# International Monetary and Financial Committee

Thirty-Sixth Meeting
October 13–14, 2017

Statement No. 36-4

**Statement by Mr. Al Tayer**
**United Arab Emirates**

Kingdom of Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, and 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**

**International Monetary and Financial Committee**
**Washington, October 14, 2017**

1. **Since we last met, the pace of the global recovery has picked up, making it a priority to take advantage of the good times and to fortify efforts to adopt more decisive and coordinated policy actions to address challenges**. We agree with the Fund's assessment that there is a need to raise potential growth and to make it more inclusive, and to manage the challenges from rising medium-term financial stability risks, technology, and integration. Broad-based growth in advanced economies (AEs), combined with a still benign global financial environment, will support a projected rise in growth over this year and next in emerging markets and developing countries (EMDCs), who continue to account for the larger share of global growth. Commodity exporters continue their adjustments to a sharp decline in earnings, especially those affected by lower oil prices, but in many cases, they already show signs of improvement reflecting the gains from accelerated reforms.

2. **Risks to the Outlook**. While the overall baseline near-term outlook is stronger**, medium-term risks appear still to be tilted to the downside**. In recent months, near-term financial stability risks have declined with the strengthening global recovery, but medium-term vulnerabilities are building up as the search for yield intensifies. We concur with the key potential hazards to the outlook that include, persistently, low inflation in AEs with a possible impact on medium-term expectations, and a more rapid tightening of global financial conditions stemming from unexpected monetary conditions in either the United States or Europe. Risks stemming from China would be contained so long as the Chinese authorities continue to curb credit expansion to avoid triggering either a sharp growth slowdown domestically or financial turmoil elsewhere. As previously identified, noneconomic factors continue to cloud the outlook, including from geopolitical risks, refugee flows, and governance concerns. We underscore the negative consequences of any retreat from the agreed financial regulatory agenda or free flow of trade and cross-border investment flows. We trust such retreat will not materialize and see an important advocacy role for the Fund in these areas.

3. **Policy Priorities. The cyclical pickup in the pace of global growth provides an opportunity to take difficult actions to boost potential output, build resilience, and tackle the growing challenges of an integrated global economy**. For AEs, supportive policies should be continued as the cyclical recovery has some room to run as evidenced by the benign wage growth and still high unemployment rates in some countries. Until the recovery is more secure, and so long as inflation remains below targets, accommodative monetary policies should be maintained, while carefully monitoring rising financial

vulnerabilities. Related financial stability risks, namely rising asset valuations and higher leverage, need to be managed carefully by deploying macroprudential measures. Fiscal stances need to balance the need to build buffers or reduce debt with measures to utilize fiscal space where available to support growth. In this regard, we take note of the WEO analysis that makes the case for positive domestic as well as spillover effects of higher public spending that is designed to boost potential output when carried out in countries with economic slack and monetary accommodation. Factors related to demographic and weak productivity will weigh in once the cyclical uptick is complete, so decisive structural reforms and growth-friendly fiscal policies should begin now to boost productivity and labor supply. Raising labor participation rates can help soften the demographic shift's drag on potential output. In its bilateral surveillance, the Fund should continue to elaborate policies to bolster potential output and inclusiveness, including through distribution-friendly fiscal policies, investments in human capital, infrastructure, and higher labor supply.

4. **EMDCs**. Emerging market currencies have generally strengthened relative to the dollar and inflation declined in many countries reversing increases that occurred after an earlier period of exchange rate depreciations. Capital flows have remained resilient after declines in 2015 and early 2016 and the Fund should remain alert to the **impact of reduced inflows as monetary policy normalizes**. As suggested in the GFSR, these countries that were able to attract inflows due to strong domestic factors, including improving growth and external positions, as well as declining corporate vulnerabilities, would likely be able to mitigate the impact of a less favorable external environment. WEO analysis points to a slowing in the convergence prospects of EMDCs as a group, compared to the past decade, but with heterogeneity in performance across countries. A key concern is that a majority of countries are forecasted to have per capita GDP growth below the EMDC average. This makes a strong case for EMDCs to accelerate reforms to bolster medium-term growth and to reduce inequality by improving tax compliance, investing in infrastructure and human capital, and enhancing institutional capacities and the business environment.

5. **Middle East Region**. We are optimistic that growth outcomes in some of our countries will exceed IMF projections for 2017 reflecting the positive effects of reform efforts. The WEO projects a slowdown of growth to 2.7 percent in 2017 for MENAP countries, mainly reflecting a slowdown in Iran after fast growth in 2016, the expected cutback in oil production, and continued geopolitical factors. But a substantial pick-up in growth is expected in some countries in the region, notably in Egypt where growth was reported at 4.2 percent in the fiscal year ending June 2016 and is anticipated to pick up further to over 5 percent in FY2018, which resulted from the ambitious reforms. For **oil exporters**, we note that growth is projected to recover further and to contribute significantly to global growth over the next 5 years. Oil-producing countries in our constituency have embarked on ambitious diversification programs and adjustments to a persistently low oil prices.

6. **Fiscal consolidation efforts have advanced in both oil-exporters and oil-importers**. Measures have aimed to broaden the tax base, improve revenue administration and diversify revenue sources. Tax exemptions have been reduced in Jordan, and the VAT was introduced, notably in Egypt, Qatar, and the U.A.E., and is planned in Bahrain and Kuwait. Important expenditure policies include efforts to restrain the growth of public wages and subsidies. The public wage bill has even declined as a percent of GDP for several years in Egypt, for example. In many countries, energy subsidies have been reduced, aided by lower oil prices and by the introduction of an automatic price adjustment mechanism, notably in Jordan, Qatar, and the U.A.E.

