INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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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, 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, United Arab Emirates, and Yemen
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I. THE GLOBAL ECONOMY, THE MIDDLE EAST AND NORTH AFRICA (MENA) REGION, AND OUR CONSTITUENCY

1. **The 2022 Spring Meetings are taking place in an environment of unprecedented uncertainties**. The enduring pandemic and ongoing conflict in Ukraine are resulting in a rapidly worsening outlook for **the global economy**. Rising food, fuel, and commodity prices are compounding inflationary pressures and weighing on demand. At the same time, financial markets and capital flows have become more prone to volatility. Rising interest rates and record high global debt, combined with adverse spillovers from commodity markets, trade, financial channels, and tourism, could exacerbate vulnerabilities and potential risks of debt distress. These risks, together with additional challenges stemming from food shortages, remittances, and refugee flows, add to social pressures in many member countries, including some in our constituency.

2. Against this sobering background, we emphasize the importance of enhanced global cooperation to face the global challenges facing us today. Policymakers will need to strike a difficult balance between sustaining the recovery, stabilizing inflation, restoring fiscal and financial buffers, and protecting the most vulnerable, while maintaining medium-term credibility and sustainability. Attaining sustainable economic development is particularly important in emerging market and developing countries (EMDCs) and the MENA region, where job creation, more equal opportunities, financial inclusion, refugee and migration flows, economic diversification, digitalization, and a greener economy are pressing sustainability concerns.

3. **The MENA region** experienced a strong economic recovery in the second half of 2021, which brought output back to its pre-pandemic level in some countries. Nonetheless, economic performance has been uneven across the region because of differences in the severity and effects of the pandemic. Countries in the MENA region are highly exposed to global food prices, particularly the price of wheat, which is expected to remain high in 2022 and into 2023. Moreover, spillovers from tighter global financial conditions, reduced tourism, and secondary demand spillovers, for examples from Europe, will also hold back growth, especially for oil importers. For all exporters, higher hydrocarbon prices may provide some offsetting gains. As a result, after expanding considerably to 5.7 percent in 2021, real GDP growth in the MENA region is expected to slow down in 2022, as reflected in the IMF *World Economic Outlook* growth projections.

4. **In our constituency**, the rapid policy responses to the COVID-19 pandemic helped kick-start economic activity in 2021, although the Ukraine conflict is resulting in new challenges and vulnerabilities, particularly in our oil importers. The channels on the current account front are associated with exposure to wheat prices, increased energy prices in oil importers, as well as tourism in countries reliant on Russia and Ukraine tourism. On the capital account side, the concerns are short-term and relate to capital outflows. The fiscal and inflationary impacts of the Ukraine conflict will depend on individual countries' policy reactions. Similar to many others, policymakers in our constituency are now facing more difficult tradeoffs between sustaining the recovery, stabilizing inflation, restoring fiscal and financial buffers, and protecting the most vulnerable, while maintaining debt sustainability. In addition to the challenges facing fiscal policy space, which were compounded by the Ukraine conflict, several countries now face the added burden of diminishing monetary space, given high inflation.

5. In our oil-exporting countries, the rebound in oil prices is helping the recovery. It will also support fiscal and external accounts and result in positive confidence effects, supporting non-oil GDP. The fragile and conflict-affected countries, as well as small states, and countries hosting large refugee populations in our constituency are hard-hit by the ongoing COVID-19 shock and Ukraine conflict and will face daunting challenges, with deepening humanitarian concerns. Beyond the near-term, our member countries are keenly aware of the structural challenges facing their economies. We emphasize that the priorities for **long-term transformation** need to be tailored to each country, with appropriate sequencing.

