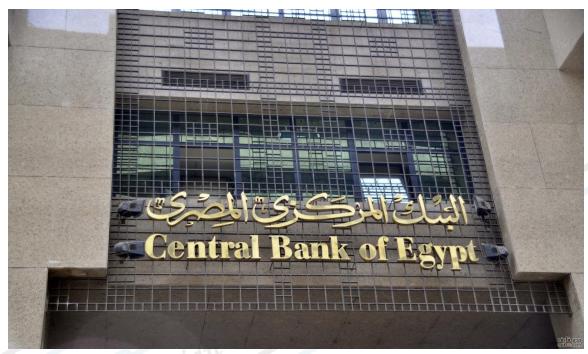


## **Wiews On News**

Date: 24 November 2022 Issue No: 684 Source: Al-Mal newspaper (21-11-2022)

## Central Bank issues directive halting banks from financing the private sector at 8% interest



Sources indicated that the Central Bank of Egypt has issued a directive instructing banks to stop extending financing at a return rate of 8 percent in the context of the private industrial, agricultural, construction, and new and renewable energy initiative, with the <u>used balance</u> to be paid gradually in accordance with available credit facilities.

**Link to the News Story** 

## **Our Views**

The Prime Minister's Decision No. 4151 of 2022 triggered confusion not just among the industrial business community, but also among those of low-income. In this respect, this issue of Views on News focuses on the merits of the decision from a purely economic perspective, causes of confusion, and how to properly address the issue.

- 1. With regards to the economic merits of the decision, it involves institutional reform in the right direction, as funds and initiatives should not multiply and be managed by different entities. This makes the follow-up of state spending challenging. Also, the Central Bank should not be the issuing body of the initiatives. Further, multiplicity of interest rates causes misuse if correct controls are not put in place, as some would obtain loans at a low interest rate to pay off higher interest rate loans; hence the original purpose of supporting certain groups or objectives is missed.
- 2. This indicates that the decision and the reform initiative are sound, but the problem, as usual, lies unfortunately in implementation, timing, areas of focus, and the method of announcing.
- 3. To begin with, the decision in article I focuses on the general rule under the supervision of the Ministry of Finance over initiatives. Article II relates to four specific initiatives, which may give a misleading impression that the

issue relates to just these initiatives. Then news started circulating about verbal instructions from the Central Bank to cancel the 8 percent initiative related to manufacturing, causing great confusion for the manufacturing community, which has already been suffering from alarming contraction since the beginning of the year, in addition to being affected by the decisions of the Central Bank last March, which almost halted manufacturing activity in terms of production, and import and export of raw materials; in addition to accumulation of debts on manufacturers, farmers and merchants due to accumulation of goods at ports, and incurring fines and demurrage charges due to problems beyond their control.

- 4. The decision comes at a fatal time to deprive the manufacturing community of privileges that exist in countries that are serious about encouraging manufacturing, and took precedence over canceling the Central Bank's defective decisions by the end of the year, as previously mentioned.
- 5. Then comes the bigger problem, which is making the Ministry of Finance fully responsible for the initiatives, beneficiaries, and so on, thus entrusting the Ministry with a technical role beyond its original domain, namely, facilitating necessary funds for various purposes. Previously, problems made themselves apparent with the export support program for coming effectively under the Ministry of Finance, which outlined the support extended to exporters, due to lack of awareness of the needs of manufacturing, Egypt's position in relation to international competition, and the weak role of the Ministry of Industry.

- 6. Confusion also remains because of immediate implementation without announcing implementation mechanisms, nor discussing them with the business community—responsible for operation, production and export—who are entrusted with solving Egypt's problem of availability of hard currency if the export objective is dealt with properly and with proper awareness of manufacturing needs. The same applies to the various production and service sectors.
- 7. In addition, the decision impacts disadvantaged social groups as well as the production sectors, both requiring proper support for Egypt to get out of its current economic crisis, and to reduce the negative social effects of the current difficult economic situation, knowing that any negative impact on manufacturing translates into weak employment and investments— contrary to the direction the country needs.
- 8. Finally, if the reason behind the sudden decision is the existence of cases of misuse, then accountability and control over implementation are required, not cancellation.
- 9. What is required is to start proper dialogue with the business community and associations representing lowincome segments to identify results of the decision, and immediately work to put in place detailed and realistic implementation mechanisms. Technical ministries such as the Ministry of Trade and Industry, the Ministry of Social Solidarity and the housing program for those of low-income will play a significant role in determining the beneficiaries

and setting up a serious control system to follow up and evaluate performance of the entire system and not leave it completely to the Ministry of Finance as presented in the decision.

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