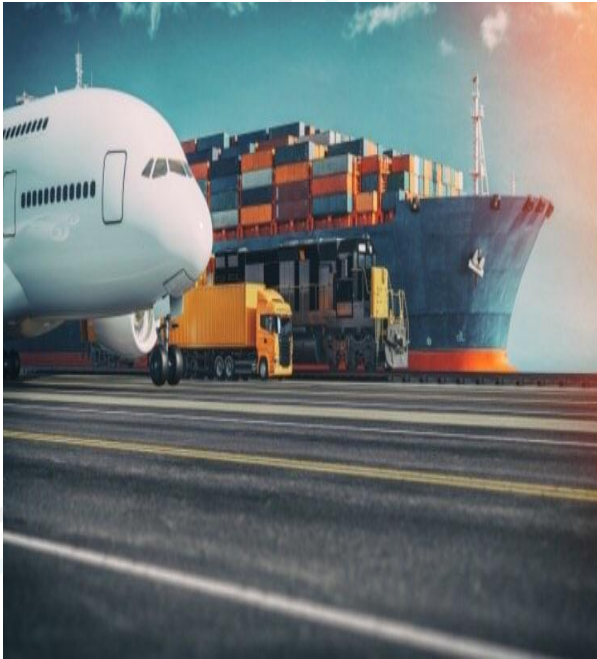




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## Federation of Egyptian Banks: The Central Bank's decision aims to raise the quality of imported goods and protect the health and capital of citizens



The Federation of Egyptian Banks issued a statement today stressing that the Central Bank's decision is a regulatory banking measure issued in line with the recent decisions of the Cabinet regarding the governance of import procedures, and to complement the shipment pre-registration system.

The Federation added that the decision aims to raise the quality of imported goods to protect the health and capital of citizens,

ensure proper governance of the foreign trade system, protect national industry, and preserve the country's sovereign resources.

[Link to the News Story](#)

## Our Views

The Central Bank's decision to forgo collection documents and replace them documentary credits - and its ensuing effect - places it among the most important among the most important current economic news, especially considering the state of confusion and turmoil present in the local market; with this in focus, ECES complements its previous commentary on the decision with the following:

- **Decision making process: The ambiguity of the position of the Ministry of Commerce and Industry regarding the decision, even though it is at the core of its competence, and submission by the Federation of Industries and the General Federation of Chambers of Commerce of a memorandum to the cabinet stating that they were harmed by the decision confirm that the decision was made in the absence of essential stakeholders.** This runs against the simplest rules of governance and indicates a structural defect in economic policy-making that has negative effects on the investment climate in Egypt, especially since the **soundness and clarity of the foundations on which economic policies**

are designed, in addition to their stability, are prerequisites for any investment.

- Procedural facilities for the implementation of the decision: The initiative across many banks to announce details related to procedures, such as fees for opening documentary credits, and their efforts to reduce duration of issuing the credit should have been at the heart of the decision's announcement, and its executive procedures. In particular, **the procedural facilities did not address reducing the coverage rates in documentary credits from 100% of the value of the shipment deposited in advance, which is an essential point** and a major reason for the business community's dissatisfaction with the decision.
- The stated goals behind the decision: Three goals were brought forth due to this decision, most importantly **supporting national industry. Representatives of producers and exporters as well as importers have put forth compelling arguments, confirming the magnitude of the damage from the decision and its conflict with declared goals. This requires a detailed response, and in the event of no response, it would be most appropriate to cancel the decision.** Among the points that deserve a response:
  - Depriving importers of the facilities that the foreign exporter gives to the Egyptian importer by mutual agreement, based on trust between the two parties, including payment on credit, i.e., paying the value of

the shipment through several payments; loss of the opportunity to compensate the importer in the event of damaged goods or a violation of the agreement, or a breach of any of the terms of the contract by the foreign exporter.

- The rise in prices because of the worsening of supply chain problems after the decision, and restriction of import capacity to suppliers with high creditworthiness, which leads to more monopoly in imports. Also, providing credit to the private sector to secure cash resources that cover the full value of credit burdens producers with additional costs that will eventually be reflected in the form of further rises in commodity prices, which have already started to happen.
- Importers have stopped providing payment facilities to small and micro factories in return for supplying them with raw materials and production supplies, due to importers having to finance the full cost in advance.
- The decision did not consider Egyptian imports through cross-border trade, especially with African countries, which are settled in cash, as well as requirements of ready-made garments that come under the Qualifying Industrial Zones agreement.

- The decision also did not include among the excluded goods the various types of packaging requirements, active substances for medicines and chemicals, requirements for laboratory equipment, and inputs of the food, pharmaceutical and chemical industries.
- Excluding foreign companies and their subsidiaries is clear discrimination against local products that reduces competitiveness of Egyptian products.
- As for the last two objectives, namely, raising the quality of imported goods and increasing the country's sovereign resources, **the Bank is not an inspection body to ensure the safety of incoming goods, but its role is limited to ensuring the validity, safety, and conformity of documents only, which was already standard.** As for the decision to increase the state's resources, it is known that tightening **restriction leads to increased smuggling and a decrease in the volume of official imports, thus reducing revenue.** In fact, the field will be open to other harmful phenomena, such as money laundering in trade finance.
- **Depositing the entire value of the shipment puts pressure on companies at a time when they are already suffering from low liquidity because of recession and consequences of the pandemic.**



- Comments that attempted to link the Central Bank's decision to the US Federal Reserve's decision to raise interest rates to curb inflation reflect a disregard for **the challenge facing the government to rely on an unsustainable mechanism to finance the deficit by attracting foreign capital in debt instruments, which was noted earlier by ECES.**<sup>1</sup> **The Central Bank's decision will not stop the flight of these funds, and it is more useful to meet this challenge by taking more measures to support production and exports.** On top of these measures, the real engagement of producers and exporters in making economic policies is imperative, followed by practical measures to remove the obstacles they face, which are monitored periodically in the ECES Business Barometer.<sup>2</sup>
- Finally, it is necessary to conduct an objective assessment of the measures taken to support national industry, especially the initiatives of the Central Bank, by providing detailed information on the beneficiaries of these initiatives at the level of economic sectors and different sizes of establishments; as well as to transparently disclose the results of this assessment before talking about any new measures to support national industry and deepen local industrialization.

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<sup>1</sup> <https://www.eces.org.eg/PublicationsDetails>

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