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Statement by the Hon. **MOHAMMED BOUSSAID,**
Governor of the Bank for **MOROCCO,**
on Behalf of the Arab Governors

Joint Arab Group Speech

To be delivered by His Excellency

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On behalf of Arab Governors

At the Joint IMF and WBG Annual Meetings

October 2016

Mr. Chairman, Honorable Governors, Ladies and Gentlemen

1. It is with great pleasure that I deliver this year's Arab group address to the Joint Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG).

2. The global economic recovery remains weak, with slower growth in advanced economies (AEs) which continue to face weak demand, elevated debt, low productivity growth, unfavorable demographics, and protracted very low or negative inflation, with adverse impact on private savings and financial sector profitability and increased risks of deflation. The outlook for emerging market and developing countries (EMDCs), which continue to account for the bulk of world growth, is improving owing to receding short term risks, better access to financial markets, some recovery in commodity prices that will help exporters with manageable costs to importers, as well as efforts by many EMDCs to adjust to terms of trade shock and reduce vulnerabilities. These factors, together with the end of recessions in the two largest EMDCs, bode well for higher growth in the period ahead. The global economy also faces increasing risks from new sources, including heightened conflicts and related uncertainties and displacement of population, social tensions from increasing poverty and income inequality, and higher frequency and severity of natural disasters, including from climate change. More recently, while the short-term risk associated with the United Kingdom's referendum on leaving the European Union seems to have abated, the longer-term implications for the global economy remain uncertain.

3. These challenges call for coordinated actions to strengthen the recovery while preserving global macroeconomic and financial stability. We call on the IMF and the WBG to strengthen their efforts to promote global stability and sustained and inclusive growth for all countries. In this regard, we welcome the recent focus in the IMF on growth and its determinants, the links between public investment in infrastructure and social spending on the one hand, and growth and debt sustainability on the other, as well as on income and gender inequality. We support ongoing efforts to enhance effectiveness of multilateral surveillance and strengthen the global financial system by advancing the global regulatory agenda. We agree on the importance of strengthening the global safety net, in particular by ensuring adequacy of IMF and Multilateral Development Banks' resources to respond to members' needs and enhancing collaboration with regional financial arrangements. We call for further adaptation of the Fund's financing toolkit to face members' actual and potential needs, including from noneconomic shocks. We also call for continued efforts to ensure evenhanded treatment of members under Fund surveillance and in access to its resources, while taking full account of their particular circumstances and constraints. We welcome the Bretton Woods Institutions' (BWIs)' enhanced engagement with fragile and conflict-affected countries through capacity building to build resilience and by adapting their financing instruments to these countries' specific challenges and needs.

4. The BWIs should strengthen their efforts at helping members, in particular low income developing countries (LIDCs), achieve their growth and employment objectives, including the Sustainable Development Goals (SDGs), by preserving macroeconomic stability and fiscal and debt sustainability, enhancing domestic resource mobilization and spending efficiency, strengthening financial stability and developing capital markets, and improving the business

climate to attract private domestic as well as foreign investment. In this regard, we urge the IMF to strengthen its support to members' capacity to tap domestic and international capital markets, including through innovative financing instruments. The BWIs should also strengthen their advocacy role to mobilize donor support to LIDCs and help ensure timely delivery of committed official development assistance. Moreover, we encourage the IMF and the WBG to play a leading role in promoting international cooperation and information sharing to stem illicit financial flows, in particular from tax evasion and capital flight, while facilitating the recovery of illegally-acquired assets.

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5. Persistent weak global growth combined with an unfinished structural reform agenda renders the realization of the twin goals of the WBG of eliminating extreme poverty and boosting shared prosperity more urgent and more challenging. Policy responses should emphasize short-term resilience in addition to longer-term growth. Fiscal frameworks must be strengthened by boosting non-commodity sources of revenue and complemented by continued fiscal consolidation at a pace that minimizes impact on growth. The WBG needs to support ongoing efforts with institutional capacity building on both domestic resource mobilization and public financial management.

