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Central Bank Governor: Import regulation rules irreversible



The Governor of the Egyptian Central Bank stated that the rules of import regulation that were announced are irreversible, and no amendments will be made to them, stressing that Egyptian banks are ready to implement the new procedures efficiently.

[Link to the News Story](#)

Our Views

The operative part of the Central Bank's decree deals with three main parts: Firstly, it confirms the commitment to the Cabinet's directives regarding governance of the import process and activates the system of pre-registration of shipments, which will be applied as of March. Hence, it sets out the new method for banks' dealing with importers as part of governance efforts. The second part of the decree explains the change in banking procedures, which forgoes dealing with collection documents in the implementation of all import operations, and requires the use of documentary credits only. As for the third part, it excludes branches of foreign companies and their subsidiaries from this decree.

Through sound understanding of the importance of governance in all issues, and that achieving this governance should be through well-thought-out decisions that reflect a good assessment of local and international realities, and flexible implementation mechanisms, while allowing for an appropriate period to adapt to requirements of implementing decisions, this commentary focuses on the following points:

- The sudden and unexpected issuance of decisions and having to amend them hours after their issuance increases market turmoil and leads to a loss of confidence in the Egyptian economy and its institutions. This harms Egypt's reputation with its trading partners and negatively affects trade and investment flows. It also exposes it to serious consequences, including what happened last week when the European Union filed a complaint against Egypt before the World Trade Organization regarding problems related to decree 43 of 2016.
- Excluding foreign companies from this decree or any other decree will not reduce the turmoil that the market will

witness, but rather increase discrimination against local products, which contradicts the orientation of the state and increases lack of transparency.

- Preventing import manipulation is an important goal, and specific mechanisms can be put in place without penalizing all importers. The decree in its present form is considered an unacceptable interference between the two parties of the import process, which leads to depriving importers of facilities they obtain in agreement with suppliers, and obliges them to obtain foreign currency and deposit it in advance in banks.
- The problem does not lie in the banks' readiness to implement the decree, but rather in the business community's lack of readiness for it, especially considering the significant local constraints that impede production and export in addition to the continuing disruption of global supply chains, shortage of raw materials, and high production costs.
- It is expected that this decree and previous ones will result in a severe restriction of imports, and thus a downturn in local production and exports, especially that the proportion of intermediate goods and raw materials represents about 50% on average of total Egyptian imports, thus going against the orientation of the state and its efforts to encourage industrialization and increase exports.
- If there are imports that are feasible for substitution, this decree alone will not help in this respect. Rather, import substitution requires an industrial development strategy and stimulating policies that deepen local industrialization and achieve the desired production and export boom. This requires structural and institutional changes that have not yet been completed.

- Producers and exporters desperately need state support to overcome obstacles, and ensure their continuity; something nearly all countries of the world are doing right now in light of the the negative repercussions of the COVID-19 pandemic on the global and local economies.
- In addition to the above, this decree is expected to result in significant pressure on foreign currency at a time when banks suffer from poor liquidity, which leads to further deterioration of the value of the pound and higher domestic inflation.

Finally, the crux of the matter is that there should be cost-benefit studies involving all stakeholders to evaluate decrees before they are issued, predict their impact, ensure that they achieve their intended goal, and do not conflict with other goals; along with allowing for sufficient time to reconcile conditions based on consultations with stakeholders to ensure the proper implementation of decrees. In the specific case of this decree, it is better to repeal it, because its expected harm outweighs its positive return.

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