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IMFC Statement by Mohammed bin Hadi Al Hussaini
Minister of State for Financial Affairs

United Arab Emirates

On behalf of

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

Statement by His Excellency Mohammed bin Hadi Al Hussaini,
Minister of State for Financial Affairs for the United Arab Emirates
On Behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia, United Arab Emirates, and Yemen
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I. THE GLOBAL ECONOMY, THE MIDDLE EAST AND NORTH AFRICA (MENA) REGION, AND OUR CONSTITUENCY MEMBERS

1. At the outset, we express our full solidarity with the people of Morocco and offer them our deepest condolences for the devastating loss of lives and destruction of property during the recent earthquake. The Marrakesh 2023 World Bank–IMF Annual Meetings provide an opportunity to support the Moroccan people and economy and to discuss the challenges facing the global economy and the MENA region in particular. We also express our deepest condolences to the people of Libya, for the loss of life and devastation caused by flooding in September.

The Global Economy

2. **Although the global economy is recovering, the recovery is slow und uneven.** Tight monetary policies, needed to fight inflation, and the withdrawal of fiscal policy support to prevent further accumulation of debt are also headwinds to growth. Geopolitical tensions, rising risks of geoeconomic fragmentation and related global headwinds also present new challenges for sustaining the recovery. The challenges are particularly acute for emerging market and developing economies (EMDEs) where prospects for income convergence have declined.

3. **Policymakers are faced with difficult tradeoffs**, indeed a trilemma between preventing rising debt levels, protecting the vulnerable to prevent a large rise in poverty and income inequality, and meeting their development needs. Many EMDEs in the Middle East region face the additional challenges of fragility and hosting large refugee flows.

4. Against this background, **Central banks** need to focus on durably restoring price stability while protecting financial stability. **Fiscal policy** needs to be supportive of monetary policy in fighting inflation by reducing elevated debt levels, while continuing to protect the vulnerable from the elevated cost-of-living with targeted and temporary measures. At the same time, complementary **structural policies** are needed to boost supply capacity in the long-term. These include employment, especially youth and women employment, gender and income equality, as well as economic diversification, which are major challenges facing the Middle East region and EMDEs more broadly.

5. In this challenging environment, **multilateral cooperation** should strive to strengthen the global financial safety net, including IMF quota resources, ensure food security, strengthen trade,

support economies needing debt reduction, and promote climate finance, while supporting climate transition efforts.

The MENA Region and Our Constituency Members

6. **Growth in the MENA region is projected to slow this year**. The slowdown reflects tight macroeconomic policies to safeguard macroeconomic stability and debt sustainability, heightened fragility from ongoing conflicts, particularly in Sudan, and developments in the oil market among the region's oil exporters. Economic activity is expected to rebound somewhat in 2024 and further improve in 2025 as some of the factors weighing on growth in 2023 begin to dissipate.

7. **Restoring price stability remains a high priority for our policymakers.** Monetary policy generally remained tight across the region, with central banks in MENA continuing to increase rates in 2023. Countries with pegs to the USD raised interest rates broadly with or following the US Federal Reserve's rate increases. As a result, inflation has declined on average, although it remains high in some countries. Policymakers are also closely monitoring financial system vulnerabilities that could arise from continued monetary tightening.

8. Fiscal policy in the region is striving to preserve debt sustainability, build buffers, and support monetary tightening. Variation in fiscal balances remain wide in 2023 between oil exporters and importers in our constituency. Oil importers in our constituency have limited fiscal space. Moreover, in some of our **middle-income oil importing countries**, considerable fiscal consolidation efforts are expected to be partly offset by higher interest expenses. Despite large cumulative primary balance improvements, the increased interest burden would overwhelm the fiscal effort, resulting in a deterioration of overall fiscal balances. This is a pressing dilemma for many Ministers of Finance, especially that they are faced with rising social pressures amidst high and persisting inflation, as well as continued development needs.

9. A key vulnerability for the **low-income countries (LICs) and fragile and conflict-affected states (FCS)** in our region is their persistent lack of fiscal space to protect their vulnerable populations and the challenges associated with food insecurity and rising oil prices. Many FCS also face debt sustainability constraints. In these countries, any news shocks could stoke social tensions and weigh further on growth. We wish to reiterate, in this context, the importance of PRGT support in helping vulnerable countries meet their increasing financing needs. **In Somalia**, prolonged drought and food insecurity present continued challenge for the Government and the people of Somalia. According to the Integrated Food Insecurity Phase Classification (IPC), by December 2023, one in four of the population (4.3 million) are expected to face a high acute food insecurity up from the current 3.7 million people (22 percent of the population). **In Yemen**, the rise in global commodity prices and conflict in Ukraine are exacerbating the economic and humanitarian crisis. According to the World Food Program, the number of food insecure people is projected to reach 19 million (two-thirds of the population) this year as rising global food prices and the recent exchange rate depreciation have pushed inflation to nearly 60 percent.