6. Against this background, the International Finance Corporation (IFC) needs to play an enhanced role to rebalance functioning, self-sustaining private sector markets through technical assistance and policy advice, and to crowd in investments and private capital to address constraints to economic growth, infrastructure gaps and high unemployment. For the IFC to promote greater private sector development, additional resources will be needed for its advisory services. Restoring investor confidence and attracting foreign direct investment will be needed for economic stabilization and growth, particularly for fragile and conflict-affected states (FCS) that are facing daunting challenges. In this regard, supporting the improvement of the business environment, strengthening skills, and expanding access to finance for small and medium-sized enterprises will be key for growth and job creation. We also welcome the discussions around the new Private Sector Window (PSW) under IDA, which could unlock significant opportunities to attract private finance to IDA countries in our region. With sufficient financing and effective implementation, this window has the potential to help these countries realize their development goals, by contributing to job creation and poverty reduction, therefore functioning as an element of stability and peace.

7. We take note of the efforts to review and update the World Bank Environmental and Social Framework (ESF). We appreciate that consultations, especially with borrowing countries, have been conducted to inform the updated ESF which includes: a risk-based and resource-efficient approach to environmental and social management; a focus on outcomes rather than on up-front compliance; greater emphasis on the use of borrower systems; increased capacity building assistance for clients; and a more transparent and comprehensive approach to assessing and managing environmental and social risks. The Bank will need to deliver the needed capacity building and technical assistance to client countries, while ensuring a balanced burden-sharing between the client country and the Bank.

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8. Low oil prices and persistent conflicts continue to have marked effects on our economies. Prudent policies in many oil-exporting countries, coupled with strong buffers and resilient financial systems, have helped maintain satisfactory macroeconomic performance, notwithstanding much lower fiscal and export revenues. We are committed to continue to consolidate our fiscal positions and implement growth-friendly reforms over the medium term to preserve fiscal sustainability and further diversify our economies.

9. Economic activity in oil-importing countries is strengthening, reflecting lower oil prices, less fiscal drag, and improved confidence owing to recent progress with stabilization and reforms, even though several countries are adversely affected by slow growth in Europe, unstable geopolitical environment, and large refugee inflows. Reforms of generalized energy subsidies in several countries, along with improved targeting and social safety nets to protect the vulnerable, have helped strengthen macroeconomic stability and improve resource allocation. We are committed to further fiscal consolidation through improved revenue mobilization and enhanced spending prioritization and efficiency to put public debt firmly on a sustainable path.

10. Furthermore, all countries in our region are firmly determined to continue to improve the business climate, increase efficiency in the delivery of education and health services, advance labor market and trade reforms, and strengthen and deepen financial systems to boost economic prospects, raise living standards, and create much-needed jobs.

11. We take this opportunity to reaffirm the Arab region's commitment to the global climate change agenda in accordance with our nationally determined contributions (NDCs). Our region is most impacted by global warming and is severely stressed by water shortage and desertification. It is befitting, therefore, that Morocco would be the proud host in November 2016 of COP22, the Marrakech Climate Change Conference, where issues relating to implementation of the Paris Agreement would be fleshed out, including features of NDCs and the modalities, procedures and guidelines for the enhanced transparency framework under the Agreement. The BWIs have a key role to play at the country and the global levels in helping members address climate change challenges, including through capacity building, extension and mobilization of adequate financial support, and by helping create fiscal space in member countries for meeting their NDCs.

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12. As the global community is moving toward full implementation of the SDGs by 2030, we welcome the BWIs's engagement and collaboration with UN agencies and other development partners to support our region in this endeavor, including through more innovative financing instruments. We also welcome their efforts to provide and leverage, in collaboration with other multilateral and bilateral institutions, additional resources to support the recovery and reconstruction of fragile, conflict-affected countries and countries in transition.

13. We recognize the efforts by the BWIs in supporting Arab countries in transition through analytical work, technical advice and financial support. We welcome continued IMF financial and

technical assistance to Jordan and Tunisia in support of their adjustment and reform programs and to meet their balance of payments needs, as well as the recent completion of discussions with Egypt on a multiyear reform program. We take positive note of the recent renewal of the Precautionary and Liquidity arrangement with Morocco, which provides a useful insurance against external shocks. We emphasize the need for continued constructive IMF engagement with these countries through appropriate and flexible financial support, based on the specific circumstances and needs of each country, which will be crucial for promoting sound policies, catalyzing official bilateral and multilateral support, and attracting private capital.

