

EGYPT

Egypt lies in the north-eastern part of Africa, with coasts on the Mediterranean in the north and the Red Sea in the east. It includes the valley and delta of the Nile, part of the Libyan desert, the Arabian desert and the Sinai Peninsula. Area: 1,002,000 km². Population (1966 census): 30,083,419. On 17 April 1971, Egypt joined with Syria and Libya to form the Federation of Arab Republics. The country's most valuable crops are cotton and rice, and it has sizeable oil deposits.

ORIGINS OF THE CENTRAL BANK

The National Bank of Egypt was founded at Cairo in 1898. Initially it was a commercial bank entrusted with issuing the local currency, but as the years passed, more and more new functions accrued to it until it was *de facto* the country's central bank, well before it was declared to be so *de jure*. It was the government's bank and, by virtue of a gentlemen's agreement, Egypt's other commercial banks kept with it non-interest-bearing deposits as reserves covering their own clients' deposits. When Egypt left the sterling area in 1947, the National Bank of Egypt was given powers of exchange control.

Between 1948 and 1951 a number of proposals for monetary reform were put forward, and eventually the Central Bank Act

was passed in 1951. This act formally attributed the privilege of money issue to the National Bank of Egypt, which became Egypt's Central Bank. The national currency is the Egyptian pound, divided into 100 piastres and 1,000 milliemes; its official value is now 2.30 U. S. dollars.

Before 1951, any monetary issue had to be covered to the extent of at least 50 per cent by gold or sterling. The new law made the monetary issue independent of coverage in gold or sterling; it did not, in fact, specify at all in what proportion the circulation had to be covered by gold and foreign exchange, but provided that new issues could be covered by Egyptian government stock and other Treasury securities. By virtue of this law, the National Bank of Egypt was reorganized into two separate departments, the issuing department and the banking department. The Central Bank Act furthermore vested in it powers of supervision over the activities of commercial banks, assigned it the functions of a bankers' bank and gave it powers to influence the volume of credit by means of changes in the discount rate and of open market operations designed to raise or reduce the commercial banks' reserves.

In 1956, some thirty commercial banks were operating in Egypt, most of them branches of European, and more particularly French and British, banks. After the Suez crisis, the commercial banks belonging to French and British interests were nationalized and their management handed over to the Economic Development Organization. At the same time, Law No. 22, of 15 January 1957, required all commercial banks to seek incorporation in Egypt as joint stock companies within five years, with all their capital as well as their management in Egyptian hands.

The next step in the reorganization of the banking system was the nationalization of the *Banque Misr* and the National Bank

of Egypt in February 1960. The latter was split into two separate banks on 1 January 1961, the Central Bank of Egypt and a commercial bank named the National Bank of Egypt. The Central Bank of Egypt took over the assets and liabilities of the issuing department as well as those functions of the banking department which typically belong to a Central Bank, ending up essentially with the functions that were laid down in the 1951 Central Bank Act. In July 1961 all the remaining commercial banks were nationalized, in 1963 the number of commercial banks was reduced to five, and finally, in 1964, the government decided that henceforth every bank was to be responsible for credit to a specified sector of the economy. Only cotton plantations have access to credit from all the five banks.

ORGANIZATION OF THE CENTRAL BANK

The Central Bank of Egypt is a public corporation and has an endowment fund of 3 million Egyptian pounds, entirely contributed by the state. In compliance with the statutory provisions, the bank has set aside part of its profits in order to accumulate a reserve fund matching the endowment fund.

At the head of the Bank is the Governor, and the conduct of its affairs is the responsibility of a 14-member Board of Directors (the Governor, the vice-governor, two sub-governors and the chairmen of the commercial and the specialized banks). All members of the Board are appointed by the President of the Republic; their term of office is three years and is renewable.

The Board of Directors is responsible not only for the Central Bank's affairs, but also for the country's monetary and credit policy and for planning the activities of the commercial banks.

The Governor is the Bank's official representative, he takes the chair at meetings of the Board of Directors and supervises day-to-day business with the help of a staff of executive managers.