10. **The Maldives**' economy has recovered rapidly from the COVID-19 pandemic, with strong performance across all major sectors, particularly the tourism sector. Tourist arrivals in 2023 are projected to surpass pre-pandemic levels, boosted by the resumption of tourist arrivals from China. Real GDP is projected to grow by 9.4% in 2023, following the 13.9% growth recorded in 2022.The Maldives' authorities are well aware of the need for prudent and well-coordinated fiscal and monetary policies to safeguard macroeconomic stability, restore debt sustainability and sustain the current exchange rate peg, while supporting sustainable growth. To that effect, the authorities raised the tax rates on tourism and domestic goods and services taxes in 2023.

11. All the members of our Constituency are striving to **strengthen resilience and growth prospects** by pressing ahead with structural reforms for inclusive and resilient growth. They are fully aware of the need to accelerate reforms to create job opportunities for female workers and the youth as unemployment in some countries remains higher than its pre-pandemic 2019 level. As part of their efforts to achieve the Sustainable Development Goals (SDGs) and their commitment to addressing global challenges, several members of our constituency are accelerating investments in renewable energy, promoting sustainable finance, and supporting climate resilience in vulnerable nations. Our region is also keenly aware of the importance of regional integration and cooperation. This includes promoting trade and investment, harmonizing regulatory frameworks, and enhancing regional financial safety nets.

12. The region will be hosting a series of **high-level international events** in the coming year. Following the achievements of COP27 that was hosted by Egypt in 2022, **the United Arab Emirates will host COP28 this year.** COP28 will focus on pragmatic solutions to keep the 1.5C goal alive and ensure that the world responds to the first Global Stocktake with a clear plan of action, including measures that need to be put in place to bridge the gaps in progress, with a special focus on the Global South and countries most vulnerable to the effects of climate change.

II. OUR EXPECTATIONS FOR THE IMF

13. We welcome the Managing Director's Global Policy Agenda (GPA). We also appreciate the responsiveness and support of the IMF's Middle East and Central Asia and other departments to our region's needs. In the context of continued uncertainty, we look forward to the IMF's agile support to members, particularly **FCS, low-income, and middle-income countries,** through tailored policy advice, timely and adequate financial support, flexible conditionality and understanding of political-economy considerations. as well as targeted capacity development. The IMF is our member countries' trusted advisor and lender of last resort; it also has an exceptional convening power. Our priorities for the coming period are the following:

14. **Restoring macroeconomic stability hinges on a global debt restructuring architecture that can durably address debt vulnerabilities.** Over half of LICs are in or at a high risk of debt distress and about a fifth of emerging market economies also vulnerable. Building on recent progress, we, therefore, support further efforts to enhance the effectiveness of the G20 Common

Framework so that it delivers in a timely and predictable manner. We support the Global Sovereign Debt Roundtable (GSDR) initiative that facilitates discussions on key issues, such as comparability of treatment, cut off dates, and the treatment of domestic debt and restructurings. We support the IMF's work on improving public debt transparency and fiscal risk management, as well as envisaged reform options to promote the IMF's capacity to support countries undertaking debt restructurings. **We call for enhanced work to alleviate debt vulnerabilities in middle-income countries, as warranted, and to expanding the Common Framework to include these countries**.

15. Safeguarding economic stability needs to assess the implications of "higher for longer" interest rates. The IMF rightly highlights the adverse impact of rising interest rates on debt levels. For instance, in the MENA region, primary fiscal balances are expected to improve in the region's emerging market and middle-income economies though higher interest payments will offset a considerable portion of consolidation efforts. It would be useful for the IMF to assess the implications of "higher for longer" interest rates on financial stability and debt sustainability in the MENA region and EMDEs more broadly.

16. **The IMF structural reforms agenda needs to include key challenges facing EMDEs.** We welcome the focus in the GPA on the benefits of well-calibrated and sequenced structural measures, including governance, business regulation, and external sector, that can provide substantial output gains (up to 8 percent over four years for EMDEs with large structural gaps), while easing macroeconomic pressures. **It is essential for the IMF work on structural reforms to include job creation, gender and income equality, as well as economic diversification,** which are key challenges facing EMDEs.

17. **The IMF needs to further stress the call for multilateral cooperation on trade policies.** The IMF work on trade fragmentation is indeed striking, with the cost estimated at about 7 percent of output, and 12 percent for some vulnerable EMDEs, when technological decoupling is added. Against this background, **a clearer message by the IMF on the adverse implications of trade restrictions, including on global food security, would be useful. The IMF could also stress the need for multilateral cooperation on trade policies.**

18. **We support efforts to ensure that the IMF's lending toolkit continues to meet members' needs.** The **Resilience and Sustainability Trust** (RST) is an important complement to the Fund's lending toolkit. The current crisis is a reminder that, in addition to climate change and pandemic preparedness, the RST should cover the structural challenges that affect EMDCs most. These include job creation, more equal opportunities, and economic diversification, as mentioned above. **We look forward to the *interim RST review* to take stock of experiences, notably the speed with which an RST is put in place, the weight of conditionality and the scope of the RST**. We remain concerned that FCS facing debt sustainability concerns remain unable **to access the Food Shock Window** and encourage staff to explore ways to better support them.

