

## Egypt

### Technical Assistance in Fiscal Year 2021

#### **Banking Supervision** (October 11-January 15; October 25-February 11; March 2-30)

METAC continued its support to the Central Bank of Egypt (CBE). This activity focused on enhancing market discipline through public disclosures which are consistent with Basel III (Pillar 3). This pillar was designed to incentivize banks to implement sound and robust risk management. METAC's experts held several virtual meetings with CBE senior management to explain recent changes to Basel Pillar 3 disclosure requirements, and mapped them against Egypt's current guidelines. They identified 42 disclosure requirements (out of 80) relevant to Egypt. The CBE will undertake an internal review of the draft regulation, consult with the banking sector, and perform a Quantitative Impact Study. When the draft regulation is completed and issued, it will improve public disclosure requirements enabling market participants to access key information on a bank's regulatory capital and risk exposures, and increase transparency in a bank's exposure to risks and the adequacy of its regulatory capital.

METAC continued its support to the CBE Basel Directorate on the implementation of the Basel III revisions, with a specific focus on the credit risk framework—which seeks to restore the credibility in the calculation of risk-weighted assets and improve the comparability of banks' capital ratios. The experts held remote WebEx meetings with management and experts to explain the key aspects of the framework, through an in-depth analysis of the various asset classes and their respective risk weights. A draft discussion paper highlighting further investigations to be carried out and emphasizing the options that need to be addressed by the authorities was developed. Once the remaining steps are finalized (internal CBE review of the draft regulation, consultation with the banking sector, performance of a Quantitative Impact Study) and the draft regulation issued, the CBE capital adequacy framework will benefit from improved risk sensitivity.

METAC supported the CBE in updating its large exposures regulation to ensure compliance with the new Banking Law (No. 194) and the Basel Committee on Banking Supervision standard. The experts interacted with a dedicated large exposure working group, composed of representatives from the Bank Regulation department, the Basel team, and the off-site and on-site departments. The working group has been established for the purpose of drafting an updated regulation for measuring, aggregating, and controlling single name concentration risk. The purpose of large exposure limits is to constrain the maximum loss a bank could face in the event of a sudden failure of a counterparty or a group of connected counterparties and to help ensure the bank remains a going concern. Especially where the bank's counterparty is another bank, large exposure limits can directly contribute to the reduction of banking system contagion risk. METAC provided training on the Basel large exposures standard and reviewed the draft regulation drawn up by the CBE. The training focused on the rationale and objectives of the Basel framework, its key aspects, and the implementation challenges to provide context to the changes that the CBE working group have proposed. METAC also addressed numerous technical questions raised by the CBE on the details of the Basel standard to enable the members of the working group to customize the framework to the specific characteristics of the Egyptian banking sector.

#### **Public Financial Management** (October 26-November 6; December 7, 2020–February 19; April 4-16)

A joint METAC-FAD mission supported the Egyptian authorities in updating their draft Fiscal Risk Statement to reflect recent economic and fiscal developments, including the COVID impact, drawing on international experience to identify good practices and emerging trends. The update provides a

more structured outline to discuss the main factors that may cause fiscal outcomes to differ from initial budget assumptions and forecasts, such as changes in the macroeconomic environment and the financial position of public corporations. It also summarizes the impact of the COVID crisis on public finances and the mitigation measures the authorities took. A special attention is also granted to long-term fiscal risks, such as demographics and climate change.

With these two activities, METAC assisted the authorities to design a database to keep a record of Public-Private Partnership (PPP) projects along with key financial information and drafted a presentation on fiscal risks of PPPs for the PPP unit to use to disseminate the reforms to government senior officials. As an updated PPP law was prepared and is being discussed in parliament, METAC helped the authorities to update the corresponding regulations in order to improve surveillance of PPPs and coordination of the PPP process with the broader public investment management cycle.

### **Revenue Administration** (September 6-October 3)

METAC supported the Egyptian Tax Authority in analyzing the main causes of the accumulation of disputed tax debts, including procedural and legal reasons, and advised on actions to reduce such debts. The support included advice on improving monitoring and management of disputed tax debts, including how changes to the ETA's procedures and practices may result in a reduction in tax debts. This support is relevant to the key tax administration elements of the Medium-Term Revenue Strategy, which Egypt's MoF is putting together with TA from the IMF FAD.

### **Statistics** (March 14-25; April 4-8)

The mission assisted the Egyptian Ministry of Planning and Economic Development (MoPED) progress the development of annual financial accounts and balance sheets statistics. Newly received data sources were assessed and compilation of preliminary estimates of balance sheets was initiated.

The mission assisted the MoPED assess and classify existing measures of the non-observed economy. Strategies and methods to measure more of the non-observed economy were also recommended.