a need to establish a detailed methodology for calculating the funding position of pension funds and ensure that actuarial assessments follow these guidelines.

16. **The legal framework for regulation and supervision for pensions is mainly contained in legislation which has not been updated for more than 20 years, but the government has drafted new legislation that would revamp the pension sector.** The current legal framework has a number of significant gaps, including limited registration requirements and opaque funding rules. Governance rules are also weak, failing to clarify the roles and responsibilities within the pension funds, or require that directors and managers are qualified and competent. The authorities have drafted legislation that would reform the public pensions system and introduce a new funded pillar, as well as strengthen and expand voluntary private pensions. The proposals envisage creating a basis for the establishment, licensing, and supervision of new collective pension funds and pension companies that would provide professional management for existing and new schemes, as well as offer voluntary pension accounts.

17. **The government is committed to upgrade the insurance and pension supervisor (EISA).** In the past 18 months a new chairman has been appointed. The organizational structure is being changed to create separate divisions for insurance and private pensions with specialist support for each group. EISA recognizes the need for staff equipped with appropriate skills to effectively implement improved supervision and it is offering early retirement option to some staff, and embarking on a comprehensive training program supported by USAID. However, EISA may have problems attracting new and highly skilled staff due to salary constraints.

**D. Capital Markets**

18. **Egypt’s equity and government debt markets have developed significantly in recent years.** Equity market capitalization grew from 30 to 90 percent of GDP between 2001 and 2007, and the turnover ratio increased from 14 to 49 percent in the same period. The investor base expanded significantly, with foreign investors increasing their equity holdings from 7 to 10 percent of GDP, and retail domestic investors increasing significantly their participation through privatization IPOs. The government debt market has benefited from an improved debt management strategy that entails an increase in the share of tradable debt and in maturities, the publication of an auction calendar and the use of the primary dealer system introduced in 2001. As a result, tradable government debt has increased from 22 to 36 percent of total debt and from 13 to 27 percent of GDP since 2001. The average maturity of tradable securities has increased from 120 days to 2.1 years with the increase in the share of Treasury bonds.
19. **Whereas these are impressive achievements, the capital market agenda remains challenging.** The number of companies traded in the stock exchange remains small – less than 200 out of 558 listed firms – indicating that many medium and small firms remain illiquid. Moreover, primary equity issues in the public market have increased but still amount to 5 percent of fixed investment, indicating that the market is not yet a significant source of corporate finance. The government debt management strategy still lacks transparency in many aspects such as long-term debt forecasts and financing objectives. The average debt maturity is still short and trading of longer-term instruments remains thin. Among other problems, market making rules have not been followed, and master repurchase agreements has not been concluded among commercial banks. This has resulted in the absence of a reliable yield curve that can be used as a benchmark for private issues. Private fixed income markets have remained small, with the stock of corporate bonds and other instruments amounting to only 3 percent of total tradable bonds and less than 1 percent of GDP. Finally, a solid domestic institutional investor base (pension funds, insurance companies and investment funds) is still lacking.

20. **The government has been strengthening the regulatory and supervisory framework for the capital market.** The Capital Market Authority (CMA) has achieved significant progress in upgrading its supervisory capacity and has become financially self-sufficient. Important reforms have included improved capital adequacy rules of listed companies and securities firms, stronger disclosure of listed firms, and the setup of an investor protection fund. In 2007 there were important improvements in accounting with the introduction of IFRS standards for listed firms and securities companies. A new audit auditor’s registry was introduced at the CMA. These are all positive developments, but corporate governance rules and auditing standards must still be fully enforced, and the qualification of accountants must be improved.

21. **Institutional and regulatory obstacles hinder the development of private fixed instruments.** Potential issuers and investors lack benchmark yields due to weak secondary government bond market. Corporate bonds are only underwritten on a best effort basis by commercial banks, with a discretionary portion retained for their own holding purposes, not serving the best interests of investors and issuers. In addition, cumbersome legal procedures hamper corporate bond issuance such as requirements for approval in extraordinary shareholders’ meetings and maintenance of bondholders’ association. The stock exchange (CASE) listed shares are fragmented in four different schedules, partially due to a separate schedule for public sector companies that are exempt from a minimum free float.

