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Minutes of Executive Board Meeting 20/4-2

9:39 a.m., January 13, 2020

2. United Arab Emirates—2019 Article IV Consultation

Documents: SM/19/291, and Cor. 1, and Sup. 1

Staff: Mathai, MCD; Rajah, LEG; Fletcher, SPR

Length: 1 hour and 25 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	**Alternate Executive Directors**
	I. Mannathoko (AE)
M. Raghani (AF)	
	J. Di Tata (AG)
N. Ray (AP)	
	P. Fachada (BR)
Z. Jin (CC)	
	A. Guerra (CE)
L. Levonian (CO)	
	L. Marek (EC), Temporary
	P. Rozan (FF)
	K. Merk (GR)
	P. Dhillon (IN), Temporary
D. Fanizza (IT)	
	H. Mori (JA), Temporary
J. Mojarrad (MD)	
H. Beblawi (MI)	
	T. Manchev (NE), Temporary
	S. Evjen (NO), Temporary
	A. Tolstikov (RU), Temporary
M. Mouminah (SA)	
	M. Anwar (ST), Temporary
P. Inderbinen (SZ)	
S. Riach (UK)	
	P. Pollard (US), Temporary

H. Al-Atrash, Acting Secretary
J. Morco, Summing Up Officer
B. Zhao, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
European Central Bank: R. Rueffer. Legal Department: K. Christopherson Puh, K. Kao, E. Mathias, T. Rajah. Middle East and Central Asia Department: A. Arvanitis, J. Azour, N. Ben Ltaifa, A. Bibolov, H. Bukhari, T. Callen, K. Mathai, T. Mirzoev, S. Roudet. Strategy, Policy, and Review Department: K. Fletcher. Executive Director: A. Bevilaqua (BR), A. Mahasandana (ST), A. Mozhin (RU), M. Rosen (US), T. Tanaka (JA), P. Trabinski

(SZ), R. von Kleist (GR). Alternate Executive Director: R. Alkhareif (SA), K. Chikada (JA), A. De Lannoy (NE), M. El Qorchi (MD), D. Ronicle (UK), B. Saraiva (BR). Senior Advisors to Executive Directors: W. Abdelati (MI), K. Badsi (MD), M. Choueiri (MI), M. Gilliot (FF), B. Jappah (AE), S. Keshava (SA), C. Sassanpour (MD), J. Weil (CO). Advisors to Executive Directors: M. Albert (FF), D. Andreicut (UK), A. Arevalo Arroyo (CE), S. Belhaj (MD), E. Cartagena Guardado (CE), T. Chrimes (UK), A. Korinthios (IT), A. Maciá (BR), A. Olhaye (AF), J. Yoo (AP), Y. Zhao (CC), E. Comolet (FF).

2. UNITED ARAB EMIRATES—2019 ARTICLE IV CONSULTATION

Mr. Beblawi and Ms. Fadhel submitted the following statement:

The United Arab Emirates (UAE) authorities thank staff for their report and policy discussions during the Article IV mission.

Economic Developments and Outlook

Economic activity continues to recover and is expected to gain more momentum this year, supported by Expo 2020 spending and the ongoing fiscal stimulus. The outlook remains positive with the non-oil sector expected to drive growth in 2020. Inflation will return gradually to 2 percent, as the VAT base effect dissipates and demand continues to pick up. Employment and credit growth to the private sector are increasing and tourist arrivals are picking up. External competitiveness is improving, and the current account surplus estimated to widen to 10 percent of GDP in 2019. The current fixed exchange rate regime continues to serve the economy well, providing the needed stability to pursue further economic diversification, helped by flexible wages and prices.

The authorities expect higher growth, than estimated by staff, on the basis of the expected increase in investment and the expansion in tourism and real estate. Also, the energy sector's growth is expected to be reinforced by the new production of gas coming on stream. The sound economic fundamentals of the UAE have supported the country's competitiveness rankings and are expected to minimize the effect of geopolitical tensions and to help sustain capital inflows. The low cost of oil production in the UAE will facilitate the continued expansion of oil production in the future, despite technological changes in the industry, while the high quality of its oil reduces the associated environmental cost. Plans to invest in downstream industries will contribute to higher extraction from the hydrocarbon value chain.

Fiscal Policy

The government registered a surplus of 1.6 percent of GDP in 2018, as a result of the increase in non-oil revenues, more prudent spending, and relatively higher oil prices. However, a fiscal deficit of 2.3 percent of GDP emerged in 2019, as fiscal policy was expansionary, driven by the fiscal stimulus related to Abu Dhabi and Expo 2020 spending in Dubai, and as VAT and excise tax revenues—which boosted revenues in 2018—declined.[1] The authorities plan to maintain a slightly expansionary stance in the short term given current cyclical conditions. They estimate fiscal multipliers to be larger than those assumed by staff and emphasize the importance of continued fiscal support to stimulate the economy and further diversify it for the post-oil era. Over the medium term, a gradually increasing fiscal surplus is expected with the withdrawal of the Expo 2020- and stimulus-related spending. The authorities plan to continue to improve the efficiency of spending and rationalize government fees.

Staff's recommendations regarding the development of fiscal frameworks were thoroughly evaluated by the authorities. However, the UAE's highly decentralized political structure and the distinct issues faced by each emirate—which require careful calibration of the emirate-specific fiscal frameworks while addressing the diversification needs of the economy—makes it difficult to establish a federal fiscal council. The authorities note that the Fiscal Policy Coordination Council continues to play an effective role in coordinating government spending plans and sharing data across the seven emirates. They emphasized the practicality of having independent fiscal frameworks that are well-coordinated across the seven emirates. In this regard, Abu Dhabi is currently developing its new fiscal framework. Moreover, the sovereign wealth funds of some emirates have helped cushion the economy against external shocks, while supporting intergenerational saving.

Monetary and Financial Sector Developments

The UAE's financial sector remains sound. Banks are profitable and well capitalized, with a capital adequacy ratio of 17.7 percent in 2019Q3, well above the minimum requirement. The slight rise in NPLs, to 6.4 percent in 2019Q3 from 5.6 percent at end-2018, was partly the result of the redefinition of system-wide NPL ratio[2] together with the slowdown in the non-oil economy and declining real estate prices. There has been notable progress with the implementation of IFSR 9 standards, as well as with digitalization and fintech plans.

The Central Bank of UAE (CBUAE) continues to review and update existing regulations to strengthen the prudential framework in line with the

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[1] The total VAT revenues, collected by the newly established Federal Tax Authority, amounted to 1.8 percent of GDP in 2018, exceeding the government's early projections.

[2] The system-wide redefinition implied the elimination of interest in suspense and was conducted in coordination with the IMF.

requirements of Basel III. The stress testing framework has been further enhanced and a regulatory enforcement unit within the CBUAE has been created. Work on developing a new consumer financial protection law and regulatory framework on real estate lending is progressing well, while a new fintech office to implement the fintech strategy and its roadmap will soon be launched by the CBUAE.

The authorities continue to develop their legislative and legal framework to ensure compliance with international standards on AML/CFT. In this regard, FATF has recently conducted a Mutual Evaluation visit to the UAE with the complete evaluation report expected to be published later this year. Prior to the FATF evaluation, a federal decree-law was issued in October 2018 on AML/CFT, known as the 'new AML law' which sets the country's AML/CFT regulations in line with the FATF's provisions and recommendations. One of the main features of the new AML law is the establishment of an independent financial intelligence unit (FIU) at the CBUAE to help receive, analyze and investigate suspicious transaction reports, and strengthen AML/CFT oversight. Moreover, a committee chaired by the Ministry of Finance was established recently to address any potential gaps remaining in the AML/CFT framework. The CBUAE has published its first UAE National Risk Assessment report which aims to assess ML/FT threats, sectoral and national vulnerabilities, and increase the awareness of financial institutions on these issues.

The authorities continue their efforts to deepen the domestic financial market. They intend to proceed with plans to operationalize the recently approved federal debt law through issuing domestic debt of longer maturities, in addition to the short-maturity certificates of deposit issued by the CBUAE. These steps will help develop a benchmark yield curve in dirham denomination and further the development of the local debt market.

To help balance property supply and demand in Dubai, a higher committee comprising major property developers was formed in the emirate, while Abu Dhabi designated areas for freehold ownership of real estate. Moreover, the CBUAE is working on a draft regulation that could allow banks to increase their exposure to the real estate sector beyond the current ceiling of 20 percent, while aligning risk weights to exposure. The objective of the regulation is to establish a prudential regulation for measurement, monitoring, and limitation of real estate exposure of the banking sector and related supervisory oversight with a view to ensuring the soundness and the stability of the financial system.

Structural Reforms

The UAE is pressing ahead with its diversification and structural reform agenda. This agenda comprises a wide range of policy measures that have been taken to help promote economic growth and improve the business environment, including the development of the SME sector and further upgrade of the regulatory framework. The authorities appreciate staff's recommendations to support SMEs and note that many of these reforms have been implemented or are underway. The SME law, introduced in 2014, has laid the grounds for developing a national SME program and establishing an SME council that coordinates policies across different agencies and provides a unified definition for SMEs. More recently, a high-level coordination committee and an SME working group were created in 2018 to coordinate SMEs support. The coordination committee comprises representatives from the CBUAE, Ministry of Economy, Ministry of Youth, and Ministry of Justice, as well as the UAE Banking Federation, the Emirates Development Bank, the Etihad Credit Bureau and SME Development Funds (Khalifa Fund and SME Dubai). The Committee is working on a national strategy to mobilize additional financing to SMEs and enhance the ecosystem through a set of priorities to ensure simultaneous progress on required reforms.

Following the permanent residency visa system that was announced in 2018, the authorities noted that they have begun to review applications for long-term visas. Under the first round of applications, around 6,800 people were granted permanent residency and gold card status.[3] In order to support the tourism sector, the UAE recently introduced a five-year multi-entry tourist visa in addition to the existing 30- and 90-days visas.

Finally, Abu Dhabi continues the implementation of its Accelerated Development Program ("Ghadan 21" or "Tomorrow' 21"), a Dh50 billion stimulus package that includes 300 initiatives aimed at making Abu Dhabi one of the most livable cities in the world by 2021, through bolstering its competitiveness in four areas: business and investment, society, knowledge and innovation, and livability. The program includes initiatives to help support the SMEs sector through energy discounts, easier access to bank loans, and a new Dh4 billion research and development fund. Relatedly, a new licensing regime designed to attract developers of new technologies have been introduced. Under an agreement with a commercial bank, the government will guarantee up to 75 percent of bank loans to SMEs to help encourage lending

[3] Gold card status refers to long-term residency visas that allows foreign investors and talent to live, work, and study in the UAE without a sponsor. These visas can be issued for five- or ten-year duration and are renewable.

to this sector. There are also plans for further Public Private Partnerships in infrastructure under "Ghadan 21".

Ms. Levonian and Mr. Weil submitted the following statement:

We thank staff for the insightful report and Mr. Beblawi and Ms. Fadhel for their Buff statement in which they emphasized the sound economic fundamentals of the UAE. We support staff's perspective that even as a low-cost oil producer the UAE should be focused on economic diversification and strengthening public finances given the expected path of global oil demand.

The UAE's fiscal framework should ensure sufficient savings given the global transition to a low-carbon economy. The current more accommodative fiscal stance is appropriate to support economic activity during the cyclical slowdown, but projected long-term oil dynamics call for a more sustainable fiscal framework that achieves macroeconomic stabilization, intergenerational equity, and promotes continued development of the non-oil economy. The current fiscal framework is not generating sufficient savings to meet those objectives. We support staff's perspective on a revised fiscal framework which targets a non-oil primary deficit at the permanent income hypothesis benchmark, includes flexibility for short-term stabilization, and is supported by improved fiscal policy coordination. Staff's proposal also calls for an independent fiscal council and a jointly financed stabilization fund, which could imply reforms to fiscal federalism. To maximize the traction of its recommendations, the Fund should advise the authorities on reforms to strengthen public finances that are consistent with the UAE's model of federalism and balance emirate-specific considerations. Perhaps fiscal framework enhancements can begin in Abu Dhabi, which holds the vast majority of oil reserves. It is also important for the UAE to improve fiscal policy coordination across all levels of government. Staff provided concrete advice in this area in the 2018 AIV Consultation and we would welcome an update on implementation.

The authorities should continue improving the business environment. There are certain structural changes that could improve upon an already favorable business environment to further support the development of the non-oil economy. Rebalancing wages paid by the public relative to the private sector, rightsizing the footprint of SOEs in the economy, introducing standardized financial reporting, and reconsidering the treatment of loan default as a criminal offense would all contribute to a more dynamic private sector. In principle we support staff's recommendation for the creation of a centralized SME promotion agency, but we also recognize that it may not align with the UEA's model of federalism. In 2018 the authorities announced a wide-ranging set of structural reforms aimed at improving the business environment by reducing fees, streamlining business licensing requirements, improving business promotion, and increasing foreign investment and residency visas. In 2018 the authorities also adopted the Equal Pay and Gender Equality Law requiring equal wage and nonwage benefits to be accorded to male and female employees. What is the status of the implementation of these reforms?

Safeguarding financial integrity will help preserve financial stability. We encourage the authorities to continue mitigating the risks associated with illicit financial flows and enhance the AML/CFT framework outside of the financial sector.

We encourage the authorities to consent to the publication of the AIV Staff Report as they have in the past.

Mr. Just and Mr. Marek submitted the following statement:

We thank staff for their report and Mr. Beblawi and Ms. Fadhel for their insightful Buff statement. Amid the global technological transition and expected decrease in oil demand, the United Arab Emirates (U.A.E) should strengthen their fiscal management and implement reforms supportive of economic diversification, including through private sector development. We broadly share the thrust of the staff appraisal and urge the authorities to implement in particular the suggested fiscal reforms.

