

Egypt

Legal constraints hold back lending

Domestic and foreign bank branches are clustered around the main centres of economic activity in Egypt: Cairo, the Nile Delta and the Mediterranean and Red Sea coasts (Chart 1). Most of these banks lend to both large firms and small and medium-sized enterprises (SMEs) although foreign banks are not perceived as strong players in the SME market. Foreign banks are, however, strong competitors in corporate lending alongside state banks. The latter play an important role in SME lending too.

Egyptian banks appear to reject SME and corporate loan applications with about the same frequency and for similar reasons as banks in other countries (Chart 2). An exception is that a lack of collateral is cited much less frequently compared to other countries which may simply reflect that Egyptian banks rely less on collateral than banks in other countries. Indeed, the survey results show that only a few banks think that the current pledge

and mortgage legislation allows for an efficient creation and registration of security rights.

None of the interviewed banks thought there was an efficient enforcement of immovable rights. The main reason cited for reluctance to rely on collateral is the slow court system. When asked about the time it would take a bank to receive judgment by a court to enforce security over collateral, the median number of months is 24, the highest among all EBRD countries of operations.

A lack of credit demand is currently cited as the main reason why lending is not growing faster in Egypt. However, a lack of bank funding appears to be less of a constraint compared to other countries.

A clear majority of the interviewed banks in Egypt think the banking regulator is able to enforce its decisions and is fair and impartial. However, most banks also think that the regulatory process is time consuming and therefore less efficient than in other SEMED countries (Chart 4).

Chart 1 Bank localities by ownership

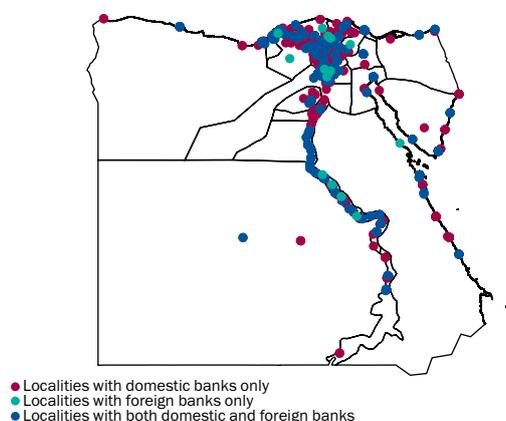


Chart 2 Frequency of loan rejection reasons

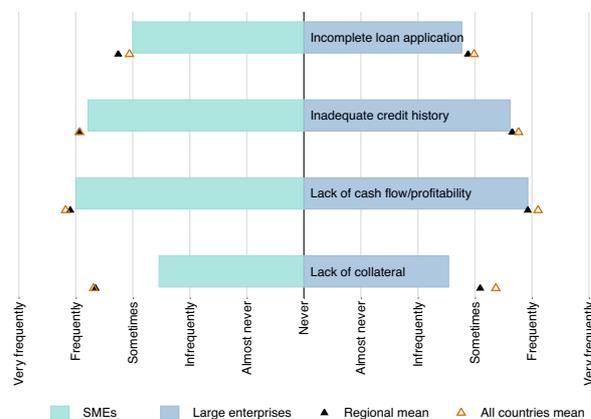


Chart 3 Main constraints to lending*

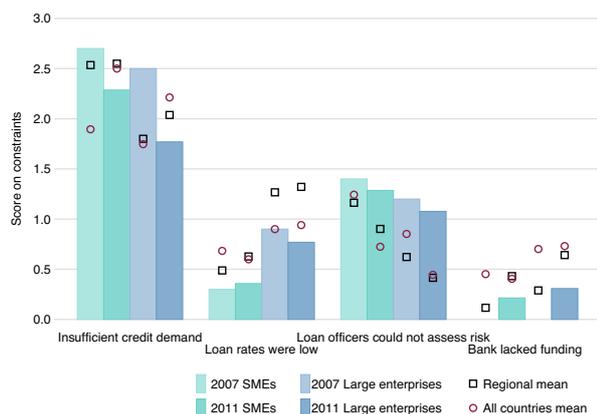
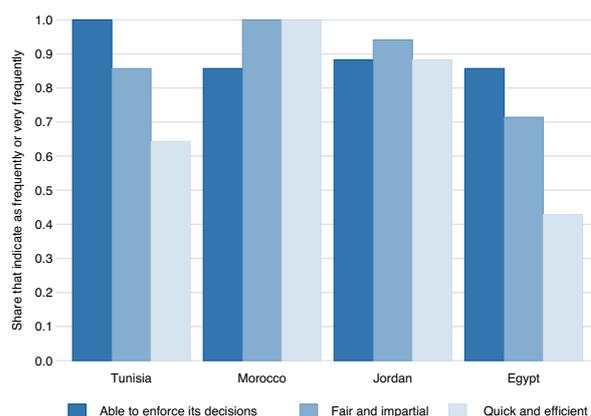


Chart 4 Perception of the banking regulator



*The constraint score runs from 0 to 3 with 0 signifying no constraint and 3 signifying the main constraint