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Statement by the Hon. **MOHAMED KHALFAN BIN KHIRBASH**,
Alternate Governor of the Bank for the **UNITED ARAB EMIRATES**,
on behalf of the Arab Governors,
at the Joint Annual Discussion

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Minister of State for Finance and Industry
United Arab Emirates
Alternate Governor of the Bank for the United Arab Emirates**

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Mr. Chairman:

I am honored to have the privilege of delivering the joint Arab Governors' speech for this year's Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund. At the outset, let me extend a warm welcome to the distinguished Governors, Management and staff of both institutions, members of delegations, guests, and visitors to the first Annual meetings to be held in our region. I would also like to extend my congratulations to you, Mr. Chairman, on your selection as Chairman of the Annual Meetings and to welcome you in that capacity; and on behalf of the Arab group, I would like to thank the United Arab Emirates for its tremendous effort in organizing this event, which will hopefully provide participants with the opportunity to become more familiar with the issues and challenges facing the region.

While occasionally showing temporary short-lived pick ups in growth, the past three years have, for the most part, witnessed a weak global economy, which was reflected in a significant slowdown in economic activity in the major economic regions as well as many emerging markets and developing countries. Because of its dominance and size, the slowdown in the U.S. economy was a major factor in the overall global weakness. More recently, we are heartened to note that forward-looking economic indicators appear to be signaling a recovery, at least in the world's largest economy. While the temporary revivals in the past two or three years were short-lived and quickly aborted, it does appear that the ongoing recovery in the U.S. is taking hold, following a period of unprecedented expansionary fiscal policies and near-record low interest rates. In spite of this, significant risks to the spread and sustainability of growth still abound.

In order to strengthen and, hopefully, sustain this welcome recovery, there is a need to address emerging, as well as long-standing, problems in a number of advanced economies. While short-run expansionary fiscal policies to sustain growth are understandable in a number of major countries, a need for fiscal consolidation in the medium term is clearly evident, particularly where such deficits threaten to jeopardize macro stability. We should also not lose sight of the impending pressures on pension systems virtually in all regions of the world, which is an important consideration in formulating fiscal policies over the medium term. In addition, bold structural reforms need to be pursued more actively in a number of major countries in order to effectively absorb the benefits of this incipient recovery, and hence reduce global imbalances which continue to plague major economic regions.

Mr. Chairman, as the world has repeatedly witnessed, with increased globalization, the externalities arising from developments in the major countries are transmitted more rapidly to the global economy and, in particular, to emerging and developing economies. The increasing interconnectedness of the world economy highlights the need to strengthen the effectiveness of Fund surveillance. In addition to its surveillance of emerging and developing countries, we call on the Fund to enhance the quality and effectiveness of its surveillance of major industrial countries. In particular, emphasis should be placed on addressing the present large macroeconomic imbalances in these countries, on achieving greater stability in the exchange rates of major currencies, and on accelerating structural reforms. Fund surveillance should also place more emphasis on addressing trade-distorting policies, including in particular tariff and non-tariff barriers as well as subsidies to certain economic activities in industrial countries, which exceed US\$300 billion annually in agriculture alone. These barriers, not only negatively impact domestic growth and the well-being of the population of industrial countries, but also are highly detrimental to the economies of developing countries and are a serious impediment to the fight against poverty.

As we emphasized in our speech last year, increased globalization also calls for improved governance in the Bretton Woods institutions. In this regard, while we welcome the progress achieved in enhancing the voice and representation of developing countries in these institutions, we call for more efforts to ensure that the interests of the majority of the membership are better reflected in the decision-making process, with a view to strengthening global

ownership and the legitimacy of both institutions and their policies. Progress on this front has been less than satisfactory. The Bank and the Fund should also continue to work within the cooperative and voluntary framework that has served the membership well. This will also enhance the candor of staff discussions with authorities in the context of surveillance. In addition, it is well to emphasize the pivotal role played by the provision of technical assistance to developing countries from the Bank and the Fund, and the urgent need to enhance the resources dedicated to this activity. Technical assistance is key to strengthening the institutions that form the basis for sustainable long-term growth. In addition, we underscore the importance of enhancing the participation of borrowing countries in the formulation of the policies of the International Development Agency.