22. **The regulatory framework for investment funds has weaknesses, constraining the sound development of this sector.** Investment fund assets account for only 1 percent of GDP, a very low ratio relative to other countries and relative to the high ratio of market capitalization to GDP. Structural and regulatory obstacles have hindered the growth of the investment fund industry. Many commercial banks have not been interested in sponsoring investment funds that could undermine their deposit base while the non-bank asset management industry has a limited distribution network and has not gained investor confidence. The regulatory weaknesses that may have constrained growth include lack of clarity on the legal structure of investment funds (i.e. whether a fund is a paper company or trust account), the role and duty of related parties.
(e.g., sponsors, distributors, custodians, asset managers), and the onerous requirement for sponsors to hold five percent of total fund assets.

E. The Overall Legal Framework for Lending

23. Egypt is making significant progress in the field of credit information. Since 2002, the public credit registry operated by the CBE adopted an online system connected with banks, which every month send information online to the database. Real estate finance companies and financial lease companies also report to, and use information provided by the credit registry. Recent legal amendments allow the public registry to share information with private credit bureaus. Complete credit information concerning all borrowers’ payment histories is expected to be supplied by the first Egyptian Private Credit Bureau, founded by 27 banks in 2005, making available both positive and negative information. A second group of banks, all non-bank financial institutions and telephone mobile operators will soon be invited to join the credit bureau. The database will initially contain information representing approximately 70 percent of Egyptian banks’ lending portfolio. The private bureau will provide credit scoring in 2008. Fraud detection and identity verification services will be made available in 2009.

24. Recent changes have improved the legal and institutional framework for credit, but a number of weaknesses in the collateral regime still remain. Allowable secured transactions include mortgage over real estate, possessory pledges over movable assets, and non-possessory charge over the business assets as a whole. However, non-possessory interests over other movable assets are not allowed. The registration of a land title or a mortgage still is a lengthy proceeding. Complex and lengthy court proceedings are mandatory for unsecured debt collection. As for secured claims, self-help execution is now permitted though only for possessory pledges over securities. The new Mortgage Law of 2001 introduced new streamlined foreclosure proceedings but has not yet been tested. Because of these deficiencies, the CBE has been actively encouraging the use of arbitration for dispute resolution in the financial field.

III. Recommendations for Sustaining Financial Development on a Sound Basis

25. Completing the reform will require initial focus on finalizing bank reforms, but efforts to develop the non-bank sector and diversify the financial system should continue. At present, banks account for 130 percent of GDP and 95 percent of financial sector assets, and will remain the dominant sector in the foreseeable future. Moreover, bank credit is picking up after several years of contraction and it is essential to ensure that any new lending is sound. However, it is also important to promote the growth of non-bank institutions, in order to ensure a more balanced financial sector, capable of performing all the intermediation functions and diversifying risks, and a solid domestic institutional investor base that contributes to the sound development of securities markets.

26. To ensure a resilient banking sector that will finance growth without a recurrence of NPLs, the authorities should finalize the restructuring of state commercial banks and ensure minimum standards of risk management across all banks, as planned. In addition, it is important to redefine the future role of state banks and strengthen their governance.
The priority for the coming months entails finalizing the financial and operational restructuring of the state commercial banks as planned. Subsequently, it will be important to redefine the role of the remaining state banks in light of the growth of private bank credit, including its expansion into currently underserved sectors. State bank management and boards’ should be given specific and publicly monitorable goals measured by NPLs, earnings, and access targets.

27. **The role of the three small state specialized banks should also be reconsidered in light of the projected expansion of private sector banks.** To the extent that private banks increase credit to small and medium enterprises, the role of the relatively small Industrial Bank would need to be reconsidered. Similarly, the projected growth of the reformed mortgage market raises questions regarding the role for the Egyptian Arab Land Bank. At a minimum, its merger with the private Housing & Development Bank should be completed. Access to rural finance is a more difficult issue, but the role of the Bank for Development and Agricultural Credit needs to be reexamined in terms of credit and the provision of deposit and transfer/remittance services.