The fiscal framework needs to be strengthened to create buffers for economic shocks, a transition to a low-carbon economy and to ensure intergenerational equity. We are concerned by the high non-oil primary deficits averaging 30 percent over 2007-17, which suggests that non-oil revenues have not been sufficient to cover current public expenditures. We encourage the authorities to consider enhancing the fiscal framework through a long-term fiscal anchor and a short-term stabilization function. We note that the government debt limit should be made more binding and rules-based to reduce bias towards short-term fiscal planning. On the fiscal stabilization regime, targeting the non-oil primary deficits would allow to adjust fiscal expenditures according to fluctuations in oil revenues and provide an efficient tool for smoothing cyclical economic adjustments.

Fiscal debt management needs to be improved to contain long-term risks and contingent liabilities. While we take positive note of the broadly sustainable level of gross debt of 36 percent of GDP, current fiscal expansion should be assessed against the available fiscal space and contingent liabilities. We stress that the augmented role of state-owned non-bank government-related entities (GRE) could pose a substantial fiscal risk in case of financial market volatility and increased refinancing needs. While we note that the U.A.E. have a highly decentralized structure, the authorities should explore a possible role and modalities of an independent technocratic fiscal council, which could be instrumental in achieving a stable long-term fiscal strategy.

The financial sector should be monitored amid the real-estate sector developments and the regulatory framework needs to be enhanced to address current risks. We commend the authorities for the recent improvements in strengthening the regulatory and supervisory frameworks and note that the banking sector has been profitable and well capitalized. While the credit conditions have eased, credit growth has fallen below trend, which could weigh on banks' profitability. In addition, a decline in the real-estate sector and the slight rise in the NPLs pose risks for financial sector stability and require prudential tools to be active. We concur that while the traditional hawalas should be brought within the scope of financial regulation including through the licensing requirements, the AML/CFT framework also needs to be enhanced for the non-financial sector. We welcome the authorities' intention to develop capital markets through issuance of government securities.

Private sector development and modernization of the labor market are paramount for economic diversification. Support for SMEs is critical to diversify the economy and create employment opportunities outside the public sector. We welcome that a high-level coordination committee and an SME working group were created in 2018 to coordinate SMEs support. In addition, the authorities should consider setting up a single SME promotion agency to streamline the support to SMEs at the federal level, avoid confusion among market participants and achieve more efficient use of resources. It is critical to create an environment more conducive for SMEs, in particular through bringing the GREs within the scope of competition laws and adjusting the wage differentials in the public and private sectors.

Mr. Doornbosch and Mr. Manchev submitted the following statement:

We thank staff for the well-focused report and Mr. Beblawi and Ms. Fadhel for their informative Buff statement. The oil-rich UAE has strong fundamentals following the authorities' reforms and investment in support to the economic diversification. The recent global and regional developments, however, substantially challenge sustaining the robust growth after Expo 2020 and preserving the high-wealth-living standard in the long-run. Against this background, staff rightly focused their discussions with the authorities on accelerating economic diversification and strengthening sustainability of the public finances to fortify competitiveness under the fixed exchange rate regime and peg to the US dollar. In this regard, we find Annex IV on developing small and medium enterprises very useful in addition to the authorities' vison of a knowledge-based economy and efforts to build strong human capital. We generally agree with the trust of the staff's appraisal and would only like to highlight the following two points for emphasis.

The public financial management framework should be further strengthened. A transparent rules-based fiscal framework, guided by a well determined long-term fiscal anchor, should help the authorities to better navigate the needed public finance consolidation in the challenging environment given that the current high non-oil primary budget deficit in absolute and relative terms is not explained by the cyclical position of the economy. We note the authorities' concerns on staff's calculations and analytical methods regarding public finance sustainability and welcome their efforts to improve spending efficiencies. Uncertain prospects for the global oil prices and respectively for the UAEs' fiscal revenues, however, also require speedier structural reforms to offset these effects and thus narrow volatility in the non-oil business cycle to sustain growth. While we highly value the UAE's long-standing experience in fiscal decentralization, the new global patterns point toward a greater role of centralization to cope with the challenges and simultaneously achieve an economy of scale and strong fiscal governance.

Further strengthening of the financial sector and financial deepening are essential for the private sector development and sustainable inclusive growth. We welcome the authorities' recent progress with enhancing the regulatory and supervisory framework, including of the improvements in the AML/CFT framework. Steps to operationalize these frameworks and broaden their application to non-banks and fast-developing fintech sector should expeditiously follow. We are also encouraged by the authorities' plan to further deepen the domestic financial markets through issuing domestic debt with longer maturity, shorten maturity of the central bank certificates of deposit and thus build a benchmark yield curve. The plan should be accompanied by a broad-based strategy to reinforce corporate governance and risk management in the financial sector to mitigate risk of suspicious transactions.

Finally, we welcome the authorities' efforts to strengthen statistics and ongoing Fund TA.

Mr. Guerra and Ms. Arevalo Arroyo submitted the following statement:

We thank Staff for the comprehensive report and Mr. Beblawi and Ms. Fadhel for their informative Buff statement. While adjusting to a lower oil-price context and weaker growth performance, the United Arab Emirates has managed to continue the remarkable diversification of its economy into other sectors. This new environment warrants a fiscal framework that balances a sustainable fiscal stance with appropriate oil savings for the future generations. Going forward, diversification efforts should continue to enhance potential non-oil growth and to ensure it is robust. Moreover, to boost their regional and overall competitiveness, the authorities should focus on strengthening the financial sector and the implementation of a structural reform agenda that allows to remove obstacles to private-sector development. We broadly concur with the staff's assessment and highlight the following topics for emphasis.

We commend the authorities for their progress on fiscal coordination and commitment to gradually increase the fiscal surplus over the medium-term. As reported in the Buff statement, the authorities are also committed to improve efficiency on spending and rationalizing government fees. Given the volatility related to fiscal revenues from the oil sector, developing fiscal frameworks carefully calibrated to the specific needs and issues faced by each emirate will be important. In addition, enhancing coordination among the emirates will be crucial to strengthen management of fiscal risks, in particular quasi-fiscal liabilities.

The financial sector can play an instrumental role in supporting the continued diversification of the economy to non-oil activities. The authorities have been very active in enhancing the regulatory and supervisory frameworks. Nevertheless, we concur with the staff assessment that the prolonged decline in real state prices is a risk for the banking sector that requires continuous attention. In this regard, we welcome progress on a new regulatory framework for real state lending. We thank staff for the analysis on developing SMEs. Given the low level of bank credit to SMEs, can staff elaborate on the role that the Fintech sector can play on supporting SMEs development? Can staff also comment on the main elements of the national strategy to mobilize additional financing for SMEs?

Authorities' efforts to deepen the domestic financial system are steps in the right direction. The operationalization of the new federal debt law will be reflected in the development of a benchmark yield curve in dirham denomination. We welcome the recently published UAE National Risk Assessment Report that analyze AML/FT threats. Finally, we also welcome the planned FSAP, potentially a useful instrument to support the authorities' roadmap for enhancing and developing deeper financial markets.

We wish the authorities success in their future endeavors.

Mr. Ostros and Mr. Evjen submitted the following statement:

We thank staff for the good report and Mr. Beblawi and Ms. Fadhel for their informative Buff statement. The UAE economy has continued to adjust to the new lower oil-price environment. Non-oil growth has slowed significantly over the past five years, business sentiment has weakened, and real estate prices have declined substantially. On a positive note, competitiveness has begun to improve, and the UAE has achieved success in diversifying into trade and logistics, tourism, real estate, and finance. However, increasing regional and global competition and geopolitical changes may also call for additional growth drivers. We broadly support staff's assessment and would like to add the following comments for emphasis.

Fiscal consolidation is key to strengthening fiscal sustainability and ensuring intergenerational equity. We strongly agree with staff that a transparent, rules-based fiscal framework would help ensure a sustained fiscal consolidation and preserve resource wealth for future generations. To this end, we encourage the authorities to look to international experience as discussed in Annex V of the report. Experiences with fiscal frameworks in other resource-rich economies could provide useful lessons. We also encourage the authorities to consider establishing an independent fiscal council to facilitate fiscal coordination between the different emirates to help ensure coherent policymaking for the nation as a whole. Moreover, decoupling government spending from large fluctuations in oil revenues is important to foster macroeconomic stability and longer-term growth. Lastly, we agree with staff that the fiscal framework should allow for short-term macroeconomic stabilization. Targeting a cyclically adjusted non-oil primary deficit is one possible avenue to consider.

We note positively the progress achieved by the UAE in SME development and encourage the authorities to continue their efforts to further diversify the economy. Long-term global oil market prospects may imply challenges for the UAE, particularly in the context of pressures on future oil demand from climate change mitigation policies and technological advances in renewable energy. Lower oil prices would put pressure on public finances. On the other hand, the UAE has a very young population which will be beneficial for public finances if jobs are created for them. Hence, ensuring robust growth by fostering a better environment for SMEs and the private sector more broadly will be key for long-term fiscal sustainability. We encourage the authorities to undertake structural reforms to remove impediments to private sector development, including through creating a more level playing field between state-subsidized and private companies, modernizing the labor market, and upgrade human capital.

Data quality should be further improved. We note that labor market indicators, fiscal data, and external sector statistics can be enhanced. For example, data on the sovereign's substantial assets are unavailable, and data on the International Investment Position is not complete. Improved data will be beneficial for making policy decisions and for assessing the economic performance.

The report underscores that Iran is a key market for the UAE and that the UAE is vulnerable to geopolitical instability and trade disruptions. We also note that the authorities had a more positive view on the balance of risks given the UAE's safe haven status. Given the escalated geopolitical tensions in the region since the report was issued, staff's comments on the vulnerability of UAE's economy to geopolitical tensions are welcome.

Ms. Pollard and Mr. Shenai submitted the following statement:

We thank staff for their well-written staff report as well as Mr. Beblawi and Mr. Fadhel for their informative Buff. We welcome the authorities' progress on diversifying the economy and rebuilding buffers in the wake of the oil price shock. We believe that further reforms are needed to safeguard fiscal sustainability, boost private sector participation in the economy, and promote financial transparency and good governance.

We welcome staff's focus on fiscal sustainability and the fiscal framework. Given the exchange rate peg, sound and predictable fiscal policy, along with flexible product and factor markets, can help the UAE weather external shocks while building buffers in favorable conditions. While we recognize the authorities' views on the diversity of issues faced by each emirate, we nevertheless agree with staff that developing a fiscal framework with a coordinating body and an independent fiscal council could boost fiscal transparency, anchor investor expectations, and improve the efficacy of fiscal policy. We note divergence between staff and the authorities on the size of the fiscal multiplier in the UAE. Potential fiscal risks, including those posed by GRE finances, may justify a more cautious estimate of the multiplier. We strongly support enhanced disclosure of fiscal data and public debt statistics for lending and borrowing activities, particularly on external and GRE debt. Can staff provide further details on upcoming technical assistance to address capacity constraints in national statistics?

We welcome improvements in banking regulation, including plans to introduce a risk-based approach to credit risk. We urge the authorities to remain vigilant to potentially deteriorating bank asset quality given bank exposure to the real estate market and welcome CBUAE's plans to strengthen the prudential framework in line with Basel III. Although recent developments to enhance SME financial inclusion are welcome, we share staff's concern about potential downside risks associated with commercial and central-bank on-balance sheet support. We urge the authorities to prioritize competition and business climate improvements to improve SME financial access, rather than through direct financial support, which could carry quasi-fiscal costs and exacerbate contingent liabilities. Plans to build out the yield curve could also enhance SME financing and diversification, and we welcome the recently approved federal debt law.

The authorities continue to make progress on economic diversification, though further structural reforms are needed to anchor non-oil growth after Expo 2020. We agree that tourism, trade and logistics, real estate, and finance can continue to anchor non-oil growth. Still, we urge the authorities to continue to take steps to promote competition and enhance private sector-led growth, including by rethinking the outsize role of government-related entities in the economy. We agree with staff that such a re-thinking could yield fiscal dividends while also boosting potential growth, though we would have appreciated a more thorough discussion of a potential privatization program in the staff report. Can staff provide an update on the status of their discussions of privatization of the GREs with the authorities, including potential focus areas and first steps?

While the UAE has made several improvements to its AML/CFT legislative and regulatory framework, implementation will require sustained political will and resources. In addition to those measures identified by staff, we urge the authorities to consider additional improvements in their AML/CFT regime. Such measures include: (1) refining the authorities' understanding of ML/TF risk, especially of trade-based money laundering typologies; (2) improving risk-based supervision of designated non-financial business or professions; (3) using financial intelligence to combat financial crime; (4) enhancing authorities' access to accurate, timely, and verifiable beneficial ownership information; and (5) implementing targeted financial sanctions. Continued engagement with the international community on AML/CFT issues will be helpful, and we urge the authorities to implement the Financial Action Task Force's (FATF) mutual evaluation's recommended actions identified in the FATF's forthcoming report.

Finally, we urge the authorities to consent to publication of the Article IV report.

Mr. Rozan and Mr. Bouvet submitted the following statement:

We thank staff for their insightful report and Mr. Beblawi and Ms. Fadhel for their comprehensive buff statement. We share the thrust of the staff appraisal and wish to offer the following comments.

We welcome the broadly positive outlook in the United Arab Emirates as growth is expected to recover from 2020 onwards. The activity should be supported by the large array of policy reforms undertaken by the authorities to adjust to the lower-oil-price environment, which should also facilitate the transmission of policy decisions to the economy and make it more resilient. Apart from the impact of Expo 2020, what should be the main drivers of the pick-up in growth in 2020 according to staff? However, enhancing short-term and long-term resilience will remain of the essence, relying on economic diversification and strengthened fiscal management to ensure enough saving for future generations. To this end, we concur with staff that the authorities should focus in priority on the development of the private sector and of a stronger fiscal framework, including a long-term fiscal anchor and a short-term stabilization mechanism.

