



International Monetary and Financial Committee

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April 21, 2012

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

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

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1. We welcome the slight strengthening in global prospects and the reduced threat of a sharp global slowdown. However, the recent improvements are very fragile and could easily be reversed. There should therefore be no letup in efforts to restore confidence, reduce debt, and achieve the stability that is necessary for balanced and sustained growth. The IMF has an important role to play in this regard through surveillance and through support to adjustment and reform efforts. An increase in the IMF's resources would strengthen its ability to deliver on its mandate.
2. Turning to our region, Middle East countries have been affected by a slow global economic recovery and by spillovers from Europe. In addition, many countries are facing long political transitions. Most of our governments increased spending on subsidies and transfers, which put pressure on the fiscal positions of some countries. Moreover, the scope for relying on non-inflationary domestic financing has diminished, and creditworthiness indicators have been affected in countries facing balance of payments pressures. Large external and fiscal financing needs are projected in the year to come. A major medium-term challenge remains high unemployment. There is a need to build skills and create job opportunities for a relatively young labor force. The authorities in our region agree that measures to support private sector activity could ease employment pressures in the short term, until structural reforms start yielding results.
3. For countries that are dealing with political transitions, the immediate macroeconomic challenge is to preserve stability. The authorities are facing the challenge of balancing the need for short term support to output and demands for social transfers against the requirements of fiscal sustainability. Moreover, recent increases in oil prices have intensified inflationary, fiscal, and balance of payments pressures, while tourism—an important source of income and employment—has not yet recovered. There is a need to restore investor confidence, which is critical for several countries in the region. Worker remittances—especially from oil-exporting countries in the region—have helped to cushion the downturn.
4. For other countries, the immediate challenge is to calibrate their current supportive monetary and fiscal stances, while pressing ahead with measures aimed at sustainable and inclusive growth. In oil and gas exporting countries, strong export prices contributed to robust growth rates along with improved external and fiscal positions. The increase in revenues has been used to expand spending, to support the non-oil sector, as well as for social transfers. These policies are contributing to the revival of global demand, including through the worker remittances to other countries.

5. The IMF has a potentially important role in promoting the adjustment and reform efforts in the region through policy advice, financial support, and adequate and timely technical assistance. The Fund should continue to provide timely and well-targeted advice, and to offer policy options to address macroeconomic challenges. It should accordingly strengthen its analytical work in areas relevant for the region, including the challenge of high youth unemployment. Subsidy reform is another area that requires country-tailored advice. Up-scaling of relevant and well-tailored technical assistance could be very helpful. Moreover, Fund-supported programs should demonstrate understanding of the political economy constraints facing countries and pay due regard to domestic priorities and adequate access levels to support the goal of restoring confidence.

6. The IMF should continue with efforts to strengthen its governance, its surveillance operations, and its finances.

Governance

7. An important aspect of strengthening governance is a revision of the quota formula. The current objectives of the formula are potentially contradictory. The formula seeks to capture member's positions in the world economy, their financial strength and ability to contribute to the Fund, and the potential need to borrow from the Fund. While we endorse the objective of having a simple and transparent formula, the formula should ensure that all members have adequate voice and representation in the Fund. The large weight of GDP in it undermines the voice and representation of most developing and emerging economies. A small open economy has clearly more at stake in the global financial system than a large economy with few external linkages. Our strong preference is not to compromise having a truly comprehensive review of the formula in order to meet the January 2013 deadline. In this regard, we expect that the 15th General Review of Quotas will not lead to further erosion in the quota share of small emerging and developing economies. This will require willingness by the large shareholders to allow meaningful changes to the quota formula. A meaningful governance reform would also require changes to the effective veto power of the United States on decisions requiring 85 percent majority. We were disappointed that the shift in quota share to dynamic countries was mostly at the expense of other emerging and developing economies during the 14th Review.

Surveillance

8. Surveillance remains the pillar of the institution. The Fund has considerably strengthened its surveillance toward a "more integrated, evenhanded, and effective surveillance framework". Consistent with the findings of the Triennial Surveillance Review (TSR), increasing attention is being given to real-financial linkages, spillovers and interconnectedness, and the need for greater policy coordination. There remains a need for greater attention to gaps in financial sector regulation and supervision. Moreover, key messages and analyses from multilateral and bilateral surveillance could be better integrated.

While we welcome the efforts made to integrate the various multilateral reports through the Consolidated Management Surveillance Report (CMSR), we would prefer to see one multilateral surveillance report that is underpinned by a merger of the current reports.

9. With respect to the ongoing work on *Capital Account Liberalization and Framework for Managing Capital Flows*, we underscore that countries should retain policy flexibility in managing capital flows. We therefore oppose modifications of member obligations with respect to capital flows, and are not in favor of constraints on countries' ability to manage volatile flows. There is still a need to draw more lessons from successful experiences in capital flow management.

10. In our view, reserves will continue to provide an important financial safety net for most countries, especially given their recent role in crisis mitigation. The Fund's "reserve adequacy metrics" should be cautiously applied as they still fall short of determining adequacy from the perspective of policy-makers. They do not sufficiently take into account specific country needs to accumulate reserves for precautionary purposes while staff analysis has shown that countries with higher reserves fared better during recent crises.

11. Additional analytical work on assessing external stability is needed, particularly before adopting a new framework and publishing an *External Sector Report*. We have consistently emphasized the difficulty in calculating equilibrium exchange rates, especially for commodity-exporting countries. We see merit in the expansion of the assessment methodology—the so called "External Balance Approach"—for example to include the role of fiscal and other policies under the proposed external balance assessment.

IMF Resources

12. We support the IMF's call for additional resources to address emerging new risks to global economic and financial stability. A transparent assessment of the need for resources would facilitate efforts to mobilize these resources. It is also important that the Fund maintain sufficient reserves. Fund lending is at record levels, and loans are highly concentrated. We have therefore argued for using the windfall profits from the gold sales to strengthen the Fund's reserves.

Staff Diversity

13. We consider staff diversity as integral to the Fund's credibility with members. The Fund has taken initiatives to increase the proportion of Arab staff. Nevertheless, Arab staff account for less than 3 percent of total staff. Moreover, the number of Arab economists at the Fund has declined since 2009. Additional recruitment efforts are needed at all economist staff levels.