International Monetary and Financial Committee

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His Excellency Minister Obaid Humaid Al Tayer,
Minister of State for Financial Affairs of
the United Arab Emirates

On behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syria, United Arab Emirates, and Yemen

Statement by His Excellency Minister Obaid Humaid Al Tayer,
Minister of State for Financial Affairs of
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On Behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syria, United Arab Emirates, and Yemen
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The global recovery is facing renewed setbacks as policies in the major advanced economies have not achieved lasting confidence. The *World Economic Outlook (WEO)* forecasts modest global growth. Given this environment, the Fund needs to continue to engage with large systemic countries, including the euro area, U.S., and Japan with clear messages on the consequences of insufficient policy action.

Fortunately, large emerging economies have become a source of stability and growth. While expansionary policies in those countries have helped sustain the weak global economy, domestic demand has been losing momentum. Commodity exporters may be particularly at risk given the possible decline in most commodity prices in 2013.

Middle East Region

Countries in the Middle East face similar risks to the outlook from continued difficulties in the global economy as well as from regional tensions. While continued high oil prices have positively impacted the economic performance of oil exporters, these countries may need to adjust policies in response to a significant decline in oil prices. These countries would welcome Fund support in further developing their financial infrastructure as part of measures to support growth.

In many oil importing countries, increased spending on fuel and food subsidies, along with pressures to raise wages and pensions, is straining public finances. Clearly, better targeting of subsidies will ease these strains. However, these reforms will need time to design and implement, and due consideration of social and political factors need to be taken into account in devising them to ensure that public finances are on a sustainable footing.

Fund support is needed to help many countries in the region avoid the high unemployment and sluggish growth scenario. Moreover, as noted by the *WEO,* uncertainty has more detrimental effects on economic performance in emerging economies than in advanced economies. Therefore, concerted efforts are needed to boost confidence and reduce uncertainty. The Fund should further strengthen its analytical work in areas relevant for the region, including the challenge of high unemployment and the social impact of subsidy reforms. Fund-supported programs should demonstrate better understanding of the political economy constraints facing countries and pay due regard to domestic priorities. Subtantial Fund financial and technical assistance should be provided to assist the countries in transition to meet their economic challenges and support restoring growth.

Governance and Quota Reform

There has been good progress in the 14th General Review of Quotas and Board Reforms, notwithstanding difficulties in the required process of ratification in some countries.

Discussion of the *quota formula review* has yet to yield a clear consensus. Some of the ongoing difficulty stems partly from the conflicting objectives of the formula, namely that it should capture members' financial strength and ability to contribute to the Fund as well as the potential need to borrow. While we endorse the principle of having a simple and transparent formula, we emphasize the importance for all members to have adequate voice and representation in the Fund. It is also important that the *15th General Review of Quotas* will not lead to further erosion in the quota share of EMDCs that are not considered to be dynamic, as was the case in the 14th General Review and 2008 Reform.

With regards to the elements of the formula, the large weight of GDP undermines the representation of most developing and emerging economies. Accordingly, we call for further staff work to improve the current formulation of variables such as openness and variability to help balance the formula and avoid the bias in favor of economic size. We strongly support retaining reserves in the formula.

Surveillance

The *Consolidated Multilateral Surveillance Report* usefully brings together the key messages of the Fund's multilateral surveillance reports. The report highlights the need to mitigate the growing fragmentation of European financial markets and the need for a measured pace of public and private balance sheet adjustments.

Surveillance remains the pillar of the institution and we welcome efforts to move toward a more evenhanded and effective surveillance practice. We trust that the new *Integrated Surveillance Decision* will significantly improve the practice of both bilateral and multilateral surveillance. We see merit allowing more integrated and consistent spillover analysis in Article IV consultations. Financial sector analysis should also be better integrated in the Article IVs and not depend on the conduct of FSAPs. We underscore the need to take country priorities into account in implementing the decision. Reserves will continue to provide an important financial safety net for many countries. In this regard, we call for staff to be cautious when relying on estimates from the *External Sector Report* in policy advice. Due consideration of member circumstances is also needed in applying the framework on *Capital Flow Management*.

Fund Facilities and Resources

The Fund has successfully mobilized resources to address risks to global economic and financial stability. However, while it is important for the Fund to maintain sufficient reserves—particularly since lending is at record levels and given current fragile financial conditions—we went along with the majority in supporting the use of the remaining windfall profits from gold sales to subsidize lending to low income countries as part of efforts to ensure the self-sustainability of the PRGT.

The Fund's review of *LIC Facilities* found that program engagement has helped raise growth, reduce poverty and boost resilience to shocks. Accordingly, the expected sharp potential drop in IMF lending capacity to LICs after 2014 is a cause for concern. We see scope for bilateral contributions to place PRGT financing on a sustainable footing. As for the interest subsidy resources, most countries in our constituency have agreed to the use of dividends associated with the windfall profits from gold sales to provide subsidies for future concessional lending.

Fund-supported programs need to continue to be adapted flexibly to individual country needs and to changing economic circumstances. This issue was highlighted in the *Conditionality Review.* Moreover, further efforts are needed to take account of debt burdens, delayed access to capital markets, and the low growth environment in designing programs, particularly in the euro area. Similarly, Fund analysis needs to take into account employment issues and the social aspects of policy measures in program design.

Staff Diversity

Staff diversity is integral to the Fund's credibility with members. Arab nationals account for less than 3 percent of total staff. Additional recruitment and retention efforts are needed at all staff levels.