Although the United Arab Emirates have made good progress in recent years to reduce the reliance on oil, economic diversification remains a work in progress and is subject to downside risks. Indeed, even though the development of tourism, finance, trade and real-estate industries is commendable, competition amongst regional peers in these sectors is strong, and their countercyclical effects in the event of a global economic downturn are limited. The authorities should therefore step up their diversification efforts by fostering the development of the private sector and notably SMEs. This would require leveling the playing field with public entities, through harmonized competition rules and policies between the private and the public sectors. Compounded with policies aimed at strengthening human capital, such as investment in education and research, this would foster business creation and growth, boost productivity, and support employment and wages in the private sector. In addition, we encourage the authorities to effectively implement the measures envisaged to improve the business climate, notably following the recent passing of the Law on investment. As the government remains very much involved in companies through subsidies, is there any prospect of public divestment from non-essential economic activities?

Preserving a fair share of wealth derived from oil for future generations in the United Arab Emirates requires a forward-looking fiscal policy. We do share staff's view that fiscal policies have put too little emphasis on the long-term distribution of wealth. To reduce existing bias towards short-term policy considerations, a rules-based fiscal framework, taking into account the decentralized institutional arrangement of the United Arab Emirates, is warranted. Such a framework should target a non-oil primary deficit allowing for a level a savings consistent with an adequate distribution of wealth from oil across generations. And as outlined in Annex 5, a fiscal framework does not hinder fiscal stabilization since it can be complemented in various ways with a stabilization mechanism. The proposal contained in para 28 regarding the creation and management of a common stabilization fund jointly financed by the different emirates is quite interesting and would warrant further development. In addition, we would appreciate elaboration from staff on sovereign wealth funds in the Arab United Emirates, whose assets under management amount to 135 percent of GDP. What is staff's assessment of the adequacy of reserves and the management of sovereign wealth funds? In addition, the authorities should strengthen fiscal coordination between all seven emirates, and we are encouraged by the progress made by the fiscal coordination council in this regard. The council should play a greater coordination and advisory role. Finally, in the short run and in the back of a pick-up of growth, the authorities should refrain from further fiscal stimulus to avoid procyclicality of economic policies. Relatedly, all public expenditures linked with Expo 2020 will need to be carefully monitored to avoid fiscal slippages. In this respect, what is staff's assessment of the 2020 budget of the Federation, Dubaï and Abu Dhabi, and of the underlying macroeconomic assumptions?

We encourage the authorities to implement a solid framework to fight against illicit financial flows. Since the United Arab Emirates show some vulnerabilities in this respect, given its openness and its status of safe haven for international financial flows, close monitoring of financial flows is warranted. The national assessment of AML/CFT-related risks should be used to address existing vulnerabilities in the banking sector and the AML/CFT rules and supervision should be extended to unlicensed financial institutions such as hawalas.

Mr. Psalidopoulos and Mr. Persico submitted the following statement:

We thank staff for the comprehensive report and Mr. Beblawi and Ms. Fadhel for their informative Buff statement. We share the thrust of the staff appraisal and provide the following comments for emphasis and clarification:

Recent events in the region could undermine the envisaged growth path beyond 2020. Both external competitiveness and the current account surplus improved; nonetheless, significant risks could scale-up from the evolution of trade relationships and a slowdown in the region. Such risks, coupled with the need for proper inter-generational savings, call to accelerate structural reforms, to develop the private sector, and to boost diversification.

The authorities should step up their efforts to implement long awaited strategic structural reforms. In order to support private sector development, the role of state-subsidized companies needs to be limited while ensuring the effectiveness of competition laws. We are concerned about the unavailability of data on labor market, the persisting negative effects of high public wages, and the existing fragmentation of benefits across national and expatriate workers. Moreover, we stress the need for the country to attract and retain high-skilled expatriates in order to support the envisaged knowledge-based model of growth.

We concur with staff that, following a period of expansionary policy, the current fiscal stance is appropriate, and authorities should embrace a medium-term consolidation trajectory. However, we acknowledge the authorities' rationale to consider further stimulus. In this regard, the case for additional fiscal support should be carefully evaluated and limited to the measures needed to not undermine non-oil sector growth and to address ongoing cyclical conditions.

We noted that Staff and authorities have different views on the development of a rules-based fiscal framework. We take note of the current decentralized political structure and welcome the positive role of the Fiscal Policy Coordination Council in government spending plans coordination and data sharing. Nonetheless, the establishment of the Council should represent only the first step toward a harmonized framework that (while accounting for the specific features of each different Emirate) could ensure inter-generational and internal equity.

Efforts to stabilize and develop the financial sector should continue. We welcome the progress made on supervisory and AML/CFT frameworks. In particular, the authorities should safeguard correspondent banking relationships. In this regard, we would like to ask staff their views on the role of the hawala financial network. We look forward to the planned FSAP as an opportunity to support the authorities' commitments. While the development of the financial sector is itself a source of diversification, we stress the need to improve SMEs' access to finance as an essential element to foster non-oil-growth.

Ms. Mahasandana, Mr. Ray, Mr. Chikada, Mr. Anwar, Ms. Mori and Mr. Yoo submitted the following joint statement:

We thank staff for their comprehensive report, and Mr. Beblawi and Ms. Fadhel for their insightful Buff statement. We commend the UAE' authorities for their recent efforts, particularly their steadfast commitment to pursue structural reforms, which have helped the country to tackle the challenges that the economy has been facing. Although the outlook remains encouraging with stronger economic growth, relatively firm current account surplus, and more positive inflation, the risks are tilted to the downside due to external factors, including rising protectionism and retreat from multilateralism, intensification of geopolitical tensions, and large swings in energy prices. Continued commitment to prudent macroeconomic policies and appropriate prioritization of reforms will be key to sustaining growth after Expo 2020, ensuring macroeconomic stability and resilience to further shocks, and achieving the objectives of the authorities' Vision 2021 agenda. We broadly concur with the thrust of the staff appraisal and offer the following comments for consideration.

A strengthened fiscal policy framework is warranted to ensure adequate savings of exhaustible oil revenue for future generations and debt sustainability in the longer term, and short-term macroeconomic stabilization given the dollar peg and open capital markets. The analysis in Annex V shows that managing these goals of fiscal policy is a quite challenging task for the UAE. In this direction, we welcome the agreement between staff and the authorities on the need for developing a stronger fiscal framework. We encourage staff and the authorities to further study efficient tools to enhance the role of fiscal policy as a stabilizer. As staff pointed out, targeting the non-oil primary deficit can be used to smooth the business cycle since it would automatically decouple government spending from oil prices. In this regard, do the authorities consider using the non-oil primary deficit as an indicator in their budget process or fiscal framework consideration? We welcome staff's comments on possible tools for automatic stabilizers. In addition, on an independent fiscal council and a separate stabilization fund, we have a view that it is important to design such bodies in a manner that meets country specific needs and constraints. In this regard, we invite staff to comment on the divergence between staff's and the authorities' views on the need for establishing an independent fiscal council and a stabilization fund in the UAE at the current juncture? On the short-term fiscal stance, we acknowledge the differing views of staff and the authorities. Staff's comments on the magnitude of these differences would be welcome. Further, while the authorities consider fiscal multipliers to be potentially larger, could staff elaborate on their low fiscal multiplier's assessment.

Enhancing financial stability while deepening financial markets is critical to support the development of the non-oil private sector. We commend the authorities for their continuous efforts to strengthen the regulatory and supervisory framework for the banking sector. We are encouraged by the authorities' efforts to continue advancing their AML/CFT standard, but further strengthening is warranted to protect the integrity and stability of the financial system. Continued vigilance to the rising non-performing loans is critical to maintaining financial system stability. We concur with staff that the authorities need to address the prolonged decline in real estate values to reduce risk in the banking sector. We would appreciate if staff could elaborate on factors behind the protracted decline despite the UAE becoming a regional financial and logistic hub and like staff to comment on the impact of the revised regulation on real estate lending to address this matter. We welcome the authorities' plan to develop a benchmark yield curve by issuing long dated domestic debt while shortening the maturity of central bank certificates of deposit. To further strengthen the financial sector's dynamism and stability, we welcome the authorities' intension to request an FSAP for 2023. We agree with staff that the planned FSAP will give a useful overview of the system and perhaps spur further modernization. On the exchange rate regime, we agree with authorities that the pegged exchange rate regime remains appropriate as it continues to provide an effective nominal anchor for the UAE economy and has helped the country to achieve some economic diversification. We would like staff to comment on the possibility and circumstances that would prompt the authorities to prepare to ditch the dollar peg and switch to a more flexible exchange rate regime.

Promoting diversification and private-sector growth is essential to enhance development of the non-oil sector and generate greater private sector participation. We commend the authorities for their sound policy measures to support their ambitious economic diversification goals, in line with Vision 2021. We concur with staff that the UAE is now not only known as a key player in global oil markets but also a regional financial and logistics hub and a major tourism and real-estate destination. We encourage the authorities to perform a wide range of structural reforms to further diversify the economy to the non-oil sectors. In this respect, creating a level playing field between private and public enterprises is of critical importance. We agree with staff that gradual withdrawal of the state from non-essential activities and bringing GREs within the scope of competition laws are needed. We welcome the authorities' strong commitment to improving the business environment. Their efforts have helped the country to achieve the highest rate of small- and medium-sized enterprises (SMEs) financial inclusion in the GCC region. Continued efforts to foster SMEs as drivers for diversification, job creation and innovation are strongly encouraged. While we notice that the CBUAE has developed draft regulations to encourage financial institutions to play their role in the development of this sector, staff comments on the implementation progress are welcome. Given the UAE's decentralized federal setting, we also note the authorities being more sceptic about establishing a single SME agency as compared to staff. Staff comments are welcome.

We encourage the authorities to increase their efforts to address remaining structural impediments to higher growth and greater resilience, including by strengthening governance. We welcome the progress made to improve national economic statistics to support solid decision-making process. Priority actions should also include improving human capital and increasing female labor force participation.

Finally, on the near-term growth outlook, we note the authorities are more optimistic about non-oil and oil growth as compared to staff, supported by large planned investment. Staff comments are invited on this divergence.

Mr. Di Tata and Ms. Moreno submitted the following statement:

We thank staff for the well-written report and Mr. Beblawi and Ms. Fadhel for their helpful Buff statement.

The UAE's economy has continued to adjust to lower oil prices. Real non-oil GDP growth is estimated by staff to have slowed to 1 percent in 2019 but would increase to 3 percent in 2020 driven by Expo 2020. Inflation has turned negative but is expected to return gradually to 2 percent reflecting a recovery in demand. Although overall external buffers remain comfortable, staff calculations suggest that the external current account surplus is below the level needed to ensure enough savings for future generations. Efforts at economic diversification have been successful in diversifying the economy into trade, finance, tourism, and real estate. Against this backdrop, real GDP growth is projected by staff at 2.7 percent a year over the medium term. Could staff elaborate further on the reasons behind the authorities' more optimistic growth projections and their different perceptions about the risks to the outlook?

Given the challenges posed by long-term global oil market prospects that are likely to lead to slower global oil demand growth, we welcome the focus of the consultation on accelerating diversification and strengthening the public finances. We agree that the current fixed exchange rate regime continues to serve the economy well, providing the needed stability to move ahead with further economic diversification, supported by wage and price flexibility.

We welcome the reforms that have been implemented to diversify the economy and establish a favorable business environment, including by developing the SME sector and further upgrading the regulatory framework. Going forward, we encourage the authorities to further reduce the costs to open a business, improve the coordination of support to SMEs, record SME support transparently in the budget, and avoid central or commercial bank actions involving quasi-fiscal costs. We also agree with staff on the importance of increasing competition and reducing the role of the state in non-essential activities; modernizing the labor market, including by addressing disincentives to private employment related to the public-sector wage premium; operationalizing the insolvency framework; upgrading human capital; and retaining talented expatriates. We take positive note of the ongoing implementation of Abu Dhabi Accelerated Development Program to bolster competitiveness.

The UAE's financial system remains profitable and well capitalized, but NPLs have risen slightly. Although substantial progress has been made to enhance financial stability and development, further reforms in these areas would support the expansion of the non-oil private sector. In this regard, efforts should continue to establish a standardized approach to credit risk based on Basel III and bring noncompliant related-party exposures below prudential limits. There is also a need to closely monitor developments in the banking sector in light of the risks associated with declining real estate prices.

The authorities' intention to request an FSAP once a track record under the new banking law has been established constitutes a positive initiative. Regarding AML/CFT, we welcome the upgrading of the legislative and regulatory framework and the enhanced supervision of banks and foreign exchange offices. Going forward, there is a need to strengthen AML/CFT supervision of non-financial sectors, including real estate, and enhance the identification of beneficial ownership as well as the monitoring of suspicious transactions. Further efforts are also necessary to develop capital markets and adapt the financial system to better support private sector growth, including by expanding the use of fintech.

On the fiscal side, although there could be room for some fiscal stimulus in 2021 to cushion growth following Expo, we concur with staff on the need to develop a transparent, rules-based long-term fiscal framework. In this regard, we share the staff's recommendations of centering the framework around a long-term anchor, such as saving oil wealth for future generations, and proceeding gradually with sustained fiscal consolidation over several years to bring the non-oil primary deficit to an appropriate level. To that end, we encourage the authorities to consider reforming public wage and employment policies, strengthening non-oil tax revenue and phasing out fees, and reducing energy and water subsidies while protecting the vulnerable. Could staff elaborate on the main revenue measures that could be adopted over the medium term? Could it also comment on the authorities' views regarding the assumptions used by staff to prepare the PIH calculations? We also agree with staff that the fiscal framework can be calibrated by adjusting the non-oil primary deficit target to offset volatility in both oil prices and the non-oil business cycle in a symmetric and relatively limited manner. In addition, although different emirates are likely to require their own frameworks, there is a need to continue strengthening fiscal coordination to ensure coherent policymaking.

