Views On News

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US dollar records EGP 17.4 in the National Bank of Egypt

The buying and selling exchange rates of the US dollar recorded EGP 17.40 and EGP 17.50, respectively in the National Bank of Egypt (NBE). The NBE decided to issue a saving certificate with a fixed rate of return of 18 percent throughout the period of keeping the certificate.

[Link to the News Story]

Our Views

1. Yesterday, several decisions were issued, the first of which was the announcement of moving the exchange rate to EGP 17.5, and the Central Bank of Egypt's (CBE) decision to raise the interest rate by one percent. A new saving certificate was issued for one year by public banks at an interest rate of 18 percent, in addition to a package of decisions made by the Ministry of Finance to allocate EGP 130 billion to deal with the repercussions of international economic challenges and their impact on citizens. The day closed with the US dollar rate at EGP 18.25 in the National Bank of Egypt (NBE). This issue of **Views on News** deals with the consequences of these decisions combined.

2. As for moving the exchange rate and increasing the interest rate, both decisions were expected, and late to boot. As for the exchange rate, the US dollar supply is much lower than demand, in addition to the serious decline of foreign assets at local banks for the first time in their history. Therefore, market forces drive the price to rise automatically in response if no one interferes in the market. It is only normal that the exchange rate should be reviewed annually in a way that copes with domestic and international inflation rates. The decision came late to the detriment of the market.

3. As for the interest rate, raising the interest rate in the US, announced months ago compels interest rates to move in all other countries, which has happened except in Egypt's

case, where the highest real interest rate in the world continued for an irrational period. Keeping the two rates (exchange and interest) unrevised does not represent stability but a shortcoming in monetary policy.

4. Therefore, moving the two rates is a sound reform step whose positive impact on the Stock Exchange has materialized almost immediately. The reform steps always give hope for an improvement in economic performance, and this is directly reflected in the Stock Exchange, although raising interest rates is usually the number one enemy of the Stock Exchange.

5. As for saving certificates with high returns, the aim of which is to withdraw liquidity from the market and prevent further increases in the exchange rate. Market response to positive and negative expectations will be realized if there is no policy reaction.

6. But a high interest rate would mean a bank loss of at least 5 percent because lending is much lower. So, who will bear the difference for public banks? Would it not have been better to achieve the same goal with a lower interest rate of 15 percent for example, thus encouraging all banks to join rather than confuse the banking system and create a liquidity crisis due to citizens' demand to withdraw funds from different banks and deposit them in public banks to benefit from the new certificate?

7. High interest has another negative aspect, namely that excessive yield stifles production. Very few productive enterprises can yield such a high return, especially in the current difficult climate of industry. Thus, closure will become a more viable option for the already faltering factories; hence we will lose investments and job opportunities even though Egypt is in dire need of employment.

8. As for the rise of the dollar exchange rate yesterday, which exceeded the announced rate at the beginning of the day, it is expected to occur every time the exchange rate is liberalized or moved. It will necessarily decline and stabilize in a few days because the announced rate (EGP 17.5) is higher than the rate in the parallel market.

9. The Ministry of Finance's policy package comes as a positive step toward protecting citizens and easing some burdens on investors, especially small ones, whether through bearing the real estate tax or other measures. Citizens and investors are always victims of misguided, delayed, or incomplete policies, which lead to inflation and slower production. While it is certain that inflation is partially imported, the bulk of it is domestic and is a direct result of domestic monetary and fiscal policies and other ill-considered measures.

10. However, the important question is: Are the positive decisions taking place enough to solve Egypt's current

economic woes or ensure a way out of the current difficult period? The obvious answer is No.

11. Relying on monetary and financial policy alone in dealing with problems in not enough. It is important to solve real economic shortfalls, as the US dollar is not obtained only by cutting imports or encouraging hot money, but also by exports, direct investment, and tourism.

12. Tourism is affected by many factors, a large part of which we cannot control, although much can be done; but exports and investment can be increased very significantly and rapidly if we follow the export support policies of other countries, solve exporters' problems, provide incentives, and facilitate investment incentives.

13. Instead of trading in land, the State can contribute to investing in it, rather than becoming a major obstacle to investment. Licenses, procedures, and approvals are all problems facing investment.

14. All of this requires serious institutional reform through ministerial cooperation, consolidation of efforts, and a review of priorities. This type of reform has to some extent begun, but it is important that it be faster as time is not in favor of Egypt considering the feverish competition between countries, especially in the field of attracting investments from China and others.

15. One good starting point might be the cancellation of the Central Bank's decision on regulating imports, which has confused the whole production process, and has had daily repercussions. It is not enough to make exceptions; it should be canceled because it is not within the domain of the Central Bank of Egypt (CBE), nor part of monetary policy. For monetary policy, integration and coordination with all other policies are the crux of the matter to support development efforts, not impede them.

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