

Chapter Seven

The Impact of Financial Liberalisation in Egypt

Summary

Chapter Seven offers a survey of financial developments in Egypt from the financial repression regime in the 1980s to the financial liberalisation of the 1990s. In 1991, the Egyptian government, as part of its implementation of stabilisation and structural adjustment programmes, liberalised the interest rate and exchange rate while it initiated reforms of the banking system.

During the first two years of the financial liberalisation programme, the policy-makers replaced financial repression taxes with non-distortionary finance, using government bonds and T.bills. Interest rates jumped to a level of 20 percent. This stimulated a considerable inflow of private capital into deposits in the banking system. In 1994, the policy-makers increased fiscal receipts through the policy of privatisation. The implementation of the Egyptian capital market reactivation programme facilitated the privatisation programme and contributed to foreign resource mobilisation.

Most macroeconomic indicators of financial developments, following financial liberalisation, are proof of the financial deepening of the Egyptian economy. This Chapter concludes that both strong government intervention in the financial sector, and the dominant position of public sector financial institutions, enabled the Egyptian financial system to survive the 1990s financial crises in emerging markets.