We take positive note of the authorities' commitment to make further progress on statistics, with technical support from the Fund.

With these comments, we wish the UAE authorities every success in their future endeavors.

Mr. Mouminah, Mr. Alkhareif and Mr. Keshava submitted the following statement:

We thank staff for the well-written report and Mr. Beblawi and Ms. Fadhel for their insightful Buff statement.

We welcome the picking up of growth momentum in the UAE, supported by Expo 2020 spending and the ongoing fiscal stimulus. We are also encouraged that inflation is projected to return gradually to 2 percent as the VAT base effect dissipates and demand continues to gain momentum. In this connection, we commend the UAE authorities for their sustained implementation of prudent macroeconomic policies and reforms, which has ensured sound economic fundamentals. Here, we take positive note of the good progress on reforms in the recent past, including the introduction of VAT and new excises, removal of restrictions on FDI in a number of sectors, and liberalization of visa regime. It is also encouraging that many other important reforms are underway, which bode well for the future. Indeed, continued implementation of the authorities' structural reform agenda will further boost competitiveness and productivity and enhance growth potential.

The authorities' near-term fiscal plans are appropriate, which should help support growth. We also welcome the emphasis placed by the authorities on improving spending efficiency and rationalizing government fees. As regards the size of fiscal multipliers, we note the difference in views between staff and the authorities as staff believes that fiscal stimulus could leak out in the form of imports and outward remittances. Here, we would welcome staff elaboration whether fiscal multipliers are likely to be small in more open economies such as the UAE irrespective of cyclical conditions? On fiscal coordination, we take positive note of the work of the Fiscal Policy Coordination Council, as underlined in the Buff, in coordinating government spending plans and sharing data across the emirates.

We agree that the current fixed exchange rate regime remains appropriate and has provided an effective nominal anchor and stability. Notably, the UAE has achieved considerable economic diversification with the pegged regime, as rightly noted by the authorities, and we welcome their strong commitment to the peg.

The financial sector remains sound, and we welcome the continued efforts to further strengthen it. In particular, we note the good progress in strengthening the regulatory and supervisory framework and enhancing the central bank's stress testing framework. We also welcome the plan to strengthen the real-estate lending regulatory framework as well as consumer financial protection. In addition, we look forward to the implementation of the fintech strategy. The authorities' intention to request an FSAP in 2023 is also encouraging, as it will help in identifying policy priorities to bolster financial stability. On AML/CFT, we commend the authorities for upgrading the framework ahead of the recently concluded onsite assessment by the FATF and for continued efforts to further enhance the regime's effectiveness.

Finally, building on remarkable success in economic diversification in a favorable business environment, the authorities should press ahead with their structural reform agenda. In this connection, the staff report has made useful recommendations to further enhance the role of SME sector. At the same time, we share the authorities' view that a single SME agency, as recommended by staff, would be unworkable in the UAE's decentralized federal setting.

With these remarks, we wish the authorities continued success.

Mr. Jin and Ms. Zhao submitted the following statement:

We thank staff for the useful paper and Mr. Beblawi and Ms. Fadhel for their helpful buff statement. Thanks to the authorities' continued efforts in economic diversification, the UAE economy has been more resilient to oil price shocks. Growth is also expected to pick up further in light of the upcoming Expo 2020 hosted by the UAE. Going forward, a comprehensive policy agenda and continued reforms are needed to enhance resilience and sustain growth. We agree with the thrust of staff's appraisal and would like to limit our comments as follows.

On economic outlook, geopolitical uncertainties and trade tensions could weigh on tourism, trade and FDI, which call for the need to further diversify the economy. We take note of the different views between staff and the authorities on the impact of geopolitical tensions on the UAE economy, where staff focus is more on the potential socio-economic disruptions while the authorities focus is more on potential capital inflows due to the "safe haven" status. We would like to encourage staff to do more analysis, perhaps based on historical data, on the impact of rising geopolitical tensions on economic growth in future Article IV reports.

On the fiscal side, we share staff's recommendation of abstaining from further fiscal stimulus at this juncture given the favorable near-term outlook. A strengthened fiscal framework with firmer anchoring would help balance the short-term objective of stabilization and long-term goals of achieving inter-generational equity and preserving debt sustainability. We welcome the progress made so far in strengthening fiscal coordination by assembling and consolidating general-government data. We take note of the different views between staff and the authorities regarding the creation of an independent fiscal council. We wonder whether there are alternative ways in strengthening fiscal coordination other than establishing a fiscal council. Staff comments are welcome.

On structure reforms, promoting the non-oil sector development remains a priority, and SMEs can play a key role in this regard. The authorities have made notable efforts in supporting the development of SMEs, contributing to the highest rate of SME financial inclusion in the region. More could be done in this area, including unifying different approaches to SME support and enhancing SME's access to finance. It is also important to strike a right balance between facilitating SME development and ensuring appropriate risk management. The use of Fintech to enhance SME access to finance, for instance, requires an adaptive and coordinated supervisory and regulatory approach to address risks that may arise in the rapidly changing landscape.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Bhalla and Ms. Dhillon submitted the following statement:

We thank staff for the excellent reports and Mr. Beblawi and Ms. Fadhel for their informative buff statement. We broadly agree with the staff report and would like to offer the following points for emphasis.

UAE has calibrated its growth model to maintain its resilience amid oil price variations with diversification in trade, tourism, real estate, and finance. Notwithstanding the weak global environment, growth momentum is likely to pick up quite substantially in the coming quarters, driven by Expo 2020 and is expected to reach 3 percent in 2020. However, downside risks endure, underpinned by trade tensions, volatility in financial markets, and geopolitical tensions. The authorities in the buff have underscored their expectation for increase in investment and the energy sector's growth and remain more optimistic about the outlook as compared to staff. Staff comments are invited on this divergence.

Moving ahead, the path to a diversified economy will hinge on private-sector development and on building human capital. UAE authorities have made encouraging progress in the business environment, foreign ownership requirements and in developing an ecosystem conducive to SME promotion and furthering diversification. We align ourselves with the staff suggestions on SME development and a level playing field for the private sector.

Advancing talent pools, improvements in education plus further steps to attract and retain talented expatriates would be crucial for inclusive growth.

Staff has placed emphasis on a fiscal framework to offset volatility in both oil prices and the non-oil business cycles and on improving policy coordination. We agree with staff that an explicit framework would balance the considerations for short- term actions and the level of stimulus, both being key to market confidence. Nonetheless, the Buff has emphasized UAE's highly decentralized political structure and the distinct issues faced by each emirate, which make it difficult to establish a federal fiscal council. Could staff provide alternate frameworks bearing in mind the authorities' feedback, which could deliver similar results?

Beyond this, the authorities must continue to reinforce the profitable and well capitalized banking system and advance asset quality. We welcome the efforts of the authorities on enhancing the regulatory and supervisory framework. Like staff, we would urge sustained action on AML/CFT framework and its effective implementation.

With these comments, we wish the authorities the best in their endeavors.

Mr. Raghani and Mr. Olhaye submitted the following statement:

We thank staff for their report, and Mr. Beblawi and Ms. Fadhel for their informative Buff statement.

Economic recovery in the United Arab Emirates (UAE) continues and is expected to pick-up thanks to Expo 2020 and the current fiscal stimulus, while the external position remains sound. We also note that the financial sector has leveled off with the return of positive net flows and that banks remain well-capitalized. However, non-performing loans (NPLs) are on the rise. The current negative inflation is expected to return to positive territory as demand increases and the VAT base effects diminish.

Albeit encouraging prospects, including deriving from a stronger position as tourism and real-estate destination and a regional financial and logistics hub, immediate risks to the outlook are tilted to the downside. Those risks relate notably to geopolitical tensions, trade disruptions, and financial market volatility that may disturb portfolio flows and lead to refinancing challenges for government-related entities (GREs). Should these risks materialize, the prospects can rapidly weaken. In addition, sustaining robust growth potential can be challenged by the slowing oil demand. In this context, the UAE authorities should continue to focus their efforts on enhancing economic diversification and taking steps to develop a fiscal framework that is rules-based and is geared to preserve intergenerational wealth.

We broadly concur with staff's assessment and policy recommendations and will confine our comments to a few points for emphasis.

Given the fact that oil reserves may be depleted in the future, we agree on the need to further strengthen public finances, including developing a robust fiscal framework to support savings for future generations. We find the current fiscal stance appropriate at this juncture to support economic recovery. That said, a medium-term growth-friendly consolidation path should be considered given the need to preserve resources for generations to come. In this regard, staff rightly point out the importance of having a transparent, rules-based fiscal framework. We note that while agreeing in principle on the need for such fiscal framework, the UAE authorities underscore that permanent income hypothesis (PIH) estimates are quite sensitive to assumptions. We encourage staff to continue working with the authorities to bridge the gap and ensure an adequate framework. Moreover, balancing a longer-term UAE-wide fiscal framework amongst different emirates with very distinct concerns could pose challenges. As the UAE remains attached to independent but cooperative emirates, we encourage them to deepen policy coordination amongst emirates. Given the differences across emirates, could staff elaborate more on its view to ensure effective fiscal policy coordination?

We welcome the authorities' economic diversification efforts and encourage them to continue making progress towards fostering a strong private sector, notably for small to medium-size enterprises (SMEs). We note the UAE's position as one of the regional leaders in creating a conducive business environment, including the important strides made in improving the environment for SMEs. However, more needs to be done. Attention should be given to modernizing the labor market, with a focus on the level of public wages. In addition, measures to enhance the human capital of nationals, to better adapt skills to the knowledge-based economy are warranted given increasing investment in fintech and artificial intelligence.

Finally, we urge the authorities to remain vigilant to illicit financial flows and to enforce compliance with prudential rules, including for fintech, with a view to preserving financial stability. The recent FATF assessment and the establishment of an independent financial intelligence unit (FIU) at the

Central Bank of the UAE (CBUAE) highlighted in the Buff statement are important steps in strengthening the AML/CFT framework.

With these remarks, we wish the UAE authorities success in their endeavors.

Mr. Trabinski and Mr. Danenov submitted the following statement:

We thank staff for the informative report and Mr. Beblawi and Ms. Fadhel for their insightful Buff statement. UAE's economy continues to adapt to the lower oil-price environment. In this context, the authorities' push for diversification had brought positive outcomes in terms of further development of non-oil sectors. The outlook appears to be quite positive on the back of the upcoming Expo 2020's fiscal boost, and the improved environment for FDI and the SME sector. But short-term risks are titled to the downside, as UAE is vulnerable to the new round of geopolitical instability.

A more sustainable fiscal framework is needed to create buffers, and to ensure inclusive growth and further diversification. A rules-based fiscal framework that takes into account the decentralized political system is warranted. Thus, while we understand the challenges to establish a federal fiscal council, we encourage the authorities to strengthen fiscal frameworks at the local level and to improve the overall fiscal policy coordination amongst the emirates. We agree with staff that the fiscal framework should allow some scope for policy to offset volatility both in oil prices and the non-oil business cycle. We also take note of the current slightly expansionary stance, given the cyclical slowdown. However, we would caution against additional stimulus, which would be procyclical. Against this background, it would be important to improve spending efficiency and rationalize the generous public sector compensations.

We commend the authorities for progress in strengthening the regulatory and supervisory frameworks. The sound and well capitalized banking sector should play a bigger role in developing the non-oil economy. We much appreciate staff's analysis of the potential role of fintech in providing greater financial inclusion, especially among the SMEs. We would nevertheless be interested in hearing more about the progress in developing and regulating crypto assets in the UAE. Staff's comments in this regard are welcome. We commend the authorities for their latest efforts in developing the legal framework to ensure compliance with international standards on AML/CFT, in particular the establishment of an independent financial intelligence unit at the CBUAE. At the same time, we concur with staff that the prolonged decline in real estate prices pose a risk for the banking sector that requires continuous attention.

We encourage the authorities to further enhance support of private sector development. We agree with staff that UAE has one of the most favorable business environments in the region. Indeed, the country has made a visible progress in supporting SMEs and developing tourism, finance and trade industries. But in order to ensure greater economic diversification, we encourage the authorities to remove the remaining impediments to private sector development and focus on leveling the playing field between the public and private companies, strengthening human capital and modernizing the labor market. From the long-term perspective, well-thought through education reform aimed at improving skills and providing necessary training for potential entrepreneurs could be considered by the authorities.

Mr. Mojarrad and Mr. Belhaj submitted the following statement:

We thank staff for the insightful report and Mr. Beblawi and Ms. Fadhel for their helpful Buff statement. We appreciate the emphasis in the staff report on the two key challenges facing the UAE economy, namely ways to foster robust non-oil growth and putting in place a fiscal framework that supports growth while ensuring equitable wealth sharing across generations. We broadly agree with the staff appraisal and would like to make the following comments.

While we welcome the economic recovery, we feel it would be prudent to err on the side of caution in growth and revenue assumptions. Despite recent economic diversification, the growth outlook remains vulnerable to global trends, international oil market developments, and intensifying geopolitical tensions in the region. For these reasons, we encourage the use of conservative revenue assumptions in order not to underestimate the extent of possible strain on public finances or the drawdown of generational wealth. In this regard, could staff please clarify to what extent the 2020 expo contributes to the projected rise in GDP growth this year when much of the related investment spending have already taken place?

We encourage the authorities to build on their strong track record to further diversify the economy away from oil and wean off investment from tax incentives and other forms of public support. Significant progress has already been made to expand non-oil trade, tourism, and real estate; knowledge-based technology offers other avenues for the future. However, diversification and innovation alone would not be sufficient to compensate for structural weaknesses that hamper the development of a dynamic and entrepreneurial private sector, driven by strong and competitive SMEs that are less dependent on public support. Would staff please elaborate on the authorities' plan to develop a new SME strategy? We agree with staff that the overarching challenge facing the UAE is the gradual disengagement of the public sector from activities that could be more efficiently performed in a more cost-effective manner by the private sector. Of particular importance to private sector development would be elimination of labor market distortions through a holistic strategy that would also involve efforts to upgrade the national human capital to the highest standards.