28. **The CBE’s plan for upgrading bank supervision is commendable and should be fully implemented.** Key steps have already been undertaken including expanding staff, revising and implementing risk oriented examination procedures, preparation of the first offsite analysis reports, and staff training. To achieve a more risk-based supervisory focus, minimum standards of risk management in all licensed institutions are necessary and should be a priority of the supervisory effort. Issuing a comprehensive regulation on bank corporate governance would contribute to this goal. The triggers for remedial actions should be more comprehensively defined in binding regulation. Whereas Law No. 88 provides broad powers for the CBE to act in distressed or non-compliant cases, the provisions can be enhanced with specific thresholds for when a remedial action (capital call, bank merger, delisting) can or must be invoked. The implicit blanket guarantee on bank liabilities should be reassessed and, as appropriate in time, replaced with an appropriate crisis and resolution framework based on minimum cost criteria.

29. **The CBE should build on the plans presented by the new supervisory legal department to achieve its goal of more transparent governance and a consistent regulatory framework.** The new legal department is in the process of reviewing and updating all regulation which will subsequently be posted on the CBE website, thereby enhancing the transparency of the regulatory structure to which banks are subject. The department should continue with its plans to standardize, through procedure and process, the issuance of prudential regulation. As a matter of the department’s established procedure, all regulation prescribed by the CBE should be issued at the level of the Board, published in the public domain, and posted on the CBE website. As recommended in the previous FSAP, on the completion of the restructuring program the CBE should address the potential conflicts of interest created by the accumulation of ownership functions of distressed banks and banking supervision responsibilities.

30. **The collateral regime can be improved further.** Security interests over all types of moveable property should be permitted and enforcement of security should be much more efficient. The new foreclosure rules should help if implemented as envisaged. Judicial capacity building should be continued and alternative dispute resolution developed.
31. Promoting the sound development of equity and private fixed income markets will require developing further the government debt market, addressing specific regulatory issues in the equity and corporate bond markets, proceeding with further privatizations that include public IPOs, strengthening the role of CASE, and building an institutional investor base. The MOF should refine its debt management strategy in order to build a reliable benchmark yield curve. It should also set primary dealer rules for secondary market making and enhance liquidity of government papers through introduction of short selling, master repurchase agreements, and a real time gross settlement system. The government is currently reviewing the legal procedures for issuing corporate bonds and listing shares. The government is also setting a roadmap to modernize CASE based on CASE’s own plan. Building an institutional investor base would involve specific agendas for the insurance, pensions and investment fund sectors.

32. In the insurance sector, the priorities include completing the restructuring of state-owned insurers, the enactment of three key pieces of legislation and further progress in introducing risk-based regulation and supervision. The restructuring of state insurers is advanced, and its full implementation will help eliminate market distortions and result in a more dynamic and competitive industry. Recent reforms to Mandatory Third Party Liability Insurance will assist in putting the industry sounder financial footing. The Egyptian Insurance Supervisory Authority needs to proceed with its reorganization and the introduction of risk-based supervision.

33. In the pension sector, the government is in the process of drafting of a legislation that would reform the public pension system, introduce a funded pillar, and strengthen and expand voluntary private pensions. The new funded pillar would increase significantly the amount of pension assets under private management. The drafted legislation on private voluntary arrangements would address key weaknesses and create the basis for the establishment, licensing, and supervision of new collective pension funds and pension companies that would provide professional asset management for existing and new pension schemes, as well as offer voluntary pension accounts.

34. The regulatory framework for investment funds needs overhauling to enable their sound growth. The main changes needed would include clarifying the legal structure of investment funds and the roles and obligations of sponsors and related parties, as well as reducing substantially and eventually eliminating the requirement for sponsors to hold 5 percent of assets under management. The government may also consider announcing a schedule of large privatizations and exploring regulations that would enable investment funds to play a more active and direct role in future privatization IPOs.

35. Marked differences in governance, skills, and supervisory focus among non-bank supervisors will have to be managed and harmonized on the path to integrated supervision.