Let me now address some of the other issues related to the World Bank Group, which continued to focus on its primary objective of poverty reduction especially in the context of the Monterey Consensus. In this regard, we commend the efforts to improve the quality of financed projects. We also support the priority accorded by the Bank to the education, health, and water sectors, as well as combating HIV/AIDS. In addition, we particularly welcome the increased focus on infrastructure projects and the measures taken to simplify lending procedures and reduce the cost of borrowing.

While we support the increased attention to private sector development and enhancing the business environment in developing countries, we call for more efforts to be devoted to our region by the International Finance Corporation particularly in the field of the financial sector, small and medium sized enterprises, and technical assistance to develop the private sector. Here, we note that employment creation is of high priority to absorb the increasing labor force in the Arab region and elsewhere. Small, well-conceived projects are better suited to address this important concern.

We would also like to note the large scope for expanding the activities of the World Bank Group into regional projects that have promising economic returns and which can capitalize on the existing integration opportunities. In this regard, we call for more attention to regional projects in the water and irrigation sectors, as well as in connecting and integrating electricity grids.

We welcome the progress made so far in implementing the enhanced HIPC Initiative which has succeeded in reducing the debt burden of many low-income countries. However, the process of bringing eligible countries into the initiative should be accelerated. In addition, a number of countries that have already received relief are facing difficulties in achieving a sustainable debt position. More realistic growth and export projections on which the amount of debt relief is based, as well as a careful consideration of issues such as growth promotion through trade and the adequacy of grants and concessional resources, are needed. We call on industrial countries to increase their provision of financial assistance which, in most cases, falls short of the UN target of 0.7 percent of GNP. Here, we would like to point out that the assistance provided by many Arab countries and institutions, including under the HIPC Initiative, has exceeded the UN target.

Mr. Chairman, in view of the conflicts that continue to hinder economic development and poverty reduction in many countries, and to affect regional and global stability, we value the increased attention of the Bank and the Fund to post-conflict issues. We would urge that this effort be strengthened in cooperation with the UN and other relevant bodies. We also welcome the continued Fund involvement in the Sudan and the interest of the World Bank to resume its operations in this country. In this connection, we urge that the country is allowed to benefit from the HIPC Initiative as soon as possible, and note that it has met all the required conditions. With regard to the recent lifting of the sanctions on Libya, we welcome this positive step which will help accelerate economic developments in that country.

Mr. Chairman, the Arab countries are committed to continue playing their part in helping reach the Millennium Development Goals, most notably through the provision of high levels of official development assistance. We also continue to accord high importance to the maintenance of stability of oil prices at reasonable levels, with a view to serving the collective interest of both producers and consumers. We reaffirm our commitment to multilateral trade liberalization in the context of the World Trade Organization, and stress the importance of the provision of adequate technical and financial assistance by international institutions to enhance the capacity of developing countries to conduct complex trade negotiations, and to overcome the short term restructuring costs associated with trade liberalization. These areas are too

often not accorded sufficient priority even though they are essential in reaping the well-known benefits of trade.

Regarding recent developments in our region, in addition to the adverse impact of the global slowdown, severe geopolitical shocks, and the continued tensions in Palestine and the crisis in Iraq, culminating in the war in this country, have adversely affected the region. This was reflected in a drop in tourism and investment flows, and in some cases, damage to physical capital, institutions, and infrastructure.

In spite of these adverse global and regional developments, the Arab economies have shown a high degree of resilience, and their performance in the past year was significantly better than expected by many observers. What was judged to be impending economic crises in some countries were averted, and growth in the region is envisaged to increase in 2003 to 4.5 percent, a level similar to the projected average for developing countries. While buoyant oil prices contributed to this outcome in oil exporting countries, other factors behind the resilience and relatively good performance of the region lie in the economic reforms implemented over the past years, the generally prudent policy stance, and the policy adjustments made to minimize the effects of adverse developments.