We support the staff recommendation to adopt a transparent and rules-based fiscal framework. The authorities are to be commended for introducing a set of fiscal reforms and tax measures, thus adding to the country's range of fiscal resources, but these efforts need to be strengthened to further increase the contribution of the non-oil sector and reduce the budget's vulnerability to external factors. The non-oil primary deficit is currently far above the PIH benchmark that would ensure an equal sharing of oil wealth across generations. Fiscal rules would help the authorities to stabilize the expenditure path, optimize revenue mobilization, reduce procyclicality and achieve the generational equity objective. A gradual removal of remaining energy and water subsidies would also be prudent on efficiency grounds. We note from ¶31 that there are differences in views between staff and the authorities on the scope and practicality of staff's fiscal recommendations. We recognize the complexities arising from the UAE's decentralized economic and institutional structure and wonder to what extent the divergence of views between the authorities and staff reflect such idiosyncrasies.

We commend the progress made in developing the financial stability framework, but greater efforts are needed to reduce risks related to the real estate sector and fintech. The banking sector is well capitalized, though there are pockets of fragility evidence by asset quality deterioration and the increase in the NPL ratio, mostly related to the real estate sector. We note with satisfaction the progress made in improving the regulatory and supervisory framework for the financial sector. The scope of supervision should also be extended to digital banking and fintech. The availability of granular data is critical to the timely assessment of the country's economic and financial risks, especially given the degree of openness and sophistication of the UAE economy. We would welcome more details on the results of the national risk assessment referenced in ¶19. We support the authorities' request for an FSAP assessment to benefit from Fund advice and identify and address the remaining financial sector vulnerabilities. We welcome the authorities' continued efforts to upgrade the AML/CFT monitoring framework.

Finally, we object to the inclusion of the wording "to contravene Iran sanctions" in the last sentence of ¶19. Such wording could be constructed as the Fund condoning imposition, and monitoring compliance, of economic sanctions by a Fund member against another member. We, therefore, request, under the rule of "evident ambiguity, i.e. the possibility of a plausible, specific, misinterpretation" of the Fund's Transparency Policy, to modify the sentence by removing "to contravene Iran sanctions".

With these comments, we wish the authorities every success.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

We thank staff for the insightful report and Mr. Beblawi and Ms. Fahdel for their helpful Buff statement. The economic activity in the UAE is recovering. In 2020 growth is expected to accelerate to 2.5 percent supported by the fiscal stimulus related to the Abu Dhabi development program and Dubai Expo 2020 spending. However, sustaining growth after 2020 is an important challenge, which requires careful fiscal policy implementation and continued structural reforms. Therefore, Article IV discussions were focused on the issues of fiscal stability and improving business environment, especially for SME.

Global transition to a low-carbon economy may (or may not) suppress energy prices and reduce UAE's future oil revenue. The oil price forecasting is an unrewarding exercise, and we agree with the authorities that even in case of a prolonged weakness in the oil markets, UAE have certain comparative advantages that will help withstand the impact of oil price decline. The authorities have to find the right balance between the need to sustain growth and increase productive investment, on the one hand, and ensure intergenerational equity and fiscal stability, on the other hand. Their situation is further complicated by the UAE's highly decentralized political structure and divergent fiscal needs of each emirate.

We note staff's proposals to develop a revised UAE-wide fiscal framework, which is centered around the long-term fiscal anchor and allows to offset volatility in oil prices by targeting the non-oil primary deficit. Staff also calls for improved policy coordination and creation of an independent fiscal council, as well as a common stabilization fund financed by all emirates. We see merit in these proposals and encourage further discussion with the authorities on the best ways to ensure fiscal stability in the decentralized environment.

The authorities should continue to press ahead with structural reforms aimed at diversification of the economy. Over the last several years, substantial progress has been achieved in improving the business environment, including strengthening the financial sector and liberalizing foreign investment regime. The attention to the SME development is appropriate and we note that a lot has been achieved in this area. However, creating more favorable conditions for private sector development may also require changes to public wage policies and to the role of government related entities (GRE).

We welcome progress in strengthening the financial sector regulatory and supervisory framework, including in the AML/CFT area. Taking into account the central role of the financial sector in the UAE economy, adherence to high AML/CFT standards is key for mitigating the associated risks.

The Acting Chair (Mr. Zhang) made the following statement:

The UAE has made great progress in diversifying its economy in recent years. The economic growth slowed down in recent years as well, following the drop in oil prices. However, the economy is now still on an upswing, and near-term prospects are improving. Now the question is how to sustain the growth over the longer term.

The staff and the authorities have had very good, productive discussions and engagements over the period of the consultation. In your gray statements, you also highlight the importance for the authorities to preserve the strengthening and deepening of the financial sector reforms and also highlight the importance of the transparent rules-based fiscal framework. All of these are quite important, and I think we will touch upon all these issues in the discussion today.

Mr. Beblawi made the following statement:

On behalf of the authorities, I would like to thank the mission chief, Mr. Koshy Mathai, and his team for the useful policy discussions during the Article IV mission. I also would like to thank all Directors for their thoughtful gray statements, which have been conveyed to the UAE authorities.

Many Directors praised the UAE authorities for their sustained implementation of prudent macroeconomic policies and reforms, which have ensured sound economic fundamentals and has enabled the economy to be well positioned to face external challenges.

The authorities are committed to pursuing their sound macroeconomic policies and have introduced structural reforms to further boost growth, diversify the economy, and increase competitiveness.

I would like to comment on a few issues that were raised in many gray statements.

First, on the potential impact of geopolitical tensions on the UAE. As you know, the UAE is an open economy to trade, tourism, and financial flows. The UAE has always taken steps to shelter its economy from fluctuations in global markets, capitalizing on labor and price flexibility and the strong fundamentals of the economy. Indeed, non-oil exports and tourism have been growing in the face of continued fluctuations and geopolitical risks.

In addition, the strong and sound financial system in the UAE has attracted flows into the banking system, as evident by the rising share of nonresident deposits in the system. Moreover, recent reforms have increased the attraction of the real estate sector to residents of neighboring countries establishing investments and residence in the UAE.

On fiscal policy, many Directors noted the importance of pursuing a transparent, rules-based fiscal framework, and helping to support the diversification agenda of the economy, while supporting intergenerational savings. We thank Directors for acknowledging the special nature of the political system and the diversification needs that vary across seven emirates.

My authorities reiterate their commitment to continue strengthening their fiscal institutions, as politically feasible. In this regard, the authorities believe that the current Fiscal Coordination Council remains adequate in meeting the current demands and the expectations of policymakers. They prefer to enhance its efficiency, rather than establishing another fiscal council.

The authorities also noted that the calibration under permanent income hypothesis (PIH) should not be the only way to measure intergenerational equity in the UAE, where a large share of the oil wealth has been used to develop world-class infrastructure and diversifying the economy, which will certainly benefit future generations.

To conclude, I would like, again, to thank the Directors for their support and Mr. Koshy and his team for their appreciated work.

The staff representative from the Middle East and Central Asia Department (Mr. Mathai), in response to questions and comments from Executive Directors, made the following statement:[4]

There were a number of questions. We tried to provide written answers on Friday evening. There was just one broad set of questions that Mr. Beblawi also touched on just now about our fiscal policy recommendations and how they fit in with the decentralized nature of the UAE that I thought might be helpful to talk about here in person.

As you have noted, and as Mr. Beblawi emphasized, do we talk about an independent fiscal council as a recommendation for the UAE. I want to put the focus here on the independence of that council. The key idea that we had was that it would be useful to have a third-party body that was doing its own economic projections, doing its own fiscal analysis, could serve as a counterweight, some form of checks and balances against what the government was doing at the same time. Many governments have this. Here in the U.S., we have the Congressional Budget Office (CBO). But a key point to make is that having such a council does not presuppose a unitary form of government. As some Directors were thinking, it was not meant as a device to promote more coordination among the different levels of government. In fact, you could have multiple bodies. You could have multiple independent fiscal councils providing a cross-check on things at whatever level fiscal policy is being implemented at. There could be one for Abu Dhabi, one for Dubai, one at the federal level.

Now, it is not our role at all to opine on the proper form of fiscal federalism for the UAE or for any country. These are constitutional questions, political questions. We were clear when we were in the field and also in the report that that is an area we do not want to speak on, and I think the authorities appreciated that view that we took. They did push back on the idea of the fiscal council, as Mr. Beblawi mentioned, not so much because of the decentralization but because they said, "We are at the stage now where we are trying to improve coordination of fiscal policy across governments. Let's focus on that. And later, down the road, let's talk about whether there is a need for an independent voice at the table." That seemed entirely reasonable to us, that maybe this was a premature element for the UAE. In the report, we did not talk about the immediate creation of such a body but, rather, an eventual creation of these bodies, a discussion that we could have in the future. I just wanted to add that clarification. I am happy to get into any further details that you all might find useful.

[4] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

Mr. Mouminah made the following statement:

We thank staff for the well-written report and Mr. Beblawi and Ms. Fadhel for the informative buff statement. I also thank Mr. Beblawi for his clarification and opening remarks.

We issued a detailed gray statement, and we would like to make a few points on the growth momentum, the fiscal stance, the use of modern technologies, and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).

First, we welcome the increased growth momentum, with Expo 2020 as a major driver. We commend the UAE authorities for their sustained implementation of prudent macroeconomic policies and reforms. Notably, we welcome the good progress on the reforms, including the introduction of the value-added tax (VAT) and the new excise taxes, the removal of restrictions on foreign direct investment (FDI) in a number of sectors, and the liberalization of these regimes. Indeed, the sustained implementation of reforms has ensured sound economic fundamentals and considerable progress in diversifying the economy. This is a very good move and is important for the entire region, as it might have positive spillovers in the region and policies to be taken by the Gulf states.

Second, the authorities' preference to maintain a more accommodative fiscal stance is appropriate in order to help strengthen the growth momentum further. We also welcome the emphasis placed on the authorities on improving spending efficiency.

On fiscal coordination, we take positive note of the progress in coordinating the government's spending plans and sharing data across emirates, as well as strengthening the assessment of fiscal risks, which was highlighted by Mr. Beblawi. We should respect all of these boundaries here at the Fund when we give recommendations.

We welcome the authorities' heavy investments in areas such as artificial intelligence and fintech and look forward to more coverage of these issues in future staff reports, possibly a chapter of the selected issues paper on the next Article IV.

As noted in staff's written responses to questions, the UAE has been pioneering the use of modern technologies in the region. In particular, we are encouraged that the UAE's leading banks have introduced new fintech products targeting small and medium-sized enterprises (SMEs). We also welcome the planned launch of the new fintech office by the Central Bank of the United Arab Emirates to implement the fintech strategies and its road map, as noted in Mr. Beblawi's buff statement.

Finally, on AML/CFT, we commend the authorities for upgrading the framework and for continuing their efforts to further enhance the regime and its effectiveness. This is an important issue for the region.

With these remarks, we wish the authorities continued success.

Mr. Mojarrad made the following statement:

We thank the staff for the informative report, the written answers to our technical questions, and the outreach to our office. We also thank Mr. Beblawi and Ms. Fadhel for their insightful buff statement and Mr. Beblawi for his opening remarks.

We have issued a rather lengthy gray statement, commending the UAE authorities' farsighted policies to diversify their economy and increase its resilience to external shocks of various natures. In this intervention, I would like to focus on one particular issue.

In response to our gray statement, and following bilateral discussions, we appreciate the staff's recognition of the ambiguity of the original last sentence of paragraph 19 of the staff report, which states, and I quote: "Finally, continued vigilance will be needed to ensure that the UAE's financial sector and broader economy are not misused to contravene Iran's sanctions".

As we indicated in our gray statement, the original wording could have been construed as condoning or, even worse, monitoring the compliance of sanctions imposed by a Fund member against another member extraterritorially within the jurisdiction of a third member. The staff assure us that it was not the intention and the reference was to U.N. Security Council Resolution 2231 of 2015.

We searched the UAE staff reports issued since 2015, and in none of them did we see any reference to the need for greater vigilance to ensure that the UAE's financial system is not misused to contravene multilateral financial sanctions, including U.N. Security Council Resolution 2231. The issue has come up in this year's report for the first time. So the question I have for the staff is whether there is any new evidence since the last consultation, other than hearsay, for them to suspect that the system is being misused in contravention of U.N. Security Council Resolution 2231. The modified sentence clears one ambiguity but raises other serious concerns.

First, the modified wording seems to preempt the Financial Action Task Force's (FATF) mutual evaluation recommendations when the report has not yet been issued.

Second, since the Board has endorsed the current FATF standard in principle, the modified wording that urges vigilance could be equally applicable to any country with an important financial center in the context of strengthening the AML/CFT framework and not only to UAE. The fact that it appears in the context of the UAE may suggest to outside readers that the UAE financial sector is being, in fact, misused.

Third, a point that has been raised at the Board before, we believe that the Fund should not be seen as the enforcer of the recommendations of FATF or any other outside body, regardless of the merits of their recommendations.

At this point, we suggest this last sentence in paragraph 19 stop at "misused."

Ms. Mannathoko made the following statement:

We thank staff for the report and Mr. Beblawi and Ms. Fadhel for the buff statement.

We welcome the strong growth momentum that has been recorded and wanted to especially commend the authorities for the progress that has been seen, especially with diversification, which will be critical for sustained growth and long-term stability, and also for the progress on fiscal reforms. On the fiscal front, however, like others, we encourage the authorities to pursue a rules-based fiscal framework and the extra reforms that are needed to ensure fiscal sustainability.

In the financial sector, we also want to encourage the measures to promote financial deepening. This too will be important to support the private sector development needed to sustain diversification going forward. We also applaud the work that has been done on financial technologies. Like others, we encourage further work on advancing the AML/CFT framework and to remain vigilant regarding risks.

