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

On behalf of
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

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We are encouraged that the cyclical recovery is gaining strength and concur with the Fund's portrayal of near-term risks and the medium-term challenge from structural impediments. Financial stability risks declined since we last met amidst stronger global growth expectations and related strong market sentiment. Beyond the immediate outlook, we share the concerns related to low productivity growth and rising inequality that have contributed to rising pressures for inward-looking policies. We are particularly concerned with some risks that loom over the outlook related to setbacks to financial regulation, trade integration, or tightening of financial conditions. It is, therefore, imperative that policies should continue to support demand and to repair balance sheets, where necessary, and structural problems that impede investment are addressed. We particularly underscore the need to avoid raising financial stability risks. Multilateral efforts need to be strengthened to preserve the gains from multilateralism and global integration—and we also emphasize the need to support countries exposed to refugee flows.

Emerging Market and Developing Countries (EMDCs) continued to enhance their resilience in recent months, but will face an uncertain and likely less favorable external environment marked by weaker demand and weaker potential output growth in advanced economies (AEs) and possibly an increase in trade barriers. Many EMDCs remain vulnerable to sudden shifts in global market sentiment as political and policy uncertainty in advanced economies could have negative spillovers. This will be combined with potentially tighter financial conditions and China's transition to slower more sustainable growth. Accordingly, we concur with the emphasis placed on the role of domestic policies which will differ depending on the specifics of each country and its own debt position and terms of trade developments. For many countries, reducing country risk perceptions is especially important as global financial conditions tighten.

With respect to low-income countries, fiscal policy needs to balance reducing debt accumulation with protecting capital and social spending. Improvements in debt management are also needed to cope with expected volatility of capital flows. Progress toward the Sustainable Development Goals remains a priority for the long term, which will depend on the success of efforts to create sufficient fiscal space, improve government efficiency, enhance financial sector resilience, address infrastructure gaps, and reorient fiscal spending to protect the vulnerable.

For all income levels, **fiscal policy needs to be growth-friendly and to aim at improving opportunities for all** in a relatively constrained environment. We encourage the Fund to continue to explore how fiscal policy can help to achieve inclusive growth while keeping debt on a sustainable path and limiting fiscal risks, particularly in countries that do not have fiscal space.

For the Middle East Region, notwithstanding **that** the recent price pick up in oil prices has provided some relief, oil-exporting countries have intensified their efforts to adjust their economies to persistently low oil prices. These efforts have typically involved a mix of higher taxes with cuts in public expenditure, including to the subsidy bill, prioritized investments geared toward diversification, and financing to allow a gradual adjustment path. Gulf countries are working towards introducing a harmonized VAT in 2018 that could raise revenues anywhere from 1 to 2 percent of GDP, assuming a VAT rate of 5 percent. Members of our constituency have developed comprehensive strategies to promote private sector growth, implement labor market reforms, cut down on public wage growth and reduce subsidies, implement supporting infrastructure, improve public sector efficiency, and build resilience of the financial sector. These efforts have been reflected in successful access to capital markets to obtain financing on favorable terms to ease the pace of adjustment and to improve the debt profile. Such policies are continuing and differentiated by country.

Several countries in our constituency have embarked on major economic transformations—with ongoing Fund programs in Egypt, Iraq, and Jordan. In these cases, politically and socially difficult reforms were implemented. Reforms centered on cutting current spending, reducing subsidies, generating higher revenue by broadening the base of existing taxes, and preserving space for infrastructure and social spending. In Egypt, the flotation of the exchange rate in November marked a historical step—that was well prepared and implemented, with virtually no central bank intervention. The move was coordinated with a package of tax including a new VAT law, as well as expenditure cuts that included wage restraint and price increases on a wide range of subsidized goods. In all these countries, there is a broad-based recognition of the need for deep and broad structural reforms to move to a higher and more inclusive growth trajectory. We call on the Fund to consider binding political economy constraints to ensure successful conclusion of existing programs. Fund documents and press statements should adequately recognize the authorities' home grown initiatives and seek to build mutual trust with the authorities. The Fund's provision of timely technical assistance is much appreciated and continues to play an important role.

The region continues to struggle with conflicts and security disruptions that have held back growth and increased uncertainty. Fund analysis highlights the immense humanitarian and economic losses associated with the, and related spillovers. As estimated by the Fund, post-conflict 2020 GDP in Iraq, Libya, Yemen, and Syria is estimated to range between 30 and 90 percent lower than what was forecast for 2020. Based on the evidence that emigration from conflict-ridden areas can remain on the rise some 10 years after the beginning of a conflict, a

more concerted multilateral effort is needed to lighten the burden on affected countries and to facilitate integration of refugees.

Multilateral Cooperation. Notwithstanding the recent welcome uptick in the pace of trade growth, the trade slowdown and rising protectionist trends raise concerns. We, therefore, call for continuing progress in areas of trade reform including agriculture, services, and the digital trade, which would potentially bring about significant contributions to cross-border flows and global growth. The Fund should consider how it can support the process and identify ways to support affected communities.

In the same vein, persistent efforts are needed in other areas of multilateral cooperation. We call for more coordinated efforts to decrease tax avoidance and profit shifting by firms. In this regard, we welcome the Fund's role in the Platform on Tax Policy Cooperation and its openness to the views of various shareholders. To safeguard global financial stability, continued efforts are needed to strengthen resilience, clean-up balance sheets, and strengthen global safety nets to limit spillover effects from cross-border contagion, particularly in the context of elevated downside risks to the global economic outlook.

Our countries are particularly concerned about the withdrawal of **correspondent banking relationships** that limit some countries' access to international payment system—or effectively lead to "de-banking" and shift of some transactions outside the banking system. We, therefore, underscore the need for continued concerted efforts by the Fund and its members to address this, including through cross-border regulatory cooperation.

Cooperation is also essential to provide financial support to vulnerable and fragile states and to prevent the spread of epidemics to address the **ongoing refugee crisis**. With respect to the latter, we welcome the recognition that there is a case for instituting globally funded vehicles to help the exposed countries cope with stress, but a greater direct effort is needed by the Fund as was done in the case of addressing epidemics and as called for by the IMFC. We call on the Fund to provide financial relief by subsidizing charges related to Fund arrangement for neighboring countries shouldering a very large part of this burden.

Regarding the forthcoming **15th review quota discussion**, we expect that the outcome should not be to the benefit of dynamic EMDCs at the expense of other EMDCs.

We appreciate the Managing Director's efforts to improve diversity of Fund staff. However, our region remains under-represented and far below suggested benchmarks. We, therefore, look forward to concerted efforts to address this long-standing concern.