FUNCTIONS OF THE CENTRAL BANK

Once the banking system was fully nationalized, it became possible for the Central Bank of Egypt to exercise effective powers in the formulation, direction and control of monetary and credit policy. One of its foremost tasks is to assist the government in the preparation of economic development plans and to adapt monetary policy to the implementation of these plans.

Beyond its statutory purposes, the Central Bank of Egypt has in practice been predominantly concerned with financing the Treasury's deficit and with making sure that the banking system had enough loanable funds to finance the cotton harvest in its season. Along these lines, the Central Bank of Egypt has so far financed the public debt and refinanced the commercial banks, making sure by strict controls that the credit really goes where it is meant to go.

The Central Bank of Egypt has the exclusive right to issue money, and therefore it also has responsibility for all money-generating operations. By law, monetary issues must have 100 per cent coverage in a reserve consisting of gold, foreign securities, foreign exchange convertible into gold, and Egyptian government stock or other Treasury securities. In case of need, the Minister of Finance and Economic Affairs has powers to issue special Treasury bonds for coverage of the note issue.

Finally, the Central Bank of Egypt is responsible for exchange control and the gold reserve.

THE CENTRAL BANK'S RELATIONS WITH THE STATE

In Egypt, the relations between Central Bank and government are unusually close. The Central Bank's top-ranking executives take part in the formulation not only of financial policy, but of economic development plans. As a corollary, the Central Bank is required to make available the finance funds needed for achieving the planned targets.

The Central Bank handles the state's cash transactions free of charge, as well as those of local authorities and socialist institutions. When the Treasury has a cash deficit, the Central Bank may advance to it sums up to 10 per cent of average budget revenue during the preceding three years. The advances are for three months, but may be renewed up to a total duration of 12 months. However, given the chronically large requirements of the Treasury, public expenditure is mainly financed by government bond issues, part of which is taken up by private investors and part held by the banking system.

The government consults the Central Bank before floating a new loan stock. The Bank gives its advice with respect to maturity and rate of interest, and subsequently takes care of the actual issuing operations, of placing the bonds, paying out the interest and finally redeeming them at maturity.

MONETARY AND CREDIT POLICY

One of the tasks incumbent upon the Central Bank of Egypt is to formulate and put into effect a banking and credit policy which is in line with the government's economic policy and meets the requirements both of expanding production and monetary stability. The Bank acts towards these ends both directly and

indirectly. Its direct action includes control over the monetary circulation and open market operations, and indirectly it exerts its influence by setting a ceiling to credit as a whole and by sectors, by control over the effective destination of credits, by changes in reserve requirements, manipulation of the discount rates and the requirement of advance import deposits.

In case of need, the Central Bank may refinance the commercial banks by extraordinary loans and advances, and by extending their rediscount facilities. However, the method most often adopted by the Central Bank when it wants to raise or restrict bank liquidity, mainly in connection with the seasonal need of funds for financing the cotton harvest, is to vary the reserve requirements.

The commercial banks must, furthermore, keep to specified liquidity ratios. This is a way of making credit controls more effective without detriment to the Treasury's interests, for the banks are encouraged to invest part of their cash in Treasury securities, which are admissible for inclusion among the liquid assets in the liquidity ratio, along with cash, government-guaranteed securities and trade bills falling due in at most three months and bearing two good signatures.

THE BANKING SYSTEM

Besides the Central Bank, Egypt's banking system consists of five commercial banks (the Bank of Alexandria, the *Banque du Caire*, the *Banque de Port Said*, the *Banque Misr* and the National Bank of Egypt), an agricultural bank (the Public Organization for Agricultural and Co-operative Credit), an industrial bank (the Industrial Bank), four mortgage banks and the Post Office Savings Bank.

The five large Egyptian banks act not only as commercial banks, but discharge some of the typical functions of development banks. The National Bank of Egypt serves trade and agriculture and is the banker of the major public agencies; the *Banque Misr* is the banker of industry, though manufacturers of chemicals and pharmaceuticals are served mostly by the *Banque de Port Said*; the *Banque du Caire* is mostly concerned with building and public utilities, and, finally, the Bank of Alexandria handles most of the import and export operations on behalf of the manufacturing and the oil industry.