Regarding the point that Mr. Mojarrad just now raised on the correction, we do note and appreciate the correction that was applied by staff to address the ambiguity in paragraph 19. However, we still do not understand why the reference to sanctions, for example, is needed to make the point that has been proffered by staff. We would have proposed amending the last sentence to read something like: Finally, continued vigilance will be needed to ensure the UAE's financial sector and broader economy are in compliance with FATF standards. Stating it like that will also address Mr. Mojarrad's concern that the modification in its current form preempts the FATF report's findings.

With that, we wish the UAE authorities success.

Ms. Pollard made the following statement:

We thank Mr. Beblawi for his comments this morning, as well as staff. Those comments were quite helpful. We issued a gray statement, and I just want to make a few points.

We agree with the points raised in the gray statements by Mr. Rozan, Mr. Ostros, and others, on the need to improve fiscal coordination across the emirates. We are pleased to hear staff say that they actually are working on it and think that that should be a priority. We also take note of the disagreement between staff and the authorities on fiscal multipliers but would tend to come down in support of staff on this issue, although think further work could be helpful.

Secondly, on the privatization of government-related entities (GREs), we welcome the authorities' steps to increase private investment into some GREs and note that this is an issue that staff, in the past, have pushed on. But we still think that more work should be done to develop a comprehensive privatization plan, which can enhance non-oil productivity and lower fiscal risks.

On AML/CFT, we recognize the progress that the authorities have made. We look forward to the results of the national risk assessment and welcome the authorities' engagement with FATF on this.

Finally, we would just like to have an update as to whether the authorities have consented to the publication of the staff report.

Mr. Anwar made the following statement:

We thank staff for the insightful report and informative responses to our technical questions. We also thank Mr. Beblawi and Ms. Fadhel for their helpful buff statement. We have three comments to add, following our joint gray statement with Mr. Ray and Mr. Chikada.

First, we join other Directors in supporting the staff's recommendation. We encourage the authorities to continue their strong commitment to develop a more transparent and rules-based fiscal framework, to strengthen the financial sector, as well as to foster private sector and non-oil development to further diversify the economy.

Second, while we noticed in some aspects there were divergent views between staff and the authorities, we would like to encourage staff to continue working closely with the authorities to co-formulate appropriate policies to effectively address countries' challenges. In this regard, it is important for staff to pay attention to country-specific needs and constraints in making their further analyses and recommendations.

Finally, on fintech, like Mr. Mouminah, we also look forward to the authorities' fintech strategy implementation, given the increasing investment the country has done in fintech and artificial intelligence. We concur with Mr. Raghani that measures to enhance the human capital to better adapt skills to the knowledge-based economy are crucial to ensure the country fully benefits from the new technologies.

We also associate ourselves with Mr. Jin on the use of fintech for financial access. We view that while fintech is useful to enhance access to financing, especially for SMEs, it requires an adaptive and coordinated supervisory and regulatory approach to address the risks that may arise in the rapidly changing technology and financial landscape. Like Mr. Mojarrad, we also have a view that the scope of financial sector supervision should also be extended to digital banking and the fast developing fintech sector.

With these remarks, we wish the authorities the very best in their reform efforts and a very successful Expo 2020.

Mr. Ray made the following statement:

Let me begin by thanking Mr. Beblawi and staff for their comments this morning. I do not know whether it has made me clearer or more confused about where we stand on the fiscal council question. I must admit, when I read the staff report, I got a sense that there was a greater difference between the views of the authorities and staff and from what I heard this morning.

We issued a joint gray statement with Ms. Mahasandana and Mr. Chikada, so I wanted to make a couple points on this fiscal question.

First of all, I agree that for an economy like the UAE, the fiscal policy framework is critical, and it is quite challenging. In that regard, developing a more transparent approach with clearer fiscal anchors, with the stabilization fund, which I do not always support. But in this case, I can understand why you might want one. It seems to me to be the way to improve coordination across the emirates. If I may put it colloquially, it is the sort of a no-brainer thing to work on. In that regard, we tended to support the authorities that it is their priority, rather than establishing, say, an independent fiscal council.

On independent fiscal councils, the first thing to say is, the Congressional Budget Office (CBO) is the world's leading fiscal agency in many ways in terms of its analytical ability, but I do not see it as an independent fiscal council. It does not do many of the things that the staff have suggested a fiscal council would do here. It has a particular role. One thing it does, in its particular role, is to assume constant policy. Fiscal councils tend not to do that because they tend to look at scenarios, and the CBO does not do that. These institutions tend to reflect the individual circumstances in a country. Sweden is a good example. So I am not so sure that we should be pushing all authorities to have an independent fiscal council if the issue is the framework, rather than this particular governance arrangement.

The other comment is slightly gratuitous, but independence is not always great. I can think of some examples in countries where independent bodies become problematic. I think that just because someone is an independent technocrat does not necessarily make that person do the right thing. You have to be a little bit careful, and I would just be cautious around that, too.

Mr. Marek made the following statement:

We know that while the economic growth in the UAE is expected to gradually recover, we encourage the authorities to strengthen the management of the UAE's wealth through a robust countercyclical fiscal framework and policies enhancing economic diversification. As pointed out by Ms. Pollard, Mr. Rozan, and other Directors, the fiscal framework should be more rules-based and supported by independent expert institutions to ensure transparency, greater intergenerational equity, and to counter short-term policy considerations. Drawing on the policy experience and institutional settings of other oil-rich countries could provide useful insights in this regard.

Private sector development and streamlined support for SMEs are instrumental in enhancing non-oil growth and achieving greater economic diversification. We also encourage the authorities to step up their efforts to create conditions more conducive for SMEs, including through the regular withdrawal of the state from nonessential activities and bringing government-related entities within the scope of competition laws.

With these remarks, we wish the authorities success in their endeavors.

Mr. Rozan made the following statement:

We thank the staff for the excellent report and the answers to our questions and Mr. Beblawi for his introductory remarks, which were helpful to understand the points raised with staff.

I just wanted to make two quick comments. The first one is on diversification and the second one is on the fiscal.

As we know, oil still represents a major share of the economy. We know that several steps have been taken to diversify the economy in terms of tourism, trade, and real estate, which is quite commendable. However, there is rising competition in the Gulf among the neighbors in these sectors, and the dynamism of this sector is contingent upon the global economic outlook. So I think there is still a need to continue to diversify the economy, in particular, reinforcing the private sector and the SMEs. There has been a range of structural reforms that have been done, and commendably, by the authorities, but there is still a need to continue to enhance the level playing field between the private and public sectors to ensure fair competition.

The second aspect on the fiscal side. We do support the staff's call for the implementation of a rules-based fiscal framework, allowing for a fair distribution of wealth across generations. Targeting a primary non-oil balance would seem appropriate, as has been done in other countries. The Fiscal Coordination Council, which in our view should be able to exercise independent judgment, could help set these targets. We would also favor giving more competencies and skills to this coordination council to help the coordination and the advisory for the different emirates. We welcome staff's comments on the fact that it can be done, regardless of constitutional arrangements.

We also liked the development in the staff report on the stabilization fund, the possibility of creating such a stabilization fund across the different emirates. We think it could be a useful avenue to look deeper into.

Finally, we look forward to the Strategy, Policy, and Review Department's (SPR) answer on the transparency policy. It is not completely clear to me how it should apply in this case.

Mr. Mozhin made the following statement:

We have issued a gray statement, and I have nothing to add to it. The only reason I decided to take the floor is to support Mr. Mojarrad's request to take out the sentence in paragraph 19 regarding the enforcement of multilateral financial sanctions. I agree with Mr. Mojarrad that the Fund should play no role in enforcing various types of sanctions. The original sentence was even worse, I agree. But the revision of this sentence was like the change from something inappropriate to something not only inappropriate but also incomprehensible. I am not sure I understand what "multilateral financial sanctions" means. Are those meant to be imposed by the United Nations? What is the meaning of this reference to the FATF? For that reason, I am also requesting this sentence to be completely taken out. If not, I would want this objection to be reflected in the summing up, that some Directors, I do not know what definition you will use, but two of us have objected to this sentence. And if it is not removed, I would want this to be reflected in the summing up.

On a more general point, what we have seen recently is quite a significant abuse by staff and by SPR of the Fund's transparency policy. I mean, anything that is written in the staff report, any kind of nonsense written in the staff report cannot be removed because of this abusive adherence to the Fund's transparency policy. I realize that this is a much broader issue, and I would certainly want to discuss it at the appropriate moment.

Mr. Jin made the following statement:

We thank staff for the useful paper and Mr. Beblawi and Ms. Fadhel for the informative buff statement. We issued a gray statement and would like to emphasize a few points.

On the economic outlook, we take note of the different views between staff and the authorities on the impact of geopolitical tensions on the UAE's economy, where staff focused more on the potential socio-economic disruptions, while the authorities focused more on potential capital inflows due to the safe haven status. We would like to encourage the staff to do more emphasis, perhaps based on the historical data, on the impact of rising geopolitical tensions on the growth of the economy in a future Article IV report.

On the structural reforms, promoting the non-oil sector's development remains a priority, and the SMEs can play a key role in this regard. The authorities have made notable efforts in supporting the development of SMEs contributing to the highest rate of SME financial inclusion in the region. More could be done in this area, including unifying the different approaches to SME support and enhancing the SMEs' access to finance.

Finally, we join Mr. Mojarrad, Ms. Mannathoko, Mr. Mozhin, and others in urging staff to revise the wording regarding the sanctions in the last sentence of paragraph 19, as it can be interpreted as an endorsement by the Fund on the imposition of economic sanctions by some Fund members against other Fund members. I do not think it is in the interest of the Fund to jump into this position.

With these remarks, we wish the authorities every success in their policy endeavors.

The staff representative from the Middle East and Central Asia Department (Mr. Mathai), in response to further questions and comments from Executive Directors, made the following additional statement:

Let me start with a couple of points on the fiscal that Mr. Ray and Mr. Rozan brought up.

I totally agree with you, Mr. Ray, that the key here is having a framework and coordinating. I think if we get those parts right, that is 95 percent of the task ahead.

Having an independent council can work in some contexts. It does not have to work in all contexts. I have had that in my own personal experience, working on different countries in the Fund.

We were trying to lay out a road map here of a possible framework that could work in the long run. I agree that the independent council is not the most important part of that framework, and that is something we can talk about more later.

Mr. Rozan, on the point you talked about the Fiscal Coordination Council, I think part of the issue here is that we have got too many councils running around. There is a coordination council which is part of the government right now. It serves the function of exchanging information among different levels of government. And they can, of course, move toward to discussing policy intentions. Maybe at some point, if they see it fit to do it like this, even making joint decisions on policy, or making decisions about stabilization. And if they were to do that, we thought one possibility is to have a joint stabilization fund where, out of that money, you make a decision. The UAE is in a downturn right now. We are going to boost things by spending money out of this fund.

That does not have to be the way they do things. Individual emirates can say that they do not want to cross-subsidize each other because of business cycles that may differ from one emirate to another. They may want to stabilize in their own way, according to what they see in their own emirate. That is perfectly fine as well. As one of the other Directors said, we should be careful of our boundaries. It is up to the authorities ultimately to decide how much coordination they want, how much joint analysis of the economic conditions they want to do, and then design institutions that are consistent with that.

The second point relates to the language that Mr. Mojarrad raised. I will hand it over to my SPR colleague to address that.

The staff representative from the Strategy, Policy, and Review Department (Mr. Fletcher), in response to questions and comments from Executive Directors, made the following statement:

I would like to thank the Directors for their helpful comments.

On the issue of the reference to the Iran sanctions, where we had issued a correction already to clarify an ambiguity of whether this was a reference to bilateral sanctions or to multilateral sanctions. We have already issued a correction to clarify that it refers to the multilateral U.N. sanctions, which are endorsed by the FATF or which are a part of the FATF standard that, in turn, have been endorsed by the Board.

I would note also on the question about what is new and whether this has been raised in previous reports. The issue has been raised in previous UAE staff reports, including in the 2015 report, where there was a box on the Iran sanctions. Also, in last year's report and the Risk Assessment Matrix, there was a statement that, quote: "A sharp reduction in Iran's external trade due to sanctions and a broader rise in protectionism would lower trade flows with significant impact". The Risk Assessment Matrix goes on to say that money laundering and terrorist financing risk could also rise. The ML/TF issue was specifically mentioned. The only policy response that was given was ensuring the effectiveness of the AML/CFT framework. So this issue is not a new one in the UAE staff report. And I will add that it is not a new one in Fund staff reports, more generally, and it is not necessarily that specific to the UAE.

The FATF standard has been endorsed by the Executive Board. It is actually quite common that staff encourages the authorities to implement this standard or elements of the standard as part of Article IV consultations. For the 2019 Article IV cycle alone, such recommendations have been made for member countries, such as Qatar, Senegal, Suriname, Uganda, and Vietnam, among others.

Given this, we see the reference as appropriate and do not see a case for a further adjustment under the transparency policy, which requires a specific basis. And there are only a limited number of criteria for making a correction, such as being factually incorrect or an evident ambiguity. We do not see a further change, as proposed by Directors, as being currently applicable under those criteria.

The staff representative from the Middle East and Central Asia Department (Mr. Mathai), in response to further questions and comments from Executive Directors, made the following additional statement:

The intention here, Mr. Mojarrad, was not to preempt the FATF report. In fact, the FATF plenary is meeting next month. A draft report was just sent to observers, including the Fund, on Thursday or Friday. We have not had the time to go through it in great detail, but one of the main areas of that report deals with sanctions, targeted financial sanctions. So this is not an issue that we are creating. Rather, it is one of the key areas of the FATF's evaluation of the UAE.

Indeed, this whole section of the staff report talks about AML/CFT risks that is all covered by the FATF report. Just because the FATF report has not come out yet does not mean that we are not able to comment on this entire area. So we felt it was a valid thing for us to point out in the context of a general discussion of the ML/TF risks.