14. We thank the BWIs for their engagement with conflict countries in our region notwithstanding difficult circumstances. While the situation will remain fluid for these countries for a while, the BWIs should stand ready to provide immediate and significant financial support and step up their technical assistance once the situation stabilizes. Work at an early stage on assessing the damage resulting from conflicts, the reconstruction needs and the design of strategies for recovery and reconstruction could also be useful, while considering innovative financing instruments at concessional terms, including possible debt relief. We call on the BWIs to help mobilize international assistance to address the security, economic and social impacts of the refugee flows and meet the huge humanitarian needs countries like Jordan and Lebanon are facing. In this regard, we support the International Monetary and Financial Committee (IMFC)'s call on the IMF last April to be prepared to contribute to supporting refugee recipient countries within its mandate, including through global initiatives. We reiterate our call on the WBG to scale up engagement with Arab countries to help address these challenges using an optimal mix of financial and knowledge resources. Moreover, we strongly encourage continued technical work with conflict countries to help address new related challenges in the fiscal, monetary and exchange rate policy areas.

15. In this context, we welcome the differentiated approach adopted by the WBG in developing innovative and creative instruments to support countries dealing with fragility, conflicts and violence. The Middle East and North Africa Concessional Financing and Guarantee facilities will help Jordan and Lebanon cope with the impact of the Syrian refugee crisis while catalyzing support by other multilateral development banks. We also commend the paradigm shift the WBG is utilizing in supporting countries in conflict to preserve local institutions, deliver services, and prepare for post-conflict recovery. The WB engagement in Yemen to deliver an emergency support operation in partnership with the UN and bilateral donors is a demonstration of this paradigm shift, and needs to be sustained and scaled-up. We urge the WBG to ensure that it has sufficient human and financial resources to continue supporting countries in conflict.

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16. Reversing the high unemployment in our region requires higher investment but also stronger efforts at improving labor market policies and quality of education and training to better match skills with labor market demand. Addressing the low participation of women in the labor force

could also increase growth potential. We call for increased BWIs' support of our policies in these areas in close coordination with other international and regional organizations.

17. Better access to credit and increased financial deepening in our region can support stronger and more durable and inclusive growth and increase resilience to shocks. Deeper and more liquid domestic markets in particular can contribute to strengthening the role of the private sector in driving economic growth. In addition, as our countries advance their diversification agenda, a well-functioning government securities market can provide long-term resources to finance large infrastructure projects. We recognize the significant contribution of the BWIs in support of our efforts in this area in cooperation with our regional institutions, including by promoting Islamic finance and helping improve access to credit, and more generally, in enhancing the financial system's stability, resilience and deepening across our region through their advice, technical assistance, and available financial instruments. We see an important role for the IMF to help maintain access to financial services through CBRs, including by facilitating cooperation among country authorities, supervisors and standards setters, and the financial industry. The recent US-GCC dialogue on CBRs is welcome, and we look forward to the meeting with stakeholders on the sidelines of the Annual Meetings and to continued work by the IMF on the issue. We also appreciate the IMF's collaboration with the Arab Monetary Fund on a recent survey of the nature of the withdrawal of CBRs in the region.

18. We call on the BWIs to support our countries' efforts at strengthening their debt management frameworks through technical assistance, particularly for LICs and oil exporting countries faced with a lower oil price and rising deficits. It will also be essential to maintain flexibility in the joint WB/IMF DSA framework so as not to jeopardize the achievement of legitimate country development objectives. We call for urgent action to fast track Somalia and Sudan's access to debt relief under the HIPC Initiative to address the arrears issue and regularize their relations with creditors. We appreciate that under IDA 17, US$1.1 billion was set aside to assist qualifying member to clear debt arrears. We fully endorse maintaining this amount under IDA 18, and call on the WBG to help Sudan and Somalia access these resources for debt arrears clearance. We also call on the IMF to step up its efforts in this direction, including through proactive resource mobilization efforts.

