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**Statement by Mr. Rashkovan and Ms. Volociuc on United Arab Emirates
(Preliminary)
Executive Board Meeting
January 25, 2023**

We thank staff for the well-written set of papers and Mr. Mohieldin, Mr. Alhosani, and Ms. Al-Riffai for their insightful Buff statement. We commend the authorities for their swift and effective response to the pandemic, which contributed to preserving robust growth, saving lives, and supporting livelihoods. These actions benefitted from strong buffers and previous reforms which underpinned the economy and strengthened social stability. While near-term economic growth is expected to be supported by strong domestic economic activity reinforced by robust fiscal and external positions, longer-term growth should center on the implementation of the reforms and smooth energy transition. **We broadly concur with the thrust of the staff appraisal** and offer the following points for emphasis.

The authorities' focus on buttressing medium and long-term fiscal sustainability is praiseworthy. The robust growth and elevated oil prices helped preserve fiscal surpluses, which are estimated to be upheld over the medium-term on the back of strong domestic revenue mobilization efforts including the planned introduction of a CIT. However, global uncertainties driven by, *inter alia*, spillovers from weaker global growth and tighter financial conditions along with the need to sustain the decarbonization actions require a prudent strategy in managing fiscal revenues. This approach should be complemented by measures to enhance fiscal buffers to ensure medium and long-term sustainability.

The financial stability should be safeguarded. While the banks are resilient, adequately capitalized, and liquid to absorb potential shocks, the authorities should stay vigilant as financial vulnerabilities are prone to increase given the bleak global outlook. Hence, the stress testing of banks should be carried out regularly, in tandem with developing strategies to address potential risks, including the NPLs legacy, and strengthen the banks' balance sheets. We see scope for reinforcing the regulation and supervision of banks and insurance sector, including the Resolution and Recovery Framework. We welcome the authorities' plan to launch a new Instant Payment Platform, as indicated in the Buff, which will facilitate real-time payments and fund transfers. We positively note that the authorities managed to tackle important deficiencies identified by the FATF in 2021. We encourage

them to further strengthen the AML/CFT framework and address the outstanding issues to successfully exit the FATF enhanced monitoring and mitigate the risks stemming from large financial inflow as a result of Russia's war in Ukraine.

Considering the economy's exposure to climate risks, the ongoing climate initiatives are commendable and should continue. While the UAE remains heavily reliant on hydrocarbon activity as a source of income and economic growth, we welcome the authorities' announcement of the new structural reforms and green investments to support their ambitious climate objectives, achieving net zero emissions by 2050, and diversifying the economy away from fossil fuels. *Can staff elaborate on the authorities' strategy to implement this ambitious plan given the estimated large costs and the urgency for implementation?* We share staff's view on the importance to enhance forward-looking policies to respond to the risks and challenges that could arise from global decarbonization efforts.

The implementation of structural reforms should be accelerated. The authorities' reforms agenda should be centered around ensuring the UAE's robustness against the current global headwinds and long-term vulnerabilities from global risks. Concurrently, the authorities should explore additional areas of potential growth, including further liberalization of trade, and enhancing ICT investments which will be essential in boosting access to better goods and technology to sustain long-term growth. To this end, we underscore the importance of enhancing competitiveness and the business setting to improve the FDI environment and close the gap compared with OECD countries and peers. The efforts towards achieving more sustainable and inclusive growth should be accompanied by additional reforms, such as enhancing labor market participation and improving the education and training system to raise human capital and innovation.