International Monetary and Financial Committee

Twenty-Seventh Meeting
April 20, 2013

Statement by The Honorable Sultan N. Al-Suwaidi, Governor of the Central Bank, of the United Arab Emirates

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

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On Behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syria, United Arab Emirates, and Yemen
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Although near-term risks have eased since our meetings in October and financial conditions have improved markedly, the global recovery is fragile and subject to downside risks. Global prospects are still hampered by the lack of clarity in advanced economies' policies where reliance has been primarily on short-term measures that do little to strengthen confidence in a durable way. The U.S. fiscal cliff has been avoided, but delayed agreement on a comprehensive medium-term fiscal consolidation plan with back-loaded measures dampens growth in 2013. A key concern in Europe is adjustment fatigue as the crisis extends in duration and scope with slow progress in moving toward economic and banking union, and more efforts are needed to address weak balance sheets and the weak monetary transmission and credit intermediation. In Japan, the introduction of new fiscal stimulus without a solid medium-term consolidation plan remains a concern. Given this environment, the Fund should continue to warn against the consequences of insufficient policy action to mitigate short and medium-term risks in advanced markets. Reduced tensions in global financial markets should not lead to complacency in pursuing reform efforts.

Most emerging market economies continue to be a source of stability and growth with little signs of overheating and are expected to return to pre-crisis growth levels with a receding risk of a hard landing. Some Low-Income Countries (LICs) are also undergoing sustained strong growth, reaping the gains from prudent macroeconomic policies and structural reforms. However, a large number of developing countries and LICs are adversely impacted by the double-dip recession in Europe and sluggish growth in the U.S. and Japan. Commodity exporters are at risk given the expected decline in most commodity prices in 2013. The Fund should continue to encourage emerging markets to rebuild policy buffers, keep inflation and credit growth under review, and monitor increasing reliance on foreign currency debt.

Middle East Region

Growth performance across the region is mixed with considerable risks to the outlook from continued regional tensions and difficulties in the global economy. High oil prices have positively impacted the performance of oil exporters, but these countries may need to adjust policies in response to lower global demand and anticipated decline in commodity prices. Ample buffers will help sustain high public spending to support non-oil GDP growth should oil prices drop sharply. Meanwhile, inflation is expected to remain subdued.

Several oil-importing countries are already undertaking adjustment measures, often involving domestic debate, to help rebuild policy buffers. The challenge of removing subsidies or restraining wage growth during a period of high social unrest should not be underestimated. For the countries affected by political unrest, the burden of rising debt and debt service obligations, and limited access to financing, has increased the urgency of public finance reform. However, pressing social expenditure priorities have emerged and countries may need to rely on short-term reversible measures during the transition. The primary challenge remains to secure economic and social stability and to restore investor confidence.

The Fund has stepped up its engagement in the region to help ease financing constraints and rebuild confidence. Fund support is needed to help many countries in the region avoid the medium-term challenges of high unemployment and sluggish growth. We welcome recent efforts to strengthen the analytical underpinnings of its advice, including on the social impact of subsidy and tax reforms. We encourage increasing the breadth and depth of this work. Fund-supported programs should demonstrate better understanding of the political economy constraints facing countries and pay due regard to domestic priorities. Adequate program access levels should also support the goal of restoring growth.

Governance and Quota Reform

We note that approval of the 2010 reforms including the *14th General Review of Quotas* now depends on the US approval of the Amendment on Reform of the Executive Board. We look forward to early approval to allow these reforms to become effective which would restore Fund reliance on quotas instead of bilateral borrowing agreements. It would also allow moving forward with the review of the quota formula and the *15th General Review of Quotas.* With respect to the latter, we reiterate our conviction that any outcome must not lead to further erosion in the quota share of EMDCs that are not considered to be dynamic, as was the case in the 14th General Review and 2008 Reform. We therefore continue to see a need to improve the current measurement of variables such as openness and variability to avoid the bias in favor of economic size, and also strongly support retaining reserves in the formula while not further increasing the weight of GDP.

Staff Diversity

Staff diversity is integral to the Fund's credibility with members. We take note of efforts by management to support recruitment and retention of under-represented groups. We urge continued efforts in this direction.