



Office Memorandum

To: Members of the Executive Board

October 19, 2012

From: The Secretary

Subject: **The Managing Director's Report to the Executive Board on the GCC Ministers and Governors' Meeting, Riyadh, Saudi Arabia, October 6, 2012**

Attached for the **information** of Executive Directors is the Managing Director's report to the Executive Board on the GCC Ministers and Governors' Meeting, Riyadh, Saudi Arabia, October 6, 2012.

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**THE MANAGING DIRECTOR'S REPORT TO THE EXECUTIVE BOARD ON THE
GCC MINISTERS AND GOVERNORS' MEETING, RIYADH, SAUDI ARABIA
OCTOBER 6, 2012**

On October 6, 2012, I participated in Riyadh in the Gulf Cooperation Council (GCC) Joint Meeting of the Committee of Financial and Economic Cooperation and the Committee of Governors of Central Banks.¹ I would like to thank the Saudi authorities and the GCC Secretariat for their warm welcome and hospitality as well as all ministers and governors of the GCC countries for fruitful discussions.

In my intervention, I updated GCC ministers and governors on **the state of the global economy and the outlook for the MENA region**. I noted that the region was another focal point for the global economy. The transition process in many countries continued to be fragile, making policy decisions difficult. At the same time, the tragic conflict in Syria has continued to intensify, with devastating consequences for the Syrian population and spillovers to other countries in the region, including the costs related to the influx of refugees. I noted that we expected another challenging year ahead for the region, especially for Arab Countries in Transition (ACTs). External factors—the global slowdown and the recent jump in global food prices—were conspiring to make the outlook for these countries even more demanding.

I noted that populations in these countries looked forward to a prosperous and more inclusive future, but expectations may run ahead of delivery. International and regional partners will need to help these countries through their transitions. Financial assistance will be important and the GCC was playing a crucial role—the GCC countries have disbursed about \$7.1 billion, almost half of all official financing for the transition countries since the start of 2011. I also urged a broader kind of external support, including FDI and market access.

As regards the GCC countries, I noted the important role that the GCC countries played in helping stabilize global oil markets, particularly the increase in GCC oil production in response to supply disruptions. I also noted that the GCC economies were indeed in a strong position to face a worsening in global economic and financial conditions. That said, it was preferable to take preemptive steps. Policy actions in three key areas would help boost the resilience of the GCC economies. Namely, the GCC countries could still strengthen fiscal policy by carefully controlling elements of spending that are hard to reverse, continue to strengthen their financial systems to ensure resilience, increase participation of women in the labor force, and focus on education and training to boost job creation for nationals.

On GCC-IMF collaboration, I highlighted the importance of working together to help the ACTs achieve their goals, both through monitoring program implementation and helping inform decisions about financing. I also highlighted our work together to provide high quality training and technical assistance, including the recent conference in Doha on developing debt markets in the GCC that we jointly held with the Qatari authorities, and the successful

¹ The GCC countries include Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates.

establishment of the IMF Center for Economics and Finance in Kuwait City with the generous contribution of the Kuwaiti government. I added that we hoped to be able to continue to count on the GCC countries for our technical assistance funds and to ensure that the IMF has sufficient resources to fulfill its mandate—Saudi Arabia pledged \$15 billion earlier this year to help boost the IMF’s lending capacity and enable us to meet the needs of our global membership.

GCC officials noted that growth in **GCC countries** was strong, reflecting the positive impact of high oil prices and of expansionary fiscal policies. While they acknowledged that countries may need to adjust policies in response to a significant decline in oil prices, they believed that the risk of a sustained decline in oil prices was low. They emphasized that the region has made an effort to increase women participation in the labor force and that progress was being made. They stressed that the banking systems remain highly capitalized, liquid, and profitable and that an early adoption of strong banking regulation, before the onset of the financial crisis, had allowed the banking sector to exhibit strong resilience to shocks. GCC officials stressed that they will continue the development of financial policies and regulations with the objective to strengthen financial stability, further develop the financial sector, and support small and medium sized enterprises. They would welcome IMF support in further developing their financial infrastructure.

With regard to developments in the **ACTs**, GCC officials stressed that reform efforts needed the full support of the international financial community. They appreciated that the IMF was strengthening its role and contribution in the promotion of sound policies and inclusive growth strategies of countries, and in reinforcing the technical capacity of many of the national institutions and their staff. They noted that countries will need time to design and implement reforms. In this regard, IMF-supported programs should demonstrate an understanding of the political economy constraints facing countries and pay due regard to domestic priorities. GCC officials suggested that the IMF further strengthen its analytical work in areas relevant for the region, including on the challenge of high unemployment and the social impact of subsidy reform.

GCC officials emphasized that the review of the **quota** formula and general quota increases should not lead to further erosion in the quota share of those emerging markets and developing countries that are not considered to be dynamic, and that there should be no further deterioration of the quota and voting shares of many countries in their region.

GCC officials welcomed efforts to move toward a more evenhanded and effective surveillance practice and expected that the new **Integrated Surveillance Decision** would significantly improve the practice of both bilateral and multilateral surveillance.

Finally, GCC officials thanked IMF management for its efforts to promote **staff diversity** at all levels of the IMF and noted in particular the progress that has been made to increase representation of Arab nationals in management positions. They urged to continue further recruitment and retention efforts for Arab nationals at all staff levels.