19. **We encourage IMF staff to carry out country-specific analyses of the implications of refugee flows.** This includes detailed assessments of the direct and indirect economic costs for hosting communities. Geopolitical tensions have brought attention to challenges related to refugee flows, an issue that **Jordan** and **Lebanon** in our constituency have been faced with since the onset of the Syrian crisis about twelve years ago. Such work would be instrumental to the effort to mobilize adequate and timely donor support.

20. **IMF policies should aim to leverage on the benefits of new digital technologies while mitigating risks and promoting financial inclusion**. The IMF's work with relevant institutions on modalities to improving cross-border payments, including through new payment infrastructures, and developing a framework for effective policy responses to crypto assets, is helpful. We emphasize the need for evaluating the potential benefits and the development of a suitable framework for the implementation of Central Bank Digital Currency (CBDC). Several central banks within our constituency have initiated studies to explore the feasibility of CBDC implementation, and how it could be a new form of currency, envisioning that it may have a cascade of benefits to the financial system and markets. Adequate budgetary resources are needed if the IMF is to support the membership meaningfully in the area of digitalization. We support the IMF's work on informing a comprehensive, consistent, and coordinated policy framework for crypto assets and support its use to guide staff's policy dialogue with country authorities and capacity development activities. We also support the IMF's participation in discussions with standard-setting organizations. We emphasize the importance of financial inclusion and the role digital technologies can play in achieving this objective. This includes supporting fintech innovation, enhancing digital infrastructure, and implementing regulatory frameworks that promote financial inclusion and consumer protection.

21. **Climate-related work in multilateral surveillance needs to include climate finance, climate adaptation, and transition efforts, which concern a large portion of the membership**. We recognize that the scale of climate finance needed to meet the goals of Paris Agreement requires a new ambitious framework that would address the mitigation and adaptation needs from all sources of finance, including public, private, philanthropic both domestic and international, and we encourage the COP28 Presidency to work with all parties to lay the foundations of such a framework. Climate adaptation and climate just transition were central themes in **Egypt's COP27** and will remain top priorities of the COP28 that is also hosted by our region. The **United Arab Emirates' COP28 Presidency** encourages the Fund to continue supporting policy and financial efforts towards just transition and building climate resilience in member countries. It is crucial that climate finance be scaled-up without worsening developing countries' debt situations, and Fund support will be crucial in this regard, including in supporting the rechanneling of SDRs. A large share of climate finance will have to come from the private sector. The Fund also plays a key role in this regard by helping to promote enabling environments in member countries and develop their domestic capital markets.

22. **We fully support the IMF's capacity development (CD) work.** We welcome the envisaged 18 percent increase in the Middle East and Central Asia department's CD workplan in FY24 relative to FY23. We trust that this trend will be sustained in the coming years owing to the activities of METAC, the launch of CCANTAC and the opening of the new Saudi regional office, where the Saudi contribution is expected to alleviate funding constraints and help meet demand. We support the focus of planned CD on priority countries, namely program countries and FCS. In this connection, METAC continues to play a central role in CD efforts in our region as it provides technical assistance and training courses to fourteen countries, nine of which are FCS. Particular attention to deepening domestic local currency markets and pension reforms to support domestic resource mobilization is warranted. We also welcome enhancing CD delivery in improving cross-border payments and supporting countries' consideration to introduce CBDCs.

23. **We support the GPA's recognition that the strength of the Fund comes from its talented and diverse employees.** The *2022 Risk Report* made a concerning assessment of human resources risks that warrant attention and mitigation. The Fund's decreasing competitiveness and staff wellbeing are concerning matters that need to be addressed seriously. **The GPA could usefully refer to measures to mitigate these risks**. We encourage efforts to achieve **geographic diversity and inclusion benchmarks in underrepresented regions**, particularly MENA.

24. **A strong, quota-based, and adequately resourced Fund, at the center of the global financial safety net, is more essential than ever in the current global environment**. Given the critical role the IMF will play in the future shock-prone global economy, we welcome the GPA's emphasis on a successful completion of the 16^{th} General Review of Quotas for an adequately resourced, quota-based IMF at the center of the global financial safety net. After completing the Review, we fully support the proposal to **review the GRA access limits and modify the Fund's surcharge policy**. We also support creating a twenty-fifth chair at the Board to provide an additional chair for Africa and thus improve the continent's representation, learning from the World Bank's experience in this regard. Against a background of rising borrowing costs amidst continued uncertainty, the surcharges risk more than ever to disproportionately affect vulnerable EMDEs that require large amounts of Fund financing. The surcharges also unduly penalize those countries at a time when they need Fund financing most. We also support **aligning PRGT and GRA access limits** to ensure uniformity of treatment and avoid leaving the Fund's vulnerable members behind.