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United Arab Emirates

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

Statement by His Excellency Minister Obaid Humaid Al-Tayer,
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On Behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen
International Monetary and Financial Committee
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1.**A resolution of trade disputes is critically needed to safeguard global growth**. The downside risks from trade disputes, identified in the last WEO, have begun to materialize and are compounded by geopolitical tensions and rising financial vulnerabilities. The growth outlook has weakened and continuing risks threaten financial stability and further downgrading of growth. Therefore, we urgently need to avoid further escalation and to resolve tensions in order to prevent a further growth slowdown. Major parties must have the will to dissipate tensions in order to achieve our shared objective of sustainable inclusive growth. **Multilateral cooperation**, which has suffered in recent years, needs to be revived for the Fund to effectively deliver on its mandate and support countries facing a range of long-standing and emerging challenges.

2. **Growth has been downgraded** for advanced economies (AEs) in 2019 and 2020 and for most emerging and developing countries (EMDCs), except in Emerging Europe, while a pick-up is forecast for next year. Emerging Asia will continue to be the main engine of growth in the world economy. Its forecast of 6 percent growth in 2020 will be aided by government support and the easing of monetary policy to offset the effects of tariffs and weakening external demand. Growth in the Middle East and Central Asia region is less affected by the trade disputes, but it was also revised downward on account of the impact of U.S. sanctions on Iran and slower oil production in Saudi Arabia. In terms of **per capita income convergence**, a large number of countries are forecast to grow at a slower pace than AEs, and therefore continue to move away from income convergence. The per capita income of the majority of fuel exporters is projected to decline over 2019-2024, a trend that reinforces the need for rapid diversification and economic restructuring. We encourage the Fund to continue its focus on improving convergence prospects for EMDCs and LIDCs. We also encourage continued work on the longstanding challenges of weak productivity growth and inequality.

3. **Risks related to a further disruption of trade flows and supply chains cannot be overemphasized, as well as its spillover to financial markets**. Trade growth continues to slow down, reflecting mainly increased trade tensions and a slowdown in investment due partly to continued uncertainty. Moreover, as noted in the GFSR, financial markets are susceptible to abrupt shifts in sentiment which may re-trigger flight to safe assets and declines in global risk appetite. The rising risks are associated with external borrowing by emerging and frontier market economies, including by SOEs, rising corporate, and increasing holdings of riskier and more illiquid securities by institutional investors. We are also concerned that vulnerabilities among nonbank financial institutions are now elevated in 80 percent of economies with systemically important financial sectors, a share similar to that at the time of the global financial crisis. Many EMDCs will be susceptible to capital outflows and the Fund will need to be prepared with practical advice that takes account of specific country circumstances and policy tradeoffs.

4. **Policy makers need to provide timely support** for economic activity, where needed, to avoid a further downgrade to the near-term forecast. So long as inflation is subdued, monetary easing is appropriate to support growth, but monetary policy should not be used instead of structural policies that are well-recognized as necessary. While the accommodative monetary stance is appropriate, the associated easier financial conditions contribute to higher vulnerabilities. Rising financial stability risks need to be tackled with macro-and micro-prudential policies.
Fiscal policy should be utilized where there is space without jeopardizing debt sustainability. We also agree that government guarantees on debt for systematically important firms should be linked to credible business plans and that more detailed disclosure of fiscal spending and guarantees related to SOEs should be encouraged.

5.**Structural reforms** are needed across AEs and EMDCs to lift productivity and improve inclusiveness. When recommending structural reforms, the Fund needs to carefully tailor reforms to country circumstances, and better understand the factors that explain why some countries have not reaped significant benefits from reforms. We agree that data limitations continue to constrain analysis in this area and welcome the new IMF reform data set. However, we emphasize the need to avoid duplicating the same reforms from one country to another in country programs. We continue to see a need to hone staff skills in specifying and prioritizing well-tailored structural reforms. We strongly endorse the **need to identify "binding constraints on growth"**, and therefore call on staff to seek guidance from outside experts as appropriate and to assess the extent to which our structural reform advice and conditionality is well-justified.

6. We welcome the focus of the Fiscal Monitor on the important **role that fiscal policy can play in climate change mitigation and adaptation** to secure a better future. We need to advance global cooperation in this area, especially given concerns with the implementation of existing commitments. The Fund's assessment of the different mitigation strategies is quite useful, as well as the scenarios on the use of carbon pricing revenues for improving economic efficiency and income distribution. We note the numerous challenges of environmental taxation, including the effect of higher fuel prices on the poor and vulnerable. A challenge for policy makers will be to ensure that low-income households and vulnerable groups, which are usually negatively impacted by Environmental Tax Reforms, are compensated through other mechanisms. Due consideration should be given to supporting the disproportionately affected workers or communities impacted by the displacement of high carbon industries, which would also help build public support for environmental taxes.

7.In the **Middle East Region**, both global developments and regional geopolitical tensions continue to weigh on the outlook. Nevertheless, growth is expected to pick up overall in 2020 but may trail that of other regions. We look forward to the regional economic outlook for insights into trends in fiscal balances, and in productivity growth and potential output. It is important that such analysis be sufficiently disaggregated to give an accurate sense of trends excluding a few outliers or countries affected by conflict. Many countries have embarked on fiscal adjustment and on wide-ranging structural reforms, which have not yet been reflected in real GDP growth and lower debt burdens. The region has received more portfolio inflows and less FDI than in the previous decade, and the Fund can play a positive role not only by pointing to vulnerabilities but also by shedding light on areas of progress in strengthening business environments, growth-friendly fiscal consolidation, enhancing governance of public finance, and efforts to increase inclusion. Insights into promoting innovation, tapping into global value chains, and leveraging the benefits of digitalization would be of great benefit to our countries.