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2 On July 21, 2007 the Minister of Investment issued a Ministerial Decree that addresses most of these concerns.
Common risk-based supervision methodologies should be developed with all supervisors from the beginning. Whether prudential supervision, as distinguished from market conduct regulation, should apply to mortgage finance, financial leasing and factoring should be considered, to use resources efficiently since market discipline is a significant factor for these services.

36. **Last but not least, the ambitious reform program that has been pursued since 2004 will have a stronger impact on investment and output to the extent that the fiscal deficit is reduced and opens room for the private sector to grow.** The decline in the ratio of private credit to GDP in recent years has been due not only to bank restructuring and regulatory reforms, but also to large public sector financing needs. Therefore, the resumption of credit to the private sector on a sound basis will depend not only on the completion of the financial reforms, but also on the implementation of the government’s announced program of fiscal reform.
### Attachment 1

#### Box 1. Main FSAP Update Recommendations

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<thead>
<tr>
<th>Short-term</th>
<th>Medium-term</th>
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<tr>
<td><strong>Bank Restructuring</strong></td>
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<tr>
<td>Complete repayment of SOE loans; complete full recapitalization of Banque Misr and National Bank of Egypt, as planned.</td>
<td>Set and monitor progress on operational restructuring targets for state banks; redefine governance arrangements.</td>
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<td>Redefine role of specialized state banks.</td>
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<td><strong>Bank Regulation and Supervision</strong></td>
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<td>Enhance off-site function by upgrading data collection and analysis, introducing risk-scoring model</td>
<td>Reassess transitional arrangements so as to eliminate conflicts of interest resulting from accumulation of ownership and supervision functions.</td>
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<td>Discontinue the process of gradual provisioning of credit losses and require proactive credit risk identification and provisioning practices</td>
<td>Implement consolidated supervision.</td>
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<td>Enhance predictability of supervisory processes and actions</td>
<td>Establish sustainable human resources practices and salary scale for bank supervisors.</td>
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<td>Strengthen the regulatory framework for governance, internal risk management capacity in the banking sector.</td>
<td>Phase out blanket guarantee and implement comprehensive crisis management and resolution framework.</td>
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<td><strong>Non-bank Sectors</strong></td>
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<td>Finalize restructuring arrangements for state-owned insurers by early 2008.</td>
<td>Implement drafted legislation introducing a new pension system with a funded component and overhauling the legal and regulatory framework for private pension schemes.</td>
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<td>Introduce guidelines for actuarial assessments of pension funds, eliminate under-funding of defined benefit schemes</td>
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<td>Implement improvements in insurance law and regulation, including independence of the regulator, separation of life and non-life business, increase in minimum capital, introduction of corporate brokers, and MPTL Reform</td>
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<td>Eliminate mis-selling and improve claims paying practices; eliminate mis-pricing by state-owned insurers.</td>
<td>Implement risk-based regulation and supervision of all institutional investors.</td>
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<td>Overhaul regulations of investment funds; clarify supervision over money market funds.</td>
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<td><strong>Capital Markets</strong></td>
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<td>Refine, disclose more detailed government debt management strategy, build reliable benchmark yield curve. Elaborate PD rules for secondary market making and implement the plan for master repos, short selling, RTGS. Establish official roadmap to modernize CASE, based on CASE’S plan. Simplify legal procedures for listing schedules at CASE.</td>
<td>Proceed with further SOE privatizations including IPO components.</td>
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<td>Build institutional investor base (see section on non-bank sectors).</td>
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<td><strong>Legal Framework for Lending</strong></td>
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<td>Implement full automation of the Land Registry</td>
<td>Specialize commercial courts and continue judicial capacity building.</td>
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<td>Adjust the legal framework to enable secured transactions over all types of movable assets. Streamline procedural rules for enforcement of all secured and unsecured claims.</td>
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<td><strong>Integrated Supervision of Non-Banking Institutions</strong></td>
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<td>Harmonize the ongoing efforts of the agencies to reform their supervisory activities</td>
<td>Coordinate with the CBE to ensure a consistent approach to risk-based supervision; consider full integration in future</td>
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