

Liberalization of a mechanism of foreign exchange rate against Egyptian pound

The recent decision of liberalizing the mechanism of foreign exchange rate against the Egyptian pound was bold and a positive economic step at present.

The stage we are going through is not sufficient to evaluate the experiment, because we are still experiencing an 'overshooting' stage, which will go down so that market mechanisms will achieve a fair price of a basket of currencies against the Egyptian pound.

Of course, it is expected after this stage that Egyptian industry should benefit from the relative rise of foreign exchange to boost exports and secure part of its imports.

It is also expected that the coming stage will witness the banking system raising the interest rate on dollar savings in comparison to the interest rate in the world to attract dollar deposits with Egyptian banks to avoid the so-called the 'dollarization' phenomenon, as the interest rate on the Egyptian pound is still attractive.

It is also expected that the Central Bank of Egypt will play a balancing role through acting as a buyer and a seller of foreign currency within the limits it sees reasonable to achieve its policies. So it can be effective through daily transactions.

The stage of fixing the exchange rate of the Egyptian pound may be near. This will allow industry to organize its imports and exports all the year long at

the price of contracting for a 1% fee called 'hedging' that will provide protection against fluctuations of foreign exchange rates.

This is linked to the commercial and industrial transactions and fixing prices of products in a way that protects them from unexpected crises.