

Egypt

The restoration of relative political stability since 2014 has given Egypt an opportunity to address its longstanding economic challenges. The authorities' economic program, supported by the IMF's EFF arrangement aims to address macroeconomic vulnerabilities and promote inclusive growth and job creation. Among other things, it includes fiscal consolidation to ensure public debt sustainability; strengthening PFM and fiscal transparency; and enhancing further the soundness of the banking sector and promoting competition. In this context, METAC supported the authorities' efforts as follows:

Banking Regulation and Supervision (August 21-24, February 26-March 2, April 9-13)

METAC has been assisting the Central Bank of Egypt (CBE) in implementing Pillar 2 of Basel II/III, and enhancing the supervisory capacity, as part of CBE's broader banking reform program *aimed at better assessing banks' capital adequacy and promoting a sound banking sector*. To this end, METAC organized three workshops during FY17:

- The first workshop was on the new Basel Committee on Banking Supervision's Standard related to the minimum capital requirements for market risk. It aimed at strengthening the capacity of the CBE supervisors in assessing bank's capital adequacy against market risk by emphasizing on the sensitivities-based approach of this Standard.
- The second workshop focused on the techniques of stress testing as an important tool for assessing the resilience of individual banks to adverse economic and financial conditions in a forward-looking perspective. The workshop aimed at enhancing the capacity of CBE on-site and off-site supervisors in detecting banks' vulnerabilities, particularly following the devaluation of the Egyptian pound.
- The third workshop was on supervising and assessing internal audit and internal control function in banks, within the supervisory and review process. This provides critical support to banks' boards of directors in overseeing risks and ensuring their maintenance of adequate capital.

Public Financial Management (November 23-30)

Fiscal risk management has been identified in previous FAD TA as a reform priority. In view of potentially significant exposure to contingent liabilities, it also features in the recently agreed EFF. To help the authorities strengthen their understanding of these pressures, METAC provided training to the Ministry of Finance (MoF) on fiscal risk management based on international good practice and experiences, and advised on the institutional framework for monitoring and managing the main fiscal risks in Egypt, including a possible outline of a fiscal risks report for Egypt, which could form the basis of a quarterly or bi-annual internal risks report. Over time, this could be expanded or amended as required, and possibly become a public statement of fiscal risk. An FAD mission in February 2017 followed up on analysis of risks in the state-owned sector.

Revenue Administration (July 31-August 11, September 25-October 6, January 17-19, March 19-23)

Following a TADAT in October 2015, two METAC short-term experts provided post-assessment TADAT training to managers in the Egyptian Tax Authority (ETA) and the MoF to enhance their understanding of performance management standards, including obtaining and analyzing reliable performance data. The experts gathered feedback from participants regarding the priority areas to be addressed in building ETA capacity in line with international good practices. The five priority areas that were identified (transparency, risk management, dispute resolution, management reporting, and taxpayer register) will form the basis of a structured program for METAC TA support to the ETA over the next two years.

In September-October, a follow-up METAC mission assisted the authorities in developing a structure, governance arrangements, and key functions for sound risk management, as a basis for compliance improvement, effective resource deployment and institutional security. Together with the authorities, the mission also prepared an action plan for the introduction of risk management in the ETA.

In January, METAC's new resident advisor visited Cairo to hear the authorities' views on METAC's work and to assess Egypt's needs for TA going forward. He met with the Vice-Minister of Finance for Tax Policy and his senior staff. TA needs were discussed with IMF-HQ to determine how best to meet these. Special attention was given to the recently enacted and implemented VAT law.

Last, METAC assisted the authorities on VAT implementation. After many years preparing for implementation, Egypt introduced VAT in September 2016. Previous FAD and METAC TA had focused on ETA's readiness including: staffing, training, office preparations, information technology, tax operations, taxpayer assistance and stakeholder management. In addition, both the FAD Tax Policy Division and the IMF Legal Department had provided advice on legislative issues, including a new small business regime for those who are currently registered for the General Sales Tax but will not be required to register under the VAT law. METAC's visit took place in March six months after the introduction of the VAT, which was sufficient time for areas requiring further development to become apparent. The mission reviewed the implementation, and identified core administrative functions (registration, filing, payment, and compliance) and other areas, where further METAC TA support would be beneficial.

Statistics (September 18-29, December 11-15)

As part of METAC's CD to Egypt on improving national account statistics, a mission worked closely with the national accounts compilers at the Central Agency for Public Mobilization and Statistics (CAPMAS) and Ministry of Planning (MOP) to ensure consistency in concepts, methodological procedures, and source data, for compiling GDP aggregates by the production, income, and final expenditure approaches in annual national accounts and SUT. The mission identified areas for better consolidating the sources and compilation procedures, and provided recommendations on reporting the transactions for calendar year; valuation of output and value added; measuring foreign trade; adopting coordinated procedures for verification and assessment of source data and measuring informal activity, as well as unified methods for estimating some specific transactions. The mission also helped the compilers to enhance the quarterly estimation procedures, to enrich

the set of indicators needed to compile quarterly GDP aggregates, such as labor force and foreign trade statistics, and the tax returns of the recently introduced VAT.

METAC also assisted CAPMAS in improving data sources and compilation procedures for the CPI. In this context, a mission assisted the authorities in improving the organization of calculation procedures for elementary price indexes, integrating price observations in the compilation system, and addressing ongoing problems with collecting rent data. The mission agreed with the authorities to provide additional TA after the release of the updated CPI in 2017, to help them introduce measures to revise the CPI weights every two years.