In 1965, the governments of the United Arab Republic and of Kuwait jointly founded the Arab African Bank, a development bank incorporated as a joint stock company under Egyptian law. It has a capital of 10 million Egyptian pounds, of which 3.35 million was provided by each of the sponsoring governments and the rest was offered for public subscription in all African and Arab countries. Its chief purpose is to finance economic development in Arab and African countries, and, in the second place, to act as an issuing house and investment trust.

In Egypt, agricultural credit has always been a matter of great importance. The first agricultural bank, the Agricultural Bank of Egypt, was founded in 1902 under the auspices of the government and the National Bank of Egypt. It was reorganized in 1931, and its new statute conferred upon it certain privileges, including that of obtaining credit on special terms and conditions from the government and other banks.

At the end of 1961 the Agricultural Bank of Egypt promoted the creation of the so-called Village Banks (actually, mutual credit societies), to which it lent expert technical assistance. A hundred or so Village Banks were thus set up between 1962 and 1965. It is a system which makes room for decentralization in the

distribution of credit, with loanable funds administered by independent institutes in direct contact with the members of co-operative societies, the natural beneficiaries.

Banking activities under this system expanded so fast that it was decided to set up an independent public agency, called the Egyptian Public Organization for Agricultural and Co-operative Credit, to co-ordinate the Village Banks and also to take over the activities of the *Crédit Agricole et Coopérative*. This Organization belongs to the sphere of the Ministry of Agriculture, but under the supervision of the Central Bank.

There are at present three types of agricultural credit, as follows:

(1) short-term credit, generally not for more than 12 months, for the purchase of seeds, fertilizers and pesticides;

(2) medium-term credit, for not more than ten years, to finance water control in the fields, irrigation plant and the purchase of livestock and machinery;

(3) long-term credit, for a period between ten and twenty years, for the purchase and enlargement of farm holdings.

EQUATORIAL GUINEA

Equatorial Guinea consists of the mainland territory of Rio Muni, on the Gulf of Guinea between Cameroon and Gabon, of the island of Fernando Po, 170 miles west of the Cameroon coast, and of four other small, volcanic islands of which the most important is Annobon. Total area: 28,051 km². Population (June 1969 estimate): 286,000, of whom 90,000 live in the islands. Formerly a Spanish colony and independent since 12 October 1968. The capital, Santa Isabel, is on the island of Fernando Po.

THE BANKING SYSTEM

Economic conditions vary in the different parts of the country. Fernando Po has thriving plantations of cocoa (annual production of more than 35,000 tons of high grade quality), coffee and bananas, and some processing industry (chocolate and oil). There are more jobs than local labour can fill, and there is a considerable inflow of immigrant workers, especially from nearby Nigeria. At about 300 dollars, *per caput* income is among the highest in the whole of Africa. In Rio Muni, by contrast, the economy is based on the exploitation of forest resources and on fishery, with *per caput* income no higher than 50 dollars.

Like the economy as a whole, the credit activities of Equatorial Guinea are more developed in the islands than on the mainland.

Before independence, banking services were provided by two Spanish banks, the *Banco Exterior de España* with its five branches at Santa Isabel, San Carlos, Bata, Puerto Iradies and Rio Benito, and the *Banco Español de Crédito* with branches at Santa Isabel, San Carlos and Bata.

The business of these two banks was largely concentrated in the towns. They accepted deposits both on savings and current accounts, and financed farming and export trade. Their main clients were the big plantation owners of Fernando Po and the—most often Spanish—lumbering companies and exporters of tropical hardwoods.

The sudden departure of the majority of Spanish technicians after independence plunged the country into a severe economic crisis, which fortunately was soon overcome thanks to financial aid from many African countries and Spain.

The newly-established *Banco Nacional de Guinea* is not only an issuing bank and banker to the state, but also extends credit to private clients. A new national currency, the Guinea peseta, has replaced the Spanish peseta at the same parity (70 pesetas per 1 U. S. dollar). Under an agreement between Spain and Equatorial Guinea the Spanish government guarantees the full convertibility of the pesetas withdrawn from circulation as a result of the introduction of the new, local currency. Spain also provided Equatorial Guinea with the gold quota required for admission to the International Monetary Fund.

Mention must be made, finally, of a savings bank, which receives technical assistance from the International Institute of Savings Banks.