7. **Preserving social cohesion is a critical priority that must be balanced with the pace of fiscal consolidation**. *The Fund should recognize the practical realities when advising policy reforms and in program discussions. The Fund should communicate its views in a constructive way with due regard to adverse market and public reactions. We call on the Fund to carry out distributional and social impact analysis of fiscal and structural reforms and assess the adequacy of budgetary allocations for a social safety net to mitigate the adverse impact of policies on vulnerable groups*. We look forward to this topic being addressed in the upcoming Conference in January in Morocco, "Opportunities for All: Promoting Growth, Jobs, and Inclusiveness".

8. **Economic and financial inclusion is vital for economic prosperity**, and it has taken prominence in the policy domain, notably in Egypt and Jordan. Both countries are advancing in this area with a focus on access to finance, through electronic banking, mobile payments, and programs for economic empowerment of women. Jordan is preparing a strategy and the PMA's work on a strategy is nearly complete. Egypt began several initiatives including mortgage finance for low income earners, SME financing support, and expanding digital financial services with the aim of expanding coverage.

9. **Improved security in the region is of high priority to resume the region's development objectives.** In this regard, some of our countries have experienced considerable domestic strife, which has both adversely impacted economic performance and created unprecedented humanitarian challenges. Countries that are hosting large refugee flows have shouldered the burden for a humanitarian situation that should be born more equally by the global community. There are an estimated 1¼ million refugees in Jordan, who's own population is about 6 million and carries an immense strain on its infrastructure and social services. Similarly, the refugee flow to Lebanon represents more than one quarter of the population and is estimated by the World Bank to have lowered the country's annual growth rate by an average of 2.9 percentage points. *The IMFC has repeatedly called on the Fund to articulate its assistance to the countries shouldering this burden, and we expect to see progress made in this area.*

10. **IMF Work Priorities**. We broadly support the work priorities going forward as outlined in the Managing Director's Global Policy Agenda and the call for more potent

policies to strengthen resilience, but also to improve equity and inclusion. There is a strong case for cooperation on multilateral policies, an important role for the Fund with its near-universal membership. Fund work should point to the benefits of economic integration, maintaining a robust financial regulatory regime and cooperating on taxation issues to limit international corporate income tax evasion. *Fund work would gain more traction with solid analysis of the macroeconomic and distributional effects of technology and integration and the equity or growth implications of structural reforms, gender equality and migration.*

*11.* The Fund needs to continue to strengthen its surveillance of members' economic and financial policies and to provide member-tailored advice on the policy mix and structural reform priorities. Macro-financial issues should continue to be embedded in surveillance and the Fund should further refine the work on the role of macroprudential policies and Capital Flow Measures in dealing with capital flows. A variety of options that countries may need to utilize should be considered, with a more flexible approach in the application of the Institutional View, building on actual country experiences. We welcome planned Fund work on the impact of the digital economy on fiscal policy and the sustainability of pension schemes. *We value the Fund's work so far on trends in correspondent banking, including in fora organized in our region, and call for further work to take stock and assist affected members.*

12. Fiscal policy is a powerful tool for governments wishing to tackle inequality. The appropriate mix of instruments will depend on the existing administrative capacity, the role envisaged for the state, as well as political economic considerations. The Fund can continue to work with countries on ways to upgrade the tax system and to improve its design to help address inequalities and to achieve redistributive objectives. *We look forward to further work on ways where fiscal policy can support growth and reduce inequality.* We appreciate staff analysis of the merits of adopting universal basic income (UBI) in countries whose current transfer system is performing poorly, due to information constraints, high administrative costs, limited administrative capacity, and weak prospects for enhancing targeting. We support an update of the framework for assessing public infrastructure management.

13. Continued work on building resilience to climate change is welcome. The WEO usefully illustrates the immensity of the challenge in mitigating and adapting to climate change, as the most affected countries are the ones that have more limited resources. *A concerted effort to help vulnerable economies cope with the consequences of climate change is amply justified from both an equity and an efficiency perspective.*

14. We encourage the Fund to further ensure evenhandedness in concrete ways across a full range of its activities and not to limit its efforts to addressing possible misperceptions. This also applies to future work on improving governance and corruption, where it is critically *important for the Fund to rely on objective and comprehensive methodologies that address the supply and demand sides while applying them in an evenhanded way*.

15. Our countries value the Fund's capacity building work and its responsiveness to their needs from both headquarters as well as from the Middle East Regional Technical Assistance Center and the IMF-Middle Center for Economics and Finance. In recognition of the valuable work provided, several of our members provide substantive contributions to the Fund capacity building activities within and outside the region. We also appreciate the Fund's collaborative work and its participation in our region, such as the Meetings of the Council of Arab Central Bank Governors, the Council of Arab Financial Ministers, the World Government Summit, and events organized by the GCC.

16. Enhancing voice and representation remains a critical priority for the Fund to gain traction and legitimacy. In this regard, we support a strong, quota based, and adequately resourced IMF. We look forward to further discussions on the 15$^{th}$ General Review of Quotas, in a way that doesn't improve the shares of dynamic EMDCS at the expense of other EMDCs.

17. We welcome progress made on improving staff diversity, but call for more concerted efforts to further improve recruitment and career progression of individuals from under-represented countries, such as our region.