Mr. Mozhin made the following statement:

I disagree with the explanations provided by staff. Of course, I cannot recollect what has been written in all of the previous staff reports. I am not in a position to check what language was used. Of course, concerns about AML/CFT are entirely appropriate. The whole paragraph is dealing with these AML/CFT concerns. The message from this paragraph is very clear, but the last sentence is dealing with what is called multilateral financial sanctions. What it meant is probably Iran. I do not know about any multilateral financial sanctions on Iran. Those which were imposed previously by the United Nations were removed in the context of this agreement reached with Iran in 2015. At the moment, there are no multilateral sanctions. There are unilateral sanctions, the U.S. sanctions, but no multilateral sanctions. If that is not an ambiguity, then I do not know what is an ambiguity. This whole sentence is misleading. The language is such as effectively meaning the enforcement of unilateral sanctions by the Fund, and this is inappropriate.

Let me also mention that these reports are supposed to reflect the view of the international community, and that is very problematic for me. I am not undersigning this. If this is not removed, I would want this to be reflected in the summing up, that a sufficient group of EDs objected to this sentence. But my preference, of course, would be to take it out.

Why do you need this sentence? I am sure that the UAE authorities are entirely aware of the risks and choices they are facing in connection with the U.S. sanctions on Iran. What is the reason for having this sentence? Do you want this kind of a discussion to take place every time this is mentioned in a staff report? I do not see any reason to have this sentence. But if you want to have it, please make sure that the objections are reflected in the summing up.

Mr. Mojarrad made the following statement:

On the previous Article IV consultations with the UAE for last five years, we have checked. Yes, there was Box 2 in 2015. That was when the removal of sanctions took place. The title of that box is "The Economic Impact of the Removal of Iran Sanctions." So we are not really talking the same language now. We are talking about the re-imposition of unilateral sanctions on a country, a third party, which is against the transparency policy. There is ambiguity, as Mr. Mozhin mentioned. And I am sure that Mr. Beblawi may not really be comfortable with the modification because "multilateral financial sanctions" is basically, again, referring to Iran, and that does not really exist. I also feel that the removal of the language would be quite helpful.

We have made the suggestions. Also, Ms. Mannathoko actually suggested a modification as well. But the whole thing is that this sentence is really problematic. And we really would like to remove it. Otherwise, we have to revise it in such a way that is not going to really give the wrong impression.

Mr. Raghani made the following statement:

I have two points. First, there is a possibility to overcome this issue because the sentence before the last one, it says, "Enhancing the identification of beneficial ownership and the monitoring of suspicious transactions will further mitigate risks". I think we can stop here, and we cover the issues of compliance with FATF.

Regarding the transparency policy, I share the point made by Mr. Mozhin related to this policy because it is problematic. I can give the example of Mauritania. Last time, we had a discussion at the Board, and we convened that the formulation of trafficking in persons would be removed. The Chairman advised us to get in touch with staff. We discussed and accepted the proposal. And they came back later saying with respect to the transparency policy, they cannot remove it. They then made a proposal that was more unacceptable.

On this issue of the transparency policy, we need to clarify it because we have some criteria. But on the way that we implement the policy, the way that we use the criteria, staff also has to comply with some rules. I just want to raise this issue.

Ms. Mannathoko made the following statement:

On this issue, I just wanted also to explain why I was proposing just omitting the reference to sanctions. It is just that in our experience, when there is reporting that gives mileage to sanctions, on which as if the IMF supports unilateral sanctions, we find that it is not really helpful. Especially if we wish to convey the Fund's impacts on risk perceptions, on investment, and, ultimately, on the economy and on the poor, the staff can convey the same message without mentioning sanctions. I believe we should try to do that.

Here, the basic message was about compliance with FATF standards. I agree that AML/CFT and FATF references are being used broadly now. So I personally do not see an issue with the reference to FATF standards.

Mr. Jin made the following statement:

I also want to echo again Mr. Mojarrad, Mr. Mozhin, Mr. Raghani, and Ms. Mannathoko regarding paragraph 19. I listened also to the staff's statement, saying that the expression in paragraph 19 is factual. So I would like to ask the staff to clarify. Which multilateral sanction is effective now that is referred to by staff in that sentence?

Mr. Di Tata made the following statement:

In the spirit of reaching some kind of agreement on this, it would be useful to take a look at the proposal made by Ms. Mannathoko.

Mr. Beblawi made the following statement:

I thank the Directors for their comments, and I will convey to my authorities all the issues raised.

I agree with the issues raised by Mr. Mojarrad, and I think it has a point that we have to comply with it.

On the AML/CFT framework, the UAE has made significant strides toward implementing an effective risk-based AML/CFT framework in recent years to ensure that the integrity and the reputation of the country's financial center is safeguarded and that the UAE fully complies with the international standards, as defined by the Financial Action Task Force.

Mr. Fachada made the following statement:

I just wanted to support the comments by other Directors about the transparency policy more generally.

In principle, I think the transparency policy is welcome to protect the integrity of the staff's work, but sometimes it is something that also protects analytical mistakes or errors of judgment. This kind of situation requires a broader debate here at the Board or to have, for instance, a committee of Board members to discuss and analyze specific situations like this one to find a solution.

Mr. Guerra made the following statement:

I would also like to make the same point that was just made by Mr. Fachada to call on staff to reconsider that, under the transparency framework, if it is not clear, if there is some ambiguity, then that should be corrected. And as I understand, this is the case, so we have to deal with this.

Mr. Mouminah made the following statement:

Again, I just want to comment on the transparency policy, echoing what has been said before. I feel sometimes that it is a holy script, to be honest, that nobody can challenge it in the Board. So, again, given the entanglement that we had on the recent discussion, I think we should actually relook at that.

The staff representative from the Legal Department (Mr. Rajah), in response to questions and comments from Executive Directors, made the following statement:

I would just like to clarify a number of points raised with respect to that particular sentence.

Just by way of a preliminary point, I would add that we have previously referenced U.N. Security Council sanctions, as well as FATF standards in previous Article IV reports. This particular reference goes to Recommendation 7, which is current within the Financial Action Task Force standards. It specifically states that countries should implement targeted financial sanctions to comply with the United Nations Security Council resolutions regarding the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing.

The second point I would make is that that particular recommendation, Recommendation 7, is currently applicable to two countries, DPRK and Iran.

The third point I would make with respect to that is that, indeed, since the Joint Comprehensive Plan of Action (JCPOA) came into effect—it was signed in 2015 but actually came into effect on the 16th of January 2016—there were a number of nuclear-related sanctions that have been lifted, pursuant to Security Council Resolution 2231 of 2015. But also, I should emphasize that a number of proliferation-related sanctions and restrictions have remained in place after the implementation date. I also just double checked that this morning as well and specifically went to the U.N. Security Council Resolution 2231 sanctions page that deals with this. It still contains 23 persons and 61 entities.

Given the FATF standard are still operational—yes, indeed, a number of sanctions have been lifted—but there is still an existing list of entities that are actually sanctioned. So these are still, indeed, current. And state parties and member states are measured against the FATF standards, against that particular recommendation.

I would also just add, as a broader measure, that there are also other United Nations Security Council standard sanctions related to Resolution 1267, al-Qaida, Taliban. There is also Resolution 1373 of the United Nations

Security Council, which requires state parties to actually designate entities or individuals for freezing with respect of their financial resources.

The staff representative from the Strategy, Policy, and Review Department (Mr. Fletcher), in response to further questions and comments from Executive Directors, made the following additional statement:

I thank Directors again for the comments. I understand the sensitivity on this issue. I also understand the frustration that some are feeling with the transparency, which tries to balance a number of competing objectives.

As Directors are probably aware, the transparency policy does not allow revisions simply because of an error of judgment or an attempt to change what the staff report is trying to say. Particular deletions of whole material are only allowed if it is highly market sensitive or there is a premature disclosure of policy intension, as many EDs are likely aware. This deletion would not fit either of those criteria. Specifically, the transparency policy says that politically sensitive information that does not fall under either of these two grounds for deletions shall not be deleted. In this context, this is the thinking behind how we have applied the transparency policy in this case to try to clarify ambiguity about whether this was a reference to bilateral sanctions, which was it was not; rather, it was a reference to sanctions specifically covered by the FATF standards, which have been endorsed by the Board.

At the same time, on the broader issue of the transparency policy, we take note of Directors' views on this. My understanding is that the intention is that after the Comprehensive Surveillance Review (CSR), that any review of the transparency policy would occur after the Comprehensive Surveillance Review, given that one would need to see first how that plays out and what the implications it may have for the transparency policy. In the meantime, staff take note of Directors' views on this issue.

The staff representative from the Middle East and Central Asia Department (Mr. Mathai) in response to further questions and comments from Executive Directors, made the following additional statement:

Maybe I will just add very briefly, in a less technical way. In terms of whether it is a correct topic for a team of Fund economists to cover in surveillance, I would only point out that in the FATF evaluation, the mutual evaluation that is going on right now, one of the areas that they are studying in particular is this issue of sanctions and its impact on financial integrity. That was the context in which we thought it is legitimate, and I continue to think it is legitimate for that to be something of discussion in the Article IV.

Mr. Mozhin made the following statement:

Well, I do not know whether I should speak before Mr. Mojarrad, but since I was quicker to push the button, I have no choice.

I thank the Legal Department for clarifying the basis for this sentence, the reference to international sanctions imposed by the Security Council of the United Nations being appropriate, but that is not what is written here. I think if you want to maintain this sentence, you should be clear on what the reference is to, in accordance with what was described by the Legal Department. I mean, I do not know what the purpose of that would be because this is raising a long list of potential traps. And the evenhandedness issue also becomes very prominent in this whole discussion. But if you really feel that this sentence is necessary, make it clear along the lines as described by the Legal Department.

Mr. Mojarrad made the following statement:

I appreciate the clarification made by the Legal Department. I have actually two points.

First, I guess is that the sanctions have never been discussed by the Board. And intentionally, none of us actually brought this up because there is a decision, which is 144, that the Legal Department always prevents those countries that they have been under sanctions to bring it to the Board because this is based on either national security or international security. So the issue of sanctions, which has been basically requested by member countries—in particular, Iran—could not come to the Board because of this decision, which was actually decided in 1952, about 66 years ago and we have also requested to modify that decision. So bringing sanctions to the Board in this particular case or other cases I guess is not really appropriate.

Second, as the Legal Department representative said that U.N. Security Council Resolution 2231 is only referring to Iran, and that is right. That is why the change of the modification is done in the multilateral financial sanctions. Therefore, we really feel that there is a lot of ambiguities. We really strongly recommend that as this sentence really makes no purposes—not helping the UAE, not helping the Board members—I would request that we should really remove that sentence altogether, or fully stop at "misused". That is a general issue that the UAE should be vigilant, and that the financial sector is not being misused should refer to any financial sanctions or country, third party, FATF. As was mentioned, FATF has been basically all over the record, and I guess that is fine. But in this particular case, on the report which is going to be issued, which we are preempting again, that is not also a good idea.

Maybe next year after this FATF report, that could be in the next Article IV consultation of the UAE but not this year. This is really preempting something that we do not know what is the content of the report.

The Acting Chair (Mr. Zhang) made the following statement:

First of all, I thank you for the very good discussion. I think we are in a much better position to understand the facts, the policies. On the transparency policy, we heard today and also on previous occasions a lot of the comments that all of you have raised. The messages were quite clear. We need to review it. Management and staff are proposing to review these policies after the CSR is completed. But if you feel this issue is more urgent, then we could even have an earlier time to review it, if that is the case. If we find that we have serious issues there, then let's address these serious issues on a timely basis before it is too long. At least from my point of view, that could be a sensible option.

The point is we have to review it. We will review it at this moment after the CSR has been completed; but if it is urgent, if you need it, then we can review it at an earlier time. That is on the transparency policy.

On the wording of this sentence, after listening to all of you, we will revisit the wording in line with the Transparency policy.

Mr. Mozhin made the following statement:

Regarding the transparency policy, I certainly welcome your suggestion that perhaps we could have a review of the policy earlier than previously planned. The point I would want to make is this: The purpose of the transparency policy is to prevent the interested country authorities from editing what is in the staff report. The whole purpose of this transparency policy is not to allow the interested country authorities to review or revise the language of what is in the report. But at the same time, this report is supposed to be the view of the Board, not the view of the staff. That is very key. We are saying that this is the view of the international community. It is the Board. When there are objections from the Board, rather than from simply interested country authorities, it is an entirely different situation. The transparency policy simply should not be applicable in such a case when the Board has objections, not the country authorities or the interested country authorities. I think this difference should be very clear. This is not a case where this transparency policy is strictly applicable.

Mr. Raghani made the following statement:

Just a point I wanted to make on the transparency policy. Nobody contests the question. The purpose of this policy is to allow the staff to be independent and to make a judgment independently without any influence. But also, if there is a case where there is a mistake and the Board decides on this point, and we use the transparency policy to say, no, no, no, we cannot make any change because of transparency, this is something very disappointing.

The transparency policy is good. It is well designed, but the issue is the implementation. We have to avoid any abuse. And when this body decides something, we have to follow it because this is rules. I want to make this point. I am sorry because we were very, very disappointed by the way that the case of trafficking in persons was managed.

The Acting Chair (Mr. Zhang) made the following statement:

Thank you, Mr. Raghani. I do not want to open the discussion on the transparency policy itself.

Ms. Levonian made the following statement:

I just wanted to say that this chair has repeatedly called for a review of the transparency policy. I would certainly support an earlier review, as you just raised.

Mr. Fachada made the following statement:

We have the same point as Ms. Levonian. We welcome the earlier review of the transparency policy. The sooner, the better.

Mr. Rozan made the following statement:

And us as well, I think the earlier the better.

