International Monetary and Financial Committee

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Statement by Obaid Humaid Al Tayer
Minister of State for Financial Affairs, Ministry of Finance, United Arab Emirates

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

Statement by His Excellency
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
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1. Benefiting from exceptional measures to mitigate the impact of the crisis, the recovery is now proceeding at varying speeds, but the shift from public interventions to private activity as the main driver of growth has not yet taken hold. Although financial market conditions have improved, progress toward securing financial stability has stalled as volatility and risk perceptions remain elevated. The economic slowdown in advanced economies and elevated risks are challenging policy makers.

The Global Economy and Financial Risks

2. In the **major advanced economies**, planned fiscal consolidation and likely liquidity constraints will restrain growth. As recognized when we met in April, a key challenge is to **balance the withdrawal of support against the need to facilitate job creation**. The crisis has exacted a heavy toll on employment, with the share of long-term unemployed at an all-time peak in advanced economies. The *World Economic Outlook* clearly highlights key **downside risks** to growth stemming from high sovereign debt and weaknesses in the housing market that continue to weigh on consumer and investor confidence. In addition, anticipated sovereign and bank financing pressures and uncertainties surrounding financial sector regulatory reforms, as elaborated in the most recent *Global Financial Stability Report*, may accentuate liquidity pressures. Global growth prospects depend also on a sustained recovery of trade, including a recovery of import demand in the large advanced economies.

3. Policies will therefore need to be more proactive to facilitate the internal **rebalancing of domestic demand**. For countries that still face major adjustments to achieve sustainable debt levels, monetary policy will need to remain supportive to allow fiscal consolidation to begin in 2011. Consolidation could be temporarily postponed if growth is slower than expected. Reforms should be accelerated to strengthen financial system resilience. It appears that the recently announced proposals of the Basel Committee constitute a significant improvement even though more is needed to address weaknesses.

4. **Concerted and coordinated efforts** are needed to mitigate the potential adverse long-term effects of the crisis. We hope that the impressive degree of cross-border coordination seen in the last two years will be directed toward tackling the unfinished financial sector reform agenda, the persistently high unemployment, and the fall in potential output.

Emerging Economies and the Middle East Region

5. For the majority of **emerging and developing countries**, growth has resumed and the crisis may have provided an impetus to further strengthen their policy frameworks and

resilience to macroeconomic shocks. These countries are expected to continue to be the beneficiaries of **strong capital flows** as institutional investors in advanced economies continue to diversify their exposures toward countries with relatively sound fundamentals. The unpredictability of such inflows continues to pose a challenge to policy makers, and we concur with the urgency of policies that help to direct these inflows to productive activities that raise human capital and build critical infrastructure. In view of the increasing volatility of capital flows, we continue to look to the Fund for practical policy advice, tailored to country situations, on how to best deal with them. In this connection, the Fund should consider revoking the decision to introduce charges for **technical assistance**, given its detrimental impact on the majority of developing countries.

6. With respect to the **Middle East region**, near-term prospects are somewhat uncertain, even though the impact of the turbulence in Europe has been muted. The external position of **oil exporting countries** has improved in 2010 with the rebound in oil demand and prices. Going forward, however, further increases in oil price and demand are expected to be modest. Nevertheless, production capacity will continue to be expanded in support of long term market stability. Sovereign wealth funds have also played an important stabilizing role by providing much-needed long-term capital to global financial markets. In **oil importing countries**, trade and remittances have rebounded and the impact on tourism and foreign direct investment has been generally milder than had been feared. However, these flows have not yet returned to pre crisis levels.

7. Subject to the pace of the global recovery, our region is poised for continued recovery, supported by public spending and stable oil prices. Countries that have fiscal space continue their supportive policies until a firmer recovery takes hold. Although our financial sectors have proven their resilience to the crisis and asset prices began to recover, the revival of financial intermediation remains a constraint on sustained private sector demand. To raise potential growth over the medium term, many countries continue to consider policies to attract FDI, develop intra-regional trade, increase financial sector depth, build human capital, and enhance competitiveness. We look forward to staff analysis on these subjects in the forthcoming *Regional Economic Outlook* to be released on October 24 in Dubai.

Implications for the Fund and its Mandate

8. The global crisis demonstrated the need to improve the framework for the assessment of financial stability and spillover risks. The IMFC has accordingly called for a review of the Fund's mandate with respect to surveillance, the financing toolkit, and stability of the international monetary system. We welcome the Executive Board report on progress in these areas.

