

Egypt

Technical Assistance in Fiscal Year 2018

Financial Supervision (August 21-24, September 11-14, November 5-9)

Over the last few years, the CBE has made steady efforts towards the implementation of Pillar 2 of Basel II/III, with continued assistance from METAC. Milestones include the issuance of regulations on IRRBB, concentration risk, ICAAP guidelines, capital planning frameworks, and SREP.

In FY18, METAC delivered TA on Disclosure Requirements of Pillar 3 of Basel II and III. A mission reviewed and assessed draft guidelines developed by the CBE on risks disclosures that banks in Egypt should disclose to market participants, and provided recommendations to align these guidelines with the BCBS's Standards.

The Center also provided CD on TLAC to help shape the CBE thinking in this respect. The mission recommended the CBE to consider implementing TLAC on domestic-systemically important banks (D-SIBs) to improve the stability of the Egyptian financial system, and advised on the processes that the authorities could implement to resolve D-SIBs in times of financial stress, establishing a resolution authority with the power to take over and reorganize any D-SIBs; establishing eligibility criteria for TLAC instruments; and requiring D-SIBs to draw up a resolution plans.

Furthermore, the Center organized a five-day training to the CBE supervisors on securitization, including the origin of securitizations, their main purposes and role in market developments. The training focused on types of securitizations and the underlying assets, including traditional/true sale securitizations, synthetic securitizations, and asset-backed commercial papers. Case studies allowed the CBE supervisors to understand the structure of typical securitization transactions, and to develop their knowledge of capital requirement calculations under the standardized and external ratings-based approaches.

Public Financial Management (June 8-9, September 13-21, April 3-12)

Improving fiscal risk monitoring and management and top-down expenditure control are priorities for the Egyptian authorities in the context of their ongoing program supported by the IMF Extended Fund Facility (EFF). Building on FAD and METAC past advice and training, a first fiscal risks statement, including a report on the outstanding stock of State guarantees, was prepared in April 2017. In June 2017, METAC's PFM advisor held meetings with the authorities in Cairo to define a short-term workplan to further strengthen their fiscal risk management toolkit. It was agreed that METAC would provide hands-on support to build further capacity on managing risks related to SOEs and State guarantees.

In September, METAC provided hands-on support. A "Sovereign Guarantee Committee" (SGC) assesses requests from SOEs and EAs for government guarantees. Its proceedings are supported by a "Technical Secretariat". METAC provided capacity building to the Secretariat staff and other key stakeholders (including the SGC) to operationalize the SGC. The expert assisted the authorities in developing an implementation plan, clarifying the operational processes, and building the required capabilities to further strengthen their assessment, management and reporting of fiscal risks. Practical workshops were held for representatives from the MoF on analyzing guarantee applications and monitoring guarantee exposures. Guidelines and templates for the analysis, monitoring, and reporting were provided. The

implementation plan identified the steps to be taken by the authorities, both within the MoF and externally, to successfully operationalize the SGC.

In April, building on the recommendations of a November 2017 HQ-led mission, a joint FAD-METAC experts visit assisted the MoF in identifying a cluster of ministries with which medium-term expenditure planning will be explored and piloted. The experts discussed with the Budget Directorate and selected line ministries current efforts to plan medium-term expenditure and the necessary inputs to achieve better baselines and costing scenarios. They also investigated opportunities for a more consolidated budget discussion structured around the function of ministries and agencies rather than individual discussions with each ministry and agency.

Revenue Administration (May 7-18, July 24 – August 3, January 14-24, April 1-12)

In FY17, METAC organized a STX visit to Egypt to support the development and introduction of an enhanced risk management structure in the Egyptian Tax Authority (ETA). The mission advised on the organizational structures, roles and methodologies required for the ETA to implement effective risk management. A time-bound action was prepared. The assessment paved the way for TA provided under the Swiss State Secretariat for Economic Affairs (SECO)-funded project to address weaknesses in tax return filing and payment performance identified during the TADAT assessment. With the help of METAC/FAD assistance new procedures and working practices were designed, and introduced in a range of pilot offices in 2016 and 2017.

In FY18, METAC organized three missions to help the authorities implement the action plan.

The first mission reviewed progress made by the ETA in relation to both compliance risk management and institutional risk management, and defined further improvements required to roll-out the risk management function across the whole ETA in line with international good practice. It also reviewed the integration of the risk management function into the annual planning process, including the development of a formal Compliance Improvement Plan. Last, the mission took part in risk assessment and strategy development activities for two risks identified by senior officials as being important. A full risk assessment of the identified risks was undertaken, appropriate risk mitigation strategies were developed, appropriate measures of success and an accompanying evaluation methodology were identified.