Mr. Beblawi made the following concluding statement:

At this point, I think it is very important to take the point raised by Mr. Mozhin. This is a decision made by this point. And if the Board is not supporting, it is better to remove it. For my authorities, this will create a sensitivity and for their economic and the current situation. I think it is very important to take this into consideration.

The Acting Chair (Mr. Zhang) made the following statement:

Thank you, Mr. Beblawi. I think all the discussion, and viewpoints will be reflected truthfully and accurately in the summing up.

The staff representative from the Strategy, Policy, and Review Department

(Mr. Fletcher), in response to further questions and comments from Executive Directors, made the following additional statement:

Just to reiterate a point. On the issue of correcting ambiguity, if there is a feeling that there is still ambiguity in the statement that can be corrected, we are certainly open to that and are happy to have discussions following the meeting. We take note of the point that there has been a request for a change to the section.

The Acting Chair (Mr. Zhang) noted that the United Arab Emirates is an Article VIII member and no decision is proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their stepped-up structural reform efforts in recent years in the face of weaker global economic conditions and low oil prices. They took positive note of the authorities' success in economic diversification and recognized the UAE economy's improved near-term prospects. At the same time, Directors stressed that the downside risks to the economic outlook have risen and underlined the need to ensure strong growth potential over the long term.

Directors emphasized that continued structural reforms to foster private-sector development and economic diversification will be critical. They urged the authorities to continue to reduce the cost of doing business and improve the efficiency of assistance to small- and medium-sized enterprises. They also encouraged rethinking other features of the economy—such as the role played by government-related entities and public-sector wage bill policies—to enhance competition and strengthen incentives for private-sector development. Building human capital and modernizing labor markets will also be important.

Directors agreed that further strengthening the financial sector would also facilitate continued economic diversification. They commended the authorities' progress in enhancing the regulatory and supervisory frameworks, particularly for real estate lending, and took positive note of their plan to request an FSAP assessment in 2023. Directors encouraged continued efforts to develop the domestic capital market and welcomed the recent approval of the federal debt law, which will help develop a benchmark yield curve. Directors recommended further strengthening the framework for anti-money laundering and combating the financing of terrorism. Some Directors disagreed with the reference to sanctions in the staff report related to risks in the UAE financial sector.

Directors noted the importance of a transparent, rules-based fiscal framework, taking into account the UAE’s decentralized structure. Such a framework, guided by a fiscal anchor, could help deliver the consolidation needed to ensure sufficient intergenerational saving while also facilitating short-term stabilization. Given that different emirates are likely to require their own frameworks, Directors underscored the importance of effective fiscal coordination to ensure coherent policymaking and welcomed the authorities’ progress in this regard.

Directors commended the strides made in improving economic statistics and the implementation of the Enhanced General Data Dissemination System. They emphasized the need for further improvements to facilitate economic decision-making and enhance transparency.

It is expected that the next Article IV consultation with the UAE will be held on the standard 12-month cycle.

APPROVAL: September 23, 2022

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and Risks

1. ***Apart from the impact of Expo 2020, what would be the main drivers of the pick-up in growth in 2020, and to what extent would the Expo contribute to the projected rise in growth when much of the investment spending has already taken place?***

Preparations for Expo 2020 and the event itself are the main drivers of the expected acceleration of growth in 2020. Although significant investment has already taken place, sizable expenditure is still planned and, more importantly, the event itself is likely to boost growth by generating a surge in tourist arrivals.

An additional, smaller, contribution to growth in 2020 could come from faster implementation of Abu Dhabi's fiscal stimulus as well as stabilization of the real estate market and lower global interest rates.

2. ***Could staff elaborate on the differences between staff and the authorities' views regarding the nonoil and oil growth outlook and risks?***

Staff and the authorities agree that non-oil growth will likely accelerate sharply in the coming months, with Expo 2020 as a major driver. The authorities are somewhat more optimistic than staff about the recovery of tourism and real estate as well as the impact from fiscal stimulus. Over the longer term, the authorities are more optimistic about sustained growth prospects for traditional sectors like tourism and real estate based on the growing middle class in Asia and elsewhere.

As for oil growth, staff and the authorities share the same near-term outlook. Over a longer horizon, the authorities recognize the likely slowing of global oil demand but see continued strong prospects for the UAE—and, indeed, are planning a substantial capacity expansion—given the country's low production costs and increased investment in downstream industries (refineries and petrochemicals). Staff acknowledge the positive impact from these investments while pointing out that they would take time to materialize. Moreover, current trends in global oil supply, notably the growth of the shale industry, could limit the scope for further growth of low-cost producers' market share.

3. ***Given the escalated geopolitical tensions in the region since the report was issued, staff's comments on the vulnerability of UAE's economy to geopolitical tensions are welcome***.

As a major regional hub, the UAE could be vulnerable to adverse changes in trade and financial flows given the changing geopolitical background and its possible implications for investor and business sentiment. These risks could, however, be somewhat mitigated by the UAE's role as a safe haven for regional investors. Forecasting the overall impact of recent tensions on the UAE is, naturally, a difficult exercise.

Fiscal Policy

4. ***Could staff provide an update on the implementation of the 2018 Article IV recommendations related to improvements in the fiscal framework? Could staff elaborate more on how to ensure effective fiscal policy coordination?***

At the time of the 2018 Article IV Consultation, staff provided advice on strengthening fiscal policy coordination, the policy-making process, and institutional arrangements to ensure synchronized formulation of emirate-level fiscal plans and their link to national socioeconomic objectives and fiscal risks. The authorities have made some progress with improving technical coordination, including data exchange, between various fiscal authorities as well as with assessment of fiscal risks, supported by IMF technical assistance. However, there remains significant scope for improvement, notably in three key areas: (i) adoption of clear fiscal anchors at each emirate and the federal government; (ii) adoption of medium-term budget frameworks and synchronization of budget planning processes to ensure that they are based on a common macroeconomic framework and assumptions as well as consistent with national objectives; and (iii) coordinated assessment and mitigation of fiscal risks.

5. ***What is staff's assessment of the 2020 budget of the Federation, Dubai and Abu Dhabi, and of the underlying macroeconomic assumptions?***

At this stage, general parameters of the 2020 budget have been announced only by the federal government and the emirate of Dubai. The federal government's budget, announced in October 2019, appropriately targets a budget balance and is expected to increase by 2 percent from last year. This is broadly in line with staff's projections. Dubai's 2020 budget was announced a few days ago and envisages a 16-percent increase in Expo-related expenditure; a 25-percent increase in revenue; and, consequently, a reduction in the overall deficit. By contrast, staff's current projections feature slower revenue growth (4 percent) and a broadly unchanged fiscal deficit in 2020. Staff have yet to discuss with the authorities the policy plans underpinning the Dubai budget.

6. *Could staff comment on whether the authorities consider using the non-oil primary deficit as an indicator in their budget process or the fiscal framework?*

The authorities agree with the usefulness of the non-oil primary deficit, particularly for oil-rich emirates like Abu Dhabi, and have been using it to gauge the fiscal stance. Staff's understanding is that this measure will be targeted in the new fiscal framework being developed by Abu Dhabi.

7. *Could staff comment on possible tools for automatic stabilizers and elaborate on the main revenue measures that could be adopted over the medium term?*

Automatic stabilizers are small in the UAE, owing to a relatively small fee-based system of nonoil revenue base and largely inelastic expenditure. The recent introduction of VAT provides an opportunity to strengthen automatic stabilizers by gradually raising the rate toward international norms. Longer-term options include gradual replacement of government fees with income-based taxation (e.g. a corporate income tax) and more explicit linking of social benefits to the economic cycle. Against this background, there will likely remain some role for discretionary, active stabilization efforts, going beyond automatic mechanisms.

8. *Could staff comment on the magnitude of the difference between staff and the authorities' assessment of the short-term fiscal stance?*

Staff and the authorities broadly share the assessment of an accommodative fiscal stance in 2019. In anticipation of the expected acceleration in growth, staff recommended gradual tightening of the fiscal stance to ensure adequate intergenerational saving. The authorities prefer to maintain a more accommodative fiscal stance until growth momentum strengthens further.

9. *Are fiscal multipliers likely to be small in more open economies such as the UAE irrespective of cyclical conditions*?

Fiscal multipliers in the UAE are expected to be small for two reasons. In the short term, the economy's openness—large imports and significant outward remittances—imply leakage of fiscal expenditure which reduces its impact on aggregate demand. In the longer-term, the size of fiscal multipliers is determined by the ability of additional government expenditure to generate lasting growth effects, i.e. marginal productivity of public investment. In a mature economy with state-of-the-art infrastructure like the UAE, growth impact from additional public investment is expected to be small. Both of these reasons stem from structural features of the economy. Consequently, fiscal multipliers are expected to be small irrespective of cyclical conditions.

10. *Could staff comment on the authorities' views regarding the assumptions used by staff to prepare the PIH calculations?*

The authorities made a general observation about the sensitivity of these calculations to the underlying assumptions but expressed no specific disagreements.

Structural Reforms

11. *Could staff provide an update on the status of the implementation of the Equal Pay and Gender Equality Law adopted in 2018?*

Staff's understanding is that the law is in full effect and requires equal wage and nonwage benefits to be accorded to male and female employees.

12. *Can staff provide an update on the status of discussions on privatization of GREs and public divestment from non-essential economic activities?*

This was a major topic of discussion in past Article IV Consultations, and the idea of revisiting the role of GREs in the economy remains a key piece of policy advice. Staff's specific recommendations last year included identifying a list of non-strategic GREs and adopting a strategy for increasing private sector participation and/or gradual privatization. In recent months, several GREs have expressed their intention to proceed with initial public offerings to increase private sector participation. The Abu Dhabi National Oil Company has also been attracting private partnerships in various forms. Nevertheless, staff's understanding is that a comprehensive privatization strategy is not in place.

External Sector Policy

13. *Could staff comment on the possibility and circumstances that would prompt the authorities to prepare to ditch the dollar peg?*

The authorities have expressed their unconditional commitment to the peg.

14. What is staff's assessment of the adequacy of reserves and the management of sovereign wealth funds?

The authorities' foreign exchange reserves are adequate, especially if assets of the sovereign wealth funds are included, which would bring the reserves to about 500 percent of the IMF's reserve adequacy metric.

The UAE's sovereign wealth funds are under professional management with well-developed investment strategies, but staff have limited information on how they are managed.

Financial Sector

15. ***Could staff provide more details on the results of the national risk assessment referenced in ¶19.***

The National Risk Assessment has not been shared with staff.

16. ***What are staff's views on the role of the hawala financial network.***

The hawala network plays an important role in facilitating remittances, particularly by low-skilled expatriate workers in the UAE. At present, all hawala brokers are subject to the central bank's registration requirements and provide basic reporting, including on suspicious transactions. Nevertheless, the hawala network presents ML/FT risks, and staff understand that strengthening the network's regulation is subject to the authorities' ongoing discussions with the Financial Action Task Force. Specific policy plans in this area have not yet been announced.

17. ***Could staff elaborate on the factors behind the protracted decline in the real estate prices and the expected impact of the revised regulation on real estate lending?***

Since 2015, real estate prices have been declining throughout the GCC region and reflect the impact of lower oil prices on regional wealth. In the UAE, additional factors could include the departure of some expatriates in connection with corporate restructuring as well as strong expansion of supply of both commercial and residential real estate.

The new regulation being developed by the CBUAE envisages a risk-based approach that would allow banks to expand their lending to the real estate with additional provisioning for larger exposures.

18. **Could staff comment on progress in developing and regulating crypto assets in the UAE?**

The UAE has been pioneering the use of modern technologies in the region. The Securities and Commodities Authority approved a plan in 2018 to recognize crypto assets as securities. The UAE government plans to have 50 percent of federal government transactions implemented via blockchain, and some emirates have already started using them. Financial free zones, such as Abu Dhabi Global Market, are also actively developing plans for using crypto assets for transactions.

SME Promotion

19. ***Can staff elaborate on the authorities' plan to develop a new SME strategy*, *the role that the Fintech sector can play on supporting SMEs development, and the main elements of the national strategy to mobilize additional financing for SMEs?***

The authorities have long worked on the SME development agenda. Most recently, an interagency SME Working Group has identified 17 measures to enhance SME financing and development centered on financing, the institutional framework, and the SME ecosystem. The authorities realize the potential fintech can have on SME development and are about to create a specialized office at the central bank. The UAE's leading banks have introduced new fintech products targeting SMEs, and several companies in the free zones crowdfund SMEs. Taken together, these efforts should help to increase SMEs' financial inclusion and their role in the economy.

20. ***Could staff comment on the implementation progress of CBUAE's draft regulations to encourage financial institutions to facilitate development of the SME sector?***

The regulations are being finalized following earlier comments provided by staff.

21. ***Could staff comment on the authorities' skepticism about establishing a single SME promotion agency?***

Staff recommended a single agency to harmonize SME promotion policies and incentives across emirates as well as to ensure efficient use of resources. The authorities prefer separate SME-promotion agencies in each emirate to account for the decentralized setting.

Other

22. ***Can staff provide further details on upcoming technical assistance to address capacity constraints in national statistics?***

The authorities have requested technical assistance to strengthen BoP statistics (expected in March 2020). In the past, extensive technical assistance covered national accounts, price, fiscal, monetary, and external sector statistics.

23. ***We object to the inclusion of the wording "to contravene Iran sanctions" in the last sentence of ¶19. Such wording could be constructed as the Fund condoning imposition, and monitoring compliance, of economic sanctions by a Fund member against another member. We, therefore, request, under the rule of "evident ambiguity, i.e. the possibility of***

a plausible, specific, misinterpretation" of the Fund's Transparency Policy, to modify the sentence by removing "to contravene Iran sanctions".

A correction has been issued on grounds of evident ambiguity. The corrected language clarifies that reference is being made only to multilateral financial sanctions in line with FATF standards, which have been endorsed by the Board.