6. The Middle East region will be hosting a series of **high-level international events** in the coming year. The Dubai Expo2020, the first global exposition to take place in the Middle East, which continued until end-March 2022, will also be followed by Qatar hosting The World Cup 2022 and the COP27 in Egypt by November 2022. COP27 will aim for an accelerated and ambitious climate finance agenda, with a focus on implementation the promises made during COP26, both at the global and regional levels. It will emphasize the urgent need to address simultaneously mitigation, adaptation, loss and damage, as well as technology transfer and finance. Moreover, COP27 will strive to deliver updated commitments that raise the ambition of fighting the challenges of climate change in a balanced way and will seek to translate the prior commitments into monitorable indicators and actual results. COP27 will also strive to enhance transparency through tracking of reliable data on finance for adaptation. We encourage the IMF to further strengthen its engagement and partnerships with the region in relation with the forthcoming high-level international events, such as collaboration in the future events of the World Government Summit and supporting the transition from COP27 to COP28, which will be hosted by the United Arab Emirates.

II. OUR EXPECTATIONS FOR THE IMF

1. We very much appreciate the responsiveness and flexibility of the IMF's Middle East and Central Asia and other departments to our region's needs. We welcome the Managing Director's **Global Policy Agenda** (GPA). In the context of current stress in the macroeconomic circumstances and outlook, we look forward to the IMF's real-time support to members through its tailored policy advice, timely and adequate financial support, as well as targeted capacity development in close and effective collaboration with international partners. We underscore the need for IMF work to focus on the following areas:

2. **Careful attention to vulnerabilities in EMDCs is needed**, as the continuing pandemic and ongoing conflict in Ukraine could result in balance of payment pressures in many of these countries at a time of rising interest rates and record high debt levels. **The spillovers** at the global, regional, and national levels need to be monitored and particular attention to higher food and energy prices, the main spillover channels for the MENA region and Sub-Saharan Africa, is warranted. Moreover, **monetary tightening** in advanced countries could have severe consequences for vulnerable EMDCs. This calls on major central banks to anticipate risks as they decide on their tightening cycle and to adopt clear guidance and communication of their monetary decisions. **On the fiscal front**, the IMF work could highlight the tradeoffs between raising subsidies and price caps for fuel, food, and fertilizer to mitigate the impact of higher food and energy imports, and the cost that this would create for the budget. **Financial spillovers** to emerging markets (EMs) also warrant attention as reduced business confidence and higher investor uncertainty resulting from the conflict will weigh on asset prices, tightening financial conditions and potentially prompting capital outflows. We invite IMF staff to provide tailored country-specific advice in the context of surveillance and program engagement on ways EMs can mitigate risk, including by reducing rollover risks where possible. We welcome the IMF's recognition that foreign exchange intervention may be warranted, and capital flow management measures may be used in the current difficult environment if disruptive outflows lead to crisis circumstances. Finally, the conflict in Ukraine has 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 over ten years ago. **We encourage IMF staff to carry out thorough analysis of the implications of refugee flows, including detailed assessments of the direct and indirect economic costs for hosting communities. This work would be instrumental to the effort to mobilize adequate and timely donor support**.

3. **IMF lending**. The focus on **Fragile and conflict-affected states** (FCS) in the IMF's work is appropriate as these countries are particularly vulnerable to rising food and oil prices. We welcome the ongoing work to customize financial support to FCS individual circumstances and to step up the partnerships with development institutions. We welcome the plan to reassess flexibility of the lending toolkit as part of the Low-Income Countries' Facilities Review and encourage further flexibility to accommodate FCS needs. We strongly support the recent decision to establish the **Resilience and Sustainability Trust** (RST), which is an important and innovative complement

to the IMF's existing lending toolkit and would support many low-income countries, small states, and middle- income countries. In addition to covering risks stemming from longer-term structural challenges related to climate change and pandemic preparedness, **the RST should help address other structural challenges; notably, food security, sustainable public finances, job creation, more equal opportunities, financial inclusion, refugee flows, economic diversification, and digitalization.**

4. **Debt Management**. Debt vulnerabilities are already high and are expected to increase particularly among many EMDCs, due to the impact of the pandemic mitigation measures and pre-existing vulnerabilities. The repercussions of the conflict in Ukraine are expected to adversely affect many EMDCs' fiscal positions. In particular, many FCS are either in debt distress or at high risk of debt distress. We, therefore, encourage IMF staff to prioritize work on debt. For developing countries facing debt challenges, we urge **private sector participation** to ensure the success of the G-20 Common Framework. We also support the Fund's work on the multi-pronged approach, including by supporting greater debt transparency and further developing the dialogue on debt restructuring. **We encourage the IMF to design and propose debt restructuring options for countries not covered under the Common Framework**.

