International Monetary and Financial Committee

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

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

**Statement by His Excellency Minister Obaid Humaid Al Tayer,
Minister of State for Financial Affairs for the 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. The global economic recovery is still unfolding at an uneven pace, complicated by rising uncertainty and the recent sharp volatility in financial markets compared to when we met six months earlier. The Fund's analytical work highlights a number of downside risks to global growth and to financial stability. The recent volatility in financial markets has raised pressures on exchange rates and prompted outflows from several emerging market and developing country markets. In advanced economies, continued low interest rates have compressed spreads, boosted credit growth, and likely encouraged excessive risk-taking. Addressing the risk of a prolonged period of low productivity growth is becoming an urgent priority to restore potential growth over the medium term.

2. We concur with the assessment in the Managing Director's Global Policy Agenda that many countries are facing increasingly difficult policy tradeoffs with respect to demand-enhancing measures and policies to safeguard financial stability. For **advanced economies,** reducing risks to activity from low inflation and prolonged weak demand is of the highest priority. In the euro area, it is important that the overall policy mix remain supportive and steps are accelerated to repair balance sheets and the credit supply channel. Macroprudential measures are warranted in general to address financial stability risks.

3. A growth rebound is expected in many **emerging market economies (EMEs)** in 2016, while a further growth slowdown is expected in China and in some Latin American countries. The recent financial turbulence associated with renminbi depreciation and the stock market decline in China underscore the high degree of global macrofinancial linkages and reflects growing liquidity risks. We agree with the Fund's advice that efforts in these countries should continue to focus on strengthening fundamentals, building policy buffers and implementing efficient macroprudential policies, which will mitigate the potential impact of higher interest rates and tighter external financing conditions. We also concur with Fund advice that commodity exporters who have the policy space should use it to support demand. We look forward to further deepening of the Fund's analytical work on the impact of protracted commodity price declines on actual and potential growth, the potential for gains in non-commodity production in commodity exporters, and the pass through of exchange rate movements on shifting trade patterns.

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. The fiscal challenges and responses to declining commodity prices have varied significantly among oil exporting countries. Gulf oil-exporting countries have managed the recent windfall better than in previous cycles, having adopted prudent fiscal policies and saving a large share

of the windfall revenues. These countries are well placed to cope with the current shock, given the available large fiscal and foreign exchange buffers which have them to maintain public spending to support growth in the nonoil sector. Nevertheless, in these countries as well as in oil exporters with limited buffers, policy-makers are looking for ways to limit the growth in current spending to preserve fiscal sustainability while diversifying their economies, raising productivity, and promoting the employment of nationals in the private sector. For some of 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 is expected to rebound in 2016 if domestic frictions dissipate.

5. **For most oil importers in our constituency**, average growth is projected to rise in 2016 on the back of confidence gains, higher demand from trading partners, and structural reforms that are nurturing competitiveness and foreign direct investment. Countries are enhancing revenue collection efforts and taking measures to broaden the tax base with a view to creating space for expanding social safety nets and infrastructure spending. Tax revenue reforms in the Maldives have helped to reduce fiscal imbalances. Promoting private sector investment and in particular small and medium enterprise development is a high priority. 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 reconstruction efforts as soon as feasible.

6. A number of oil importing and exporting countries in our constituency have seized the opportunity of lower oil prices to step up **energy subsidy reforms** and improve targeting, while some have used available fiscal space for development and poverty related spending. Subsidy reforms were initiated in Bahrain, Egypt, Jordan, Kuwait, United Arab Emirates, Qatar, and Yemen. In Jordan, the authorities removed petroleum subsidies and adopted an automatic fuel pricing mechanism in 2013 and have been increasing electricity tariffs to achieve cost recovery. The UAE also deregulated its petrol and diesel prices in August 2015. Egypt has improved the targeting of subsidy provision and reduced leakages in the delivery mechanism.

7. We encourage the Fund to deepen its support for **Arab Countries in Transition** (ACTs) and mobilize other partners, noting that a large share of financial support has been provided from within the region. A number of our countries are facing heightened demands on domestic resources from the **influx of refugees and internally displaced populations**. The Fund is well placed to shed light on the economic impact of migration in the region, in its own analytical work and in coordination with other institutions. We call on the Fund to provide financing to the affected counties on concessional terms to mitigate these costs and to encourage more timely and adequate support from the international community. We welcome the Fund's commitment in the GPA to be more member-focused by deepening its engagement of members through more openness to country concerns and we therefore expect to see a more balanced policy dialogue that takes better account of each of our country's perspective and unique conditions, including political and social realities. We therefore call for greater flexibility in the design of programs and in the consideration of program adjustments during program reviews, especially for those countries carrying the burden of displaced populations.

8. We value the timely provision of **technical assistance** to our countries which helps underpin crucial policy reforms. We particularly welcome increased support from fiscal experts in preparing for tax reforms and strengthening public financial management. We also appreciate the Fund's role in revising the measurement of national accounts in the Maldives which has contributed to an improved picture of the size of the economy reduced the size of imbalances relative to GDP. Given the importance of financial deepening for inclusive growth, we encourage Fund support of domestic efforts to achieve more financial inclusiveness, deepen local currency financial markets, and develop non-banking financial institutions and sectors. In this regard, we also welcome the upcoming conference that will address adequate regulation of supervision of Islamic banking and the workshop to address unintended effects of bank de-risking efforts. The Fund should build on this workshop to promote efforts aimed at maintaining correspondent banking relationships with affected countries. We appreciate the IMF's enhanced cooperation with the Arab Monetary Fund in workshops, training, and other collaborations, such as the ArabStat initiative to enhance the provision of statistics in the region to underpin sound policy formulation.

9. We take note of the Fund's contribution to the new **Social Development Goals, financing for development and addressing climate change** to ensure more sustainable development. For countries like the Maldives, climate change is a particularly pressing matter. It is essential that the Fund's role be focused on its core mandate and the analytical work address areas of macroeconomic relevance that are within its expertise. Quantitative analysis of the distributional and growth impact of fiscal measures would be welcome, in collaboration with country authorities. We welcome the Fund's increased attention to the needs of small states and countries facing fragile conditions. 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.

10. On the subject of **quota reform**, we emphasize again that such reforms, including any interim steps, should ensure a fair representation of Arab countries. 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 nationals, particularly at the level of managers and high level professionals.