International Monetary and Financial Committee

Thirtieth Meeting
October 11, 2014

Statement by His Excellency Minister 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, Yemen

Statement by His Excellency Minister Obaid Humaid Al Tayer,
Minister of State for Financial Affairs for the United Arab Emirates
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1. Prospects for the global economy point to a rebound in growth in the near term although the recovery is still unfolding at an uneven pace. Despite supportive central bank policies for an extended period, the firming of the recovery did not materialize as was expected when we met during the Spring Meetings. The Fund's analytical work highlights downside risks to financial stability from the prolonged period of low interest rates that has encouraged excessive financial risk-taking. The optimism in financial markets has kept equity prices high, compressed spreads, and lowered volatility, in spite of the uncertainty still surrounding the growth outlook from the anticipated withdrawal of the monetary stimulus. The risk of prolonged low growth is now of concern and underscores the need for policy actions to support productivity and aggregate supply.

2. We therefore appreciate the key messages of the Managing Director's Global Policy Agenda which gives prominence to growth-enhancing measures and policies to safeguard financial stability. Without concerted policies in major economies, the pick-up in growth may again fall short of expectations in spite of the easing of both financial conditions and the pace of fiscal consolidation. In this regard, we appreciate the recent supportive measures by the ECB to tackle low inflation and address fragmentation, including through a reduction in policy rates and targeted easing. In addition to avoiding a premature normalization of monetary policy, we see merit in increasing public infrastructure investment in all advanced economies (AEs) and emerging market economies (EMEs) based on well-identified needs and where fiscal space exists. Meanwhile, the authorities should remain vigilant to the build-up of financial risks and deploy macroprudential tools.

3. EMEs continue to be the main drivers of world growth, but they face slower growth prospects compared to pre-crisis levels and remain vulnerable to market volatility. Some of the capital flows that helped buoy those economies may well reverse direction with the normalization of monetary policy in major AEs. Efforts in these countries should continue to focus on strengthening fundamentals, policy buffers and implementing efficient macroprudential policies, which will mitigate the potential impact of higher interest rates and tighter external financing conditions. We welcome the indication that growth in low-income and developing countries is expected to exceed 6 percent in both 2014 and 2015, reflecting sound economic policies in many of these countries in recent years.

4. For the countries in our constituency, we broadly concur with the assessment of a favorable but uncertain growth outlook given the exogenous shocks and policy challenges faced by the authorities. For the oil exporting countries, higher oil production and government spending have underpinned economic activity in 2014. The GCC countries continue to exhibit robust growth in the non-oil sector, expected to remain around 6 percent in 2014-15, while oil GDP growth has tapered in line with modest increases in global demand and rising supply in North America. These countries are pursuing strategies to

rebalance growth towards more productive public spending and to strengthen the non-oil fiscal balance consistent with the objective of preserving the oil wealth for future generations. Meanwhile, continued progress is being achieved in diversifying these economies away from oil, raising productivity, and promoting employment of nationals in the private sector. For the non-GCC oil producing countries in our constituency (Iraq, Libya, Yemen), domestic strife has adversely affected both oil and non-oil production, but activity expected to rebound in 2015 as domestic frictions dissipate.

5. For oil importers in our constituency, average growth is projected to rise in 2015 on the back of confidence gains, higher demand from trading partners, and structural reforms that are nurturing competitiveness and foreign direct investment. Ambitious energy subsidy reforms, recently initiated in a number of countries, have not only contributed to improving the fiscal position but also had a positive impact on business confidence and investment. On the revenue side, further efforts should be exerted to enhance reforms. For countries experiencing domestic strife, the Fund should stand ready to upscale technical support on policy priorities once domestic stability is restored and to support international reconstruction efforts as soon as feasible.

6. We appreciate recent Fund work on policy priorities to raise medium-term growth, create jobs and improve living standards. To support domestic efforts toward a more inclusive development strategy, future Fund analysis and policy advice could provide deeper and country-specific analysis of policy options that balance fiscal sustainability and job-creating growth. Quantitative analysis of the distributional and growth impact of fiscal measures would be welcome, in collaboration with country authorities. We agree with the Fund's view that domestic reform efforts can be supported by the international community through financing, investments, and enhanced access to markets.

7. We welcome the fund's support for Arab Countries in Transition (ACTs) and substantial donor support from the region, and call on the Fund to scale up assistance to these countries.

8. We value the timely provision of technical assistance to our countries which helps underpin crucial policy reforms. Given the importance of financial deepening for inclusive growth, we encourage Fund support of domestic efforts to achieve more financial integration, deepen local currency financial markets, and develop non-banking financial institutions and sectors. We appreciate IMF contributions to the ArabStat initiative to enhance the provision of statistics in the region as this will undoubtedly underpin sound policy formulation. We welcome the call for a balanced policy dialogue that takes account of country perspectives as highlighted in the recently completed Triennial Surveillance Review.

9. On the subject of quota reform, we emphasize again that such reforms should ensure a fair representation of Arab countries, with due regard to their role in the global economy. In particular, shifts in quota shares in favor of dynamic emerging and developing countries should not come at the expense of other emerging markets and developing countries. Finally, we take note of improvements in staff diversity and call for intensified efforts to address the underrepresentation of Arab nationalities, particularly at the level of managers and high level professionals.