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19. Meaningful progress toward enhancing EMDCs' voice and representation in the BWIs and improving governance is crucial for the credibility, legitimacy, and effectiveness of our institutions. We welcome the effectiveness of quota increases under the 14th General Quota Review and of the Seventh Amendment of the Fund Articles of Agreement on the Reform of the IMF Executive Board, and look forward to early completion of the 15th Review. However, it is important to ensure that the 15th Review and the related quota formula do not further dilute our countries' quotas as happened under the last review. While we support continued rebalancing of quotas in favor of dynamic EMDCs to reflect their growing role in the world economy, this should not be at the expense of other EMDCs. Consideration should also be given to voluntary financial contributions in allocating quota shares under the 15th Review, while ensuring that this should not

come at the expense of other EMDCs. It would be also crucial to protect the voice and representation of the poorest members of the IMF. Moreover, decisions on quota and governance reform should remain within the IMF governance bodies, with the role of groups such as the G-20 focused on helping build consensus among the membership.

20. We note the report to WB Governors on the dynamic formula and the two elements that underpin this proposed formula, namely economic weight and IDA contributions (historic and recent). We welcome the inclusion of a compression factor within the formula. Additionally, we would like to reiterate that while the formula is a key input, it should not be the final determinant of the outcome. Care should be taken to avoid large deviations from existing shareholdings and ensure that allocation rules support the principle of moving towards equitable voting power between developed and developing countries. We also need to take several factors into consideration in this process: first, the 2010 review's progress towards achieving equitable shareholding and parity should not be reversed but strengthened. In this regard, the resulting developing countries' shares should not be diluted, and we should avoid an outcome that merely re-allocates shareholding among developing countries. Second, protecting the smallest poor countries is key. Third, a smoothing mechanism is needed to make the results more generally acceptable to the membership.

21. In this context, we welcome the agreement on transparent share allocation rules which include: introducing a defined threshold to ensure only very limited dilution of individual countries, introducing principles-based forbearance, and increasing basic votes, with the impact of dilution on other developing and transition countries being neutralized through allocation of additional shares, as was done in 2010. The formula should be able to generate an improvement upon the existing shareholding, including in allocation of calculated shares between developed and developing countries.

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22. Let me finish by reiterating our long standing views on some common issues for the IMF and the WBG. Their support for the Palestinian National Authority is instrumental, not only in its own right, but also to catalyze assistance from the international community to help address a wide range of challenges and promote a sustainable Palestinian state in an increasingly difficult political, economic and fiscal environment. The Trust Fund for West Bank and Gaza has been a key source of funding for the Palestinian development agenda. However, the replenishment of this fund has been the same for over twenty years, making its value on a significantly declining trend in real terms and on a per capita basis. We reiterate our request for the World Bank to come up with creative ways to scale up the fund. In this context, we welcome that the Bank has issued a moratorium postponing the obligations of the Palestinian Authority to repay dues to IDA.

23. While welcoming the relative increase in the percentage of Arab nationals in professional staff of the IMF and the WBG, stronger efforts are still needed in this area. Our region remains the most underrepresented one in the IMF staff, calling for continued strong commitment and engagement by management and an improved accountability and incentive structure to achieve the agreed

benchmarks. More progress is also needed in addressing shortcomings in Arab staff promotion and recruitment for high level positions in both institutions.

24. We welcome the high-quality cooperation between the BWIs and our regional financial institutions through a number of joint seminars addressing key issues of common interest. We appreciate the high level participation of the BWIs in various regional Arab meetings, as well as the high quality training and technical assistance provided by the IMF to our countries from headquarters and through METAC, and look forward to continued cooperation and enhanced partnership between our institutions. Moreover, we call upon the BWIs to promote the ArabStat initiative in a way that enhances availability of quality statistics and related economic data of our economies.

25. We once again call upon the International Monetary Fund (IMF) and the World Bank to include references to Arab countries as a group (and not only as a part of the Middle East and North Africa region "MENA") in their reports and statistics to help pinpoint the relevant indicators and statistics pertaining to our countries.