5. **Sustainability** We remain of the view that **the IMF's work on climate change must be accelerated and shall fit within a broader Sustainable development framework**. This is particularly relevant in EMDCs in which job creation, more equal opportunities, financial inclusion, the digitalization of the economy, and shift toward low carbon economy are equally pressing sustainability concerns. The conflict in Ukraine has brought to the fore two pressing and critical interdependent risks, **energy, and food securities** and we would encourage the IMF to carry out careful analysis of their implications for the membership as well as ways to mitigate them. We would call the IMF to seriously look at means to create open, transparent, smooth food trade to enhance the resiliency of supply chains. With regards to energy security, while the conflict in Ukraine may incentivize countries to accelerate their transition to renewables in the medium to long term, fostering innovative and scientific based solutions need to be found in the short term. We also encourage the IMF in its work on climate change to prioritize climate adaptation and a smooth energy transition, which is essential for global energy security that demands hydrocarbon-exports and reliance on extractive industries. **We believe that the IMF must focus on a broad range of financial and macroeconomic measures in addition to carbon pricing in order to achieve an orderly transition to a low-emission economy that is also just for the most vulnerable, and mitigates the social cost of the transition**. In particular, as there is not yet a consensus on a regulated global carbon market with acceptable certification standards, there must be increased attention given to policies to accelerate and incentivize innovation and investment in green technologies in various sectors to create a low carbon growth path consistent with Paris targets.

6. **Digitalization**. Geopolitical developments may accelerate the adoption of digital money. Our member countries are making progress towards embracing digitalization, including in the

financial sector and in monetary arrangements. The IMF's work on strengthening coordination among central banks on central bank digital currency (CBDC) design and interoperability is useful. We encourage additional work on assessments of CBDC risks to financial stability and integrity. Adequate budgetary resources are needed if the IMF is to support the membership meaningfully in the area of digitalization.

7. **Human Resources and Diversity**. In the current environment, the IMF will need to again shift gears and provide our members with vital real-time crisis support. We have every confidence that **Fund staff** will rise to the occasion, again, and will enable the institution to respond to the membership's changing needs in a dedicated and effective manner. It is essential to ensure that Fund staff are adequately compensated for their efforts and that staff compensation be adjusted commensurately with the already high inflation rate and continued inflationary pressures. Building on recent progress in recruitment from **under-represented regions, notably the MENA region**, we call for continued management commitment to strengthen the recruitment and enhance the career progression and promotion of staff from under-represented regions, notably MENA.

8. **Adequacy of Fund resources and 16th General Review of Quotas**. Our Chair continues to support a strong and adequately resourced IMF at the center of the global financial safety net. The 16th General Quota Review provides an opportunity to ensure the primary role of quotas in IMF resources, to reduce reliance on borrowed resources, and to assess the adequacy of quotas to meet potential resource demands during the second half of this decade. The current environment is bringing more urgency to this call with many member countries likely to need financial assistance from the IMF. The principles underpinning the 2008 quota reform remain valid and should continue to underpin the quota formula review in the context of the 16th Review. The current quota formula works well as it continues to reflect dynamic developments in the world economy and could allow a meaningful realignment of quota shares. **We, therefore, support keeping the current quota formula unchanged under the 16th Review**. It is essential for the 16th Review to avoid an outcome in which shifts in quota shares to dynamic EMDCs are made largely at the expense of other EMDCs and shifts to large economies are made largely at the expense of smaller ones, as was the case in past quota reforms. This is critical to ensure the Fund's legitimacy and its efficiency.