Surveillance

9. In strengthening Fund surveillance, the greatest weight should be placed on areas that have been closely linked to the genesis of the recent financial crisis, namely the quality and gaps in analysis, especially with regard to the Fund's surveillance of advanced economies. Particular attention should be accorded to the **integration of macro-financial analysis in surveillance and to outward spillovers** from countries whose policies or circumstances may

significantly affect the stability of the global system. Such analysis should be effectively incorporated in the Fund's flagship reports, the WEO and GFSR, as well as in Article IV reports and regional reports. Fund reports need to sharpen the policy messages with clear recommendations and follow-up in order to serve as effective vehicles for multilateral surveillance. However, the case for a **multilateral decision** is yet to be made and increased emphasis on multilateral surveillance must not detract from the quality of bilateral surveillance.

10. We encourage further efforts to **strengthen the coverage and analysis of financial sector issues in Fund surveillance.** We note the recent decision to increase the frequency of financial sector assessments for systemically important countries and to make them mandatory. Greater efforts must focus on integration of such analysis in Article IV consultations, and not to compromise the quality and frequency of assessments for countries that are not deemed systemic. Effective collaboration with the World Bank, in recognition of the synergies between stability and developmental issues, remains important.

The Fund's Future Financing Role--Crisis Prevention and Response

11. The Fund's **crisis prevention instruments** have been enhanced through refinements to the Flexible Credit Line and a new Precautionary Credit Line. Given the potentially large size of commitments, well-articulated eligibility requirements, improved procedures, and conditionality where appropriate, can help to ensure evenhandedness and safeguarding Fund resources. These reforms render the Fund's toolkit adequate to permit **simultaneous response to multiple member requests**, should the need arise from a future systemic event. We support coordinating action with **regional arrangements**, such as the European Stabilization Fund, to enhance the global safety net and look forward to the outcome of the high-level seminar on the subject during the Annual Meetings.

12. There may be scope for a **Global Stabilization Mechanism (GSM)** to deal with potentially systemic events on the basis of existing facilities. We are skeptical about the proposal for the Fund to offer liquidity lines unilaterally to members.

The International Monetary System

13. We support improvements in the **monitoring of capital flows.** The volatility of these flows has increased the need for reserves, especially in emerging market economies. Further analysis is needed on initiatives **to lower the need for precautionary reserves**. We remain open to further consideration of proposals **to diversify the supply of reserve assets** and a possible greater role for synthetic reserves assets such as the SDR.

Reform of Fund Governance

Quota realignment is the key pillar of governance reform. For the realignment to be meaningful, and to enhance the legitimacy and credibility of the Fund, the shift in the quota shares has to be from advanced countries to Emerging Market and Developing Countries (EMDCs). The quota formula should be amended as the current formula preserves the excessive voting power and influence of advanced countries in Fund decision-making. Such amendment of the formula has been foreseen at the time of its adoption and in pursuant IMFC Communiqués. In the event that agreement on an improved quota formula cannot be reached for the present realignment exercise, we call for a firm commitment to reform the formula within two years of the completion of the Fourteenth Review. In the meantime, we cannot support reliance on the current formula to reduce the quota share of any EMDC member during this exercise. Likewise, we do not support an outcome in which the shift in quota shares to some emerging market and developing countries (EMDCs) comes at the expense of other EMDCs.

14. The **overall size of the quota increase** should ensure that the Fund remains fundamentally a quota based institution, which can support members with its current facilities under a broad range of scenarios. In order to ensure a gradual alignment of quota shares on the basis of the most up-to-date data set, and to limit distortions from a biased formula, we strongly call for an initial increase of up to 50 percent of quota under the Fourteenth General Review, followed by another increase of up to 50 percent after the reform of the quota formula.

15. On **political engagement and accountability**, the key concern is to strengthen the Fund's effectiveness and to be wary of reforms that weaken oversight. The IMFC can build on recent enhancements to be an effective forum for the engagement of ministers in strategic issues and policy coordination. Some proposals that may have immediate appeal could weaken the checks and balances on management and staff. Like other emerging market and developing countries, we are therefore not in favor of the proposed International Monetary and Financial Board (IMFB). The IMFB would be a clear setback to governance as it would weaken the Executive Board and create ambiguity in its responsibilities and leave too much discretion with management and staff. We remain unconvinced by the argument that an IMFB could best shift discussions and decisions that have recently been undertaken by the G-20 back to the IMF governing board.

16. We would consider **double majority voting rules** a meaningful step to enhance the voice of smaller countries, compared with the current practice where important decisions can be made on the basis of a simple majority of votes by a few countries with high voting power. We have an opportunity to introduce a meaningful governance reform and we therefore welcome the growing support, including by some advanced economies. On the **size and composition of the Executive Board**, there does not seem to be a compelling case for reducing the current size of the Board and we would be prepared to support amending the Articles to set the size at 24.

17. We firmly support **selection of the Managing Director** without regard to nationality, which deserves full support on its own merit and should not be contingent on other governance reforms. On **staff diversity**, we note that Arab nationals particularly at the senior staff levels still **fall short of benchmarks and we call for i**ntensified efforts in this regard.

18. Further consideration of these issues will be needed in the period ahead to support global financial stability.