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Equation of the exchange rate liberalization

It is a mistake to tackle this issue by discussing one side of the equation in a way that makes it imbalanced, leading in many cases to an area that has nothing to do with anybody, i.e. outside the scope of specialty.

I belong to the majority that prefers analytical approach and keep away from giving rulings beforehand. In fact the issue can be addressed by discussing the two sides of the equation.

Concerning the financial side from the SME viewpoint:

A rise in foreign currency exchange rate causes a recession or erosion of working capital in terms of its importation capability of dealing with input and output.

The other side of this traditional equation is the necessity of the banks' response by getting ready to finance the receded working capital that meets the financial and credit conditions that seen necessary by the bank to manage its own banking policy.

Concerning the industrial activity of SME:

This gives room to small and medium enterprises (SME) to face two challenges that should be overcome successfully to achieve a benefit from the well administration of this crisis.

The two challenges are:

1- They should use a larger percentage of their local input instead of the imported input to reduce cost and gain additional competitive advantage.

2- They should seize the opportunity of the high price of imported products to present the Egyptian alternative product that is able to compete in terms of quality and price so as to take a larger percentage of the local market. That is because the burden of any rise of foreign currency is much shouldered by importers less by local producer according to the percentage of the imported input.

On the other side of the equation, i.e. exportation, we notice that exporters of Egyptian exports highly welcome foreign currency rise against the local currency, because this makes them achieve higher revenues from the same quantity they used to export without additional burdens or expenses or even efforts to expand and increase export markets.

Thus, exporters are facing a challenge, which they should either accept or reject. They may be joyful of the effortless revenues but, most important, they should seize the opportunity to decrease the value of their exports to gain more competitiveness, increase exports, secure the present and building the future.

There is a regulatory role by the State and its banking system to keep a balance between foreign exchange and the Egyptian pound in light of a historic gap in trade exchange.

That is to say, our imports exceed our exports. Thus, demand for foreign exchange remains higher than the available supply.

There has been controversy between the banking system and exporters over whether it is a duty to give up the revenue of exports to banks and whether a percentage of it can be sufficient. Besides, there is still a controversy over the prices of selling and buying foreign exchange from banks and the price difference.

All these are controversial issues that are not expected to be decided in a way that satisfies all parties without contradiction with the free economy rules.

It is more realistic to have the export and import operations done through banks. This way the foreign exchange revenue of exports will be added to the exporters' accounts with Egyptian banks without procedures restricting the freedom of using these balances.

This issue per se will increase automatically foreign exchange with the accounts of these banks. Interest rate on foreign exchange can be raised by about 1-2% higher than international rates to encourage clients to keep part of it as savings allowing the banking system to manage it in a way that serves industry to provide foreign exchange, thus encouraging exports to expand.

This will end a debate on the price of selling and buying foreign currencies for whoever gives up his foreign currencies and then needs some of them later to finance his exports.

This increase in dollar savings will form an attracting force for deposits and savings of foreign currencies without any fear of a "dollarization" phenomenon, as the interest rate on Egyptian pound is still tangibly high.

In conclusion, this crisis is one of many challenges facing any industry in the world.

Industrialists should be prepared from now to this challenge in the future. This will be through quality standards, competitive advantages, making ready for the future demands that need a clear vision, technical progress and ability to come triumphant in a world competition battle that begins at the domestic level.

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