The second mission continued to support ETA in developing and implementing improved filing and payment compliance management procedures based upon international good practice, and in developing permanent Performance Improvement Unit. An analysis of the pilot exercises confirmed that the new procedures are effective, but that they could not be rolled-out across ETA's entire taxpayer population with existing staffing and levels of automation. Therefore, another pilot phase was planned to test the capability of offices to use the improved compliance management procedures across a broader number of taxpayers and across all offices involved in filing and payment processes using risk-based criteria, to focus on the biggest tax risks. In close collaboration with ETA a subsequent full-scale roll-out plan across the whole ETA was established and proposals for strengthening the existing PMO made. The agreed plan was to roll-out across the ETA in eight groups, each over 3 months. In all, the roll-out will be to 420 offices over 24 months. Offices with higher risk cases by value will have the new procedures rolled-out earlier than offices with lower value cases. This will maximize value, and ensure the most challenging offices will benefit both from the experience gained from earlier roll-outs and from medium-and longer-term initiatives such as use of mobile phones, automation, and taxpayer database cleanse.

The third mission reviewed the progress and initial results from the implementation of the new pilot, testing the capability of offices to use the improved compliance management procedures

across a broader number of taxpayers and across all staff in the offices involved in filing and payment processes. The mission agreed with ETA on next steps, which include enhancements to project methodologies, strengthening the project management function and transitioning into a permanent performance improvement unit, and commitment to provide full support to a national roll-out of the new procedures.

In addition, METAC RA advisor participated in an FAD mission, which undertook a high-level assessment of the status of the ETA based on the recent TADAT report and the progress achieved since 2015 in the nine TADAT performance outcome areas. The mission discussed with ETA and MoF (i) the ongoing reform initiatives; (ii) the ETA project on business processes reengineering; (iii) the latest plans to develop integrated IT systems; (iv) the integration of the organizational structure across VAT and Income tax administration; and (v) the reforms that the authorities are considering to transforming ETA into modern revenue organization. The mission advised on reform priorities, their implementation sequencing, and the establishment of program governance and management arrangements.

Statistics (July 9-20, October 29 – November 11, December 18-22, February 4-8, March 4-15)

METAC continued its assistance to the CAPMAS and the Ministry of Planning (MoP) on national accounts statistics. To this end, it organized three missions during FY18:

- The first mission focused on improving the consolidation of sources and the compilation of procedures for consistent measurement of GDP in the annual and quarterly accounts (in the MoP), and SUT in the CAPMAS. Special attention was paid to the treatment of VAT (introduced in September 2016), and the procedures for measuring product taxes and subsidies in volume terms. The mission assisted the national compilers in CAPMAS in compiling the 2014/15 SUT, to be finalized in October-November 2017.
- The second mission clarified the methodological issues in assessing and organizing the source data into the compilation framework of 2014/15 SUT. The mission worked with the SUT team to update the classifications, assess the data sources and procedures for the estimates at detailed product and activity levels. The improvements made in the SUT framework will increase the consistencies between resources and uses by products and between output and input by activity. For the first time the trade and transport margins were calculated by using own data sources, instead of previously applied margin rates from other economies. Further enhancement is expected for the 2017/18 SUT, with the integration of the results from the planned economic census in 2018.
- The third mission finalized the 2014/15 SUT. The updated 2014/15 SUT framework helped CAPMAS ensure consistency between non-market output and government consumption expenditures. The mission reviewed the balancing procedures and provided recommendations to finalize the tables, including on improving the accounts for agricultural products; the treatment of some government EAs; valuation of the output of extraction activities; and ensuring a comprehensive coverage of financial intermediaries. CAPMAS published the 2014/15 SUT by end-March 2018.

METAC also assisted CAPMAS in updating the PPI weights and expanding its coverage to include exports. To this end, it organized two missions in FY18:

- The first mission noted several methodological improvements that needed to be addressed, such as expanding the coverage of the PPI to include exports and construction; developing detailed item and transaction weights; and revising the price reference period to account for the seasonality of agricultural products. Although not the primary focus, the mission also addressed CPI compilation issues raised by the authorities.

- The second mission clarified and confirmed data sources for updating PPI, based on 2016/17 economic census; advised on procedures for developing detailed PPI weights; and determined expenditure data for updating CPI weights. It also discussed with the authorities a program for expanding further the PPI coverage to include construction. In addition, the mission provided hands-on training and recommendations on improving the statistical techniques for the treatment of missing prices in both CPI and PPI.

Legal Framework (February 26 – March 8)

A joint IMF Legal Department/METAC mission worked with the CBE on bringing the CBE Law closer to international good practice in respect of central banking, bank supervision, and bank resolution. The mission prepared draft amendment articles for specific articles that need to be modernized.