8. The **economic burden of hosting refugees** has strained the economies of a few smaller countries in our region. We have consistently called for the Fund to estimate the direct and indirect economic impact and to provide assistance, as appropriate. In other countries, internally displaced populations represent an economic and humanitarian crisis. These geopolitical problems continue to weigh on the growth potential of the region and wellbeing of its citizens. We support the increased focus of the Fund's work on **fragile and conflict-affected countries, including through capacity development and desk work**. We call for continued flexibility in dealing with these countries, particularly in the context of programs, as highlighted by the IEO.

9. We appreciate the Fund's continued collaboration in addressing the withdrawal of **correspondent banking relationships** (CBRs) as concentration through fewer CBRs accentuates financial fragilities in some countries, which could affect growth and financial inclusion. The Fund should continue to facilitate dialogue between regulators and market participants and provide capacity development to strengthen legal and regulatory and supervisory frameworks, as needed.

10. **Managing volatile capital flows** represent a growing challenge for emerging markets and developing countries, at a time when many have become increasingly reliant on external borrowing. We welcome the Fund's ongoing work to evaluate the best policy instruments to deal with capital flows, taking into account specific country circumstances, the tradeoff between policies, and the experience of countries that have adopted a range of instruments. While this work, on the ***Integrated Policy Framework***, is at an early stage and remains at the conceptual level, it holds some promise and it makes sense for the Fund to lead such work given its role in advising policies to members. As a first step, we would like for this line of work to reassess the effectiveness of country policy choices, especially in cases where there was a divergence of views between the country authorities and Fund staff to consider what lessons could be learned for future engagement with members. We also look forward to the completion of the Fund's work on the *Comprehensive Surveillance Review*, the *Review of Conditionality*, and pilots on *integrating financial sector surveillance* to further inform this work.

11. Rising **debt vulnerabilities** remain an area of concern, in particular for LIDCs, who also have high financing needs. We encourage further work to develop a comprehensive and transparent debt reporting system, together with the World Bank. We see merit in increasing technical assistance with debt management and in strengthening the joint responsibilities of debtors and creditors.

12. A priority work stream area is continued work on the impact of technological progress and **digitalization**, as noted in the Managing Director's Global Policy Agenda. We strongly support the Fund's work in these areas, which we consider to be a high priority in a changing world and welcome the Fund's initiative to act as a platform for the sharing of country experiences and identifying benefits and risk mitigation. Our countries look to the Fund to provide relevant country experience, to compare progress in adopting new technologies, and to highlight policy

measures to mitigate risks to financial stability. In this regard, we welcome the presentation on central bank digital coins at the recent meeting of Arab Central Bank Governors in Cairo.

13.Strengthening **governance** holds considerable promise to improve economic outcomes for AEs and EMDCs alike. We are in favor of the Fund focusing on areas of governance in its core areas of competence, especially with respect to fiscal governance, financial sector oversight, and central bank governance. The Fund must remain cautious in providing advice in areas outside its expertise, including in some areas of the regulatory environment for private businesses or the rule of law. Care is also needed to avoid the use of perception-based indicators that can paint a biased picture or be slow to reflect progress on the ground.

14. We strongly support the work of the **Independent Evaluation Office** and commend management and staff for implementing the Board-endorsed recommendations to improve the Fund's effectiveness. We appreciate recent insights and recommendations on financial sector surveillance, and on the Fund's engagement on fragile states. We look forward to the findings of the work on the Fund's role in trade policy, collaboration with the World Bank on structural reforms, the Fund's recent experience with adjustment and growth.

15. We regret that it was not feasible to significantly increase the **Fund's quota resources** under the 15th General Quota Review and look forward to concrete progress under the 16th Review. In the context of heightened risks, we emphasize the need to increase the Fund's lending preparedness, and at least maintain its lending capacity. In addition to heightened risks, the likelihood of a global recession following a protracted period of expansion and accommodative monetary policies also underscores the necessity of a well-resourced Fund. The doubling of the NAB would need to be quickly agreed and supplemented by bilateral borrowing agreements to maintain adequate resources, without loosing sight of the need for the composition of resources to be rebalanced toward the historical ratio of quota to borrowed resources of around 85/15 prior to the global financial crisis. We call on large members to come together on an agreed pathway for achieving these goals under the 16th Review and to deliver a shift in quota shares from AEs toward EMDCs.

16. We underscore the need to remain focused on **recruiting and retaining the best staff** given the unique mandate of the Fund. This should remain the highest priority in the various initiatives to review compensation and to overhaul human resources and modernize business practices. In this regard, we caution against reverting to cost cutting as the primary objective, especially given the Fund's reputation for being a lean organization and the increasing demands from the members to expand its work in priority macro-critical areas. In this connection, we appreciate efforts to diversify Fund staff, although the results remain well below agreed benchmarks for our region. We look forward to more concerted efforts to improve results in the coming year. Our countries fully support the drive for more gender diversity at the Board.