Despite a moderate fiscal easing in some countries to mitigate the economic slowdown, fiscal balances improved in the region as a whole as oil-exporting countries benefited from buoyant oil prices and refrained from spending the temporary increase in revenue. Additionally, and more significantly, the region continued to implement structural fiscal reforms including widening the tax base, enhancing customs and tax administration, and strengthening expenditure controls. Further progress has also been made in rationalizing subsidies and improving their targeting, as well as in increasing fees on services and utilities. Consequently, the countries of the region are expected to achieve a budget surplus of 0.8 percent of GDP on average in 2003.

Monetary and exchange rate policies continued to be geared to maintaining low inflation, projected at 3 percent in 2003, and enhancing the region's competitiveness. Ongoing Fund technical assistance is supporting the development of new indirect monetary policy tools, and the effort to enhance the policy frameworks. This permitted the introduction of more flexible

exchange rate policies in some countries in the region, which should help enhance their resilience to external shocks. The prudent conduct of monetary and exchange rate policies was reflected in the general absence of significant balance of payments pressures in the region despite the unfavorable global and regional conditions. Foreign exchange reserves stabilized and, in some cases, increased. Progress was also made in enhancing the soundness of financial sectors through strengthening prudential regulations and bank supervision, as well as the restructuring of banks. These reforms were in many cases guided by FSAP exercises, which have been completed for a number of countries in the region. Our countries are determined to continue to strengthen their financial systems, wherever there is a need, in order to reduce their vulnerabilities and the potential for their abuse, and to enhance their contribution to saving mobilization and private sector development.

Progress continued to be made in implementing structural reforms with a view to encouraging the private sector and foreign direct investment, including through deregulation and privatization. Trade liberalization proceeded both within the region and with other economies, including in the context of free trade and association agreements.

Let me stress that notwithstanding the ongoing reforms, there is a clear realization in the region that policies to enhance growth will need to be accelerated in order to absorb the rising labor forces in the region, to further diversify the region's economies, and to improve social indicators. The increasing attention to the upgrading of human capital, as well as sustained economic reforms, should continue to enhance productivity and growth. Continued support from the international community and the Bretton Woods institutions, both through technical assistance and, where needed, financial assistance, would be essential to help the countries of the region implement their reform agendas and withstand the economic hardship arising from the global slowdown and tensions in the region.

Mr. Chairman, the difficult conditions to which the Iraqi people have been subjected highlights the need to spare no effort to alleviate their suffering and to help the reconstruction of the country, which in turn will contribute to achieving stability and prosperity in the region. We call on the international community to contribute to the rebuilding of Iraq by providing assistance to rehabilitate social and economic institutions, rebuild the infrastructure, and help

the country resolve its economic problems. We look forward to the donors' conference, scheduled to take place next month, and hope that it will provide the opportunity to open a new chapter towards establishing a strong basis for the stability and development of the country, and the region in general. We underscore the right and responsibility of the Iraqi people to manage their resources, and to rebuild their institutions in accordance with their freely exercised democratic choice in a manner that will enable the country to achieve economic stability and development.

With regard to the situation in Palestine, we commend the economic and financial reforms implemented by the Palestinian Authority in an extremely difficult environment. However, achieving the economic and social development of the Palestinian people hinges on ending the Israeli occupation and hostilities, as well as attaining a lasting, comprehensive, and just peace, based on UN Resolutions 242, 338, and 194. Achieving peace would help redirect large resources to economic development and improve living standards in Palestine and many countries in the region. We therefore call on the international community to exert every effort to bring the peace process to a successful conclusion and to provide more resources to help the Palestinian people in these difficult economic conditions. We would also like to express our appreciation of the assistance provided by the IMF and the World Bank to the Palestinian people, and in particular thank the staff of the two institutions who continued to work in the Palestinian territories under extremely difficult conditions.

Finally, I would like once again to welcome you all in our region and hope that this year will witness the hoped-for economic recovery and progress towards global stability and prosperity.