**ARAB MONETARY FUND (AMF)**

**Statement by**
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On behalf of the Arab Monetary Fund (AMF), I would like to express my sincere thanks and gratitude to the G-24 Secretariat for the kind invitation to participate in the G-24 Ministerial meeting as an observer. The G-24 is an important coordination platform for developing countries, and I am pleased to address you on recent economic development and the critical importance of deepening the local capital markets in our region to create additional channels for financing infrastructure and development projects.

## The Global and regional Economy

The global economy is expected to grow at a relatively high pace in 2018 and 2019 reflecting the recent rebound in investment activities which reinforce global aggregate demand. However, risks to the outlook are mounting amid rising trade tensions and higher interest rates from the unwinding of accommodative monetary policy in advanced economies. Therefore, tighter global financial conditions could cause relatively sharp exchange rate movements and capital outflows from emerging markets, putting the achievement of their growth objectives at risk.

Economic growth in the Arab region has improved in 2018 due to an increase in global demand, rising oil prices, as well as positive effects from implementation of reform programs. Overall, the growth rate of Arab countries as a group, according to AMF estimates, has been revised upward to 2.3 percent in 2018, while the growth rate for 2019 is kept unchanged at around 3.0 percent.

In Arab oil-exporting countries, short-term economic prospects have improved due to the recovery in oil prices, but medium-term growth prospects remain constrained by the need to advance fiscal consolidation to rebuild buffers. Yet, continued commitment to economic diversification and fiscal consolidation should boost investor confidence and help achieve stronger growth in the longer-term. Regarding Arab oil-importing countries, the recovery reflects gains from ongoing reforms, improved domestic confidence, and the upturn in external demand. To meet the large needs of their population, Arab countries are committed to accelerating structural reforms implementation and move to a new growth model that promotes diversification and private sector development with a view to achieving higher and more inclusive growth.

## Infrastructure as driver to economic growth and sustainable development

The rebound of the global economy provides a window of opportunity for policymakers to address economic challenges and accelerate progress toward the Sustainable Development Goals, particularly in developing countries. These economic challenges include the need to foster economic diversification, reduce income disparities, enhance human capital, strengthen and put in place the governance frameworks needed to increase productivity and competitiveness.

We reiterate the importance of the 2030 Agenda for Sustainable Development. One of the key requirements to achieve the Sustainable Development Goals (SDGs) is to boost investment and find the necessary resources. To do so, emerging markets and developing countries are focusing on developing local capital markets to raise additional sources of funding.

Similarly, Arab countries will require billions of US dollars equivalent in investment in infrastructure to meet the aspirations of their peoples for economic growth, reconstruction and job creation. The World Bank has estimated that for every $1 billion invested in infrastructure there is the potential for 110,000 jobs in the oil importing countries, 26,000 jobs in the Gulf countries and 49,000 jobs in the developing oil exporting countries. The same report puts annual infrastructure needs in the Arab region at about $106 billion. While efforts have been made in the region to raise resources, the actual level of investment falls short of these amounts.

With a young and rising population, our region needs robust economic growth to generate jobs in order to meet the ambitions of its peoples for decent life and opportunities. We all recognize that sustainable economic growth requires a broader set of reforms that go beyond infrastructure and which aim at generating a more dynamic private sector, improving efficiency and accountability of the public sector, and improving access to finance for small businesses and the population. Moreover, it is widely known that investment in infrastructure can demonstrate relatively quick gains in employment, restore confidence, and improve the environment for economic growth. Likewise, provision of quality infrastructure itself would help our region to meet social goals through delivery of services such as hospitals, schools, water and sanitation that improve the quality of everyday life.

## Local capital markets as crucial source of funding

The increasing fiscal constraints facing the globe including Arab countries is putting pressure on their abilities to finance economic and social development. Against this backdrop, capital markets can help to bridge the investment and employment gaps. They can help attract long-term foreign capital, and through long-term partnerships with the private sector, facilitate technology and skills transfer. Indeed, reforms meant to develop these markets are currently yielding positive results by the upgrade of a number of Arab markets from “frontier market” status to “emerging market” ratings by global index providers as well as by the inclusion of some Arab countries into an influential global emerging market bond index. Likewise, the pace of development of domestic government debt markets has accelerated on the basis of strong commitments to sound sovereign debt management and issuance practices.

Capital markets also facilitate the funding of infrastructure with limited impact on government budgets. Looking ahead, bonds secured principally by cash flows, or by cash flows combined with a general pledge, (“covered bonds”), can offer the benefit of strong credit and may offer longer-term financing than bank lending. Infrastructure bonds from Arab countries will find investors initially in international markets, and over time Arab local bond markets will play an increasing role.

## Opportunities & challenges of developing local capital markets in Arab countries

Conditions necessary for closing the region’s infrastructure and employment gaps certainly include macroeconomic stability, dissemination of information and transparency, development of domestic markets, as well as the choice of sustainable projects. At the same time, new innovations can and are being harnessed. New financial technologies are rapidly evolving and are being applied to help Arab markets become more transparent and integrated into global markets. Likewise, market innovations that support sustainable finance in the Arab region such as Green Bonds and Green Sukuk are being worked on actively and hold great promise.

Still, raising the levels of national investment will require more financing than is currently available. Infrastructure funding requirements in the Arab region have traditionally been satisfied by a combination of public investment, multi-lateral official project lending, and commercial bank credits. However, the circumstances that have facilitated reliance on bank lending are changing, namely the consequences of higher capital and liquidity requirements due to the implementation of Basel III. Local currency capital markets, and secured project bonds could serve as alternative avenues for infrastructure financing. The Arab Monetary Fund (AMF) is keenly aware of our region’s need to develop and access new sources of investment capital and seeks to deepened cooperation with its members in this regard.

## AMF strategy to support Arab countries in developing their local debt markets

Necessary reforms that are ongoing and deserve continued support include securing robust domestic currency yield curve based on government issuance, and enhancing domestic liquidity. Moreover, market development plan will involve widening the investor base and the private issuers pool as well as strengthening insolvency frameworks and enabling securitization of cash flow assets.

The AMF is committed to supporting the expansion of capital markets financing for infrastructure projects, this will be in line with the International Financial Institutions (IFIs) aiming at bolstering economic growth through long-term financing.

The AMF is being devoted to support Arab countries by adopting the ADMDI initiative "Arab Debt Markets Development Initiative", which is a joint initiative of the Arab Monetary Fund (AMF) and the International Monetary Fund (IMF). The Arab Debt Market Development Initiative (ADMDI) aims to improve the efficiency and enhance the functioning of the public and corporate debt markets in Arab countries through Technical Assistance projects. To do so, the initiative assesses issues and challenges related to the framework of public debt management and the development of debt capital markets. Through its findings, ADMDI intends to promote policies and action plans for the region that are consistent with international best practices.

The AMF values the World Bank Group (WBG) contribution to the ADMDI joint missions and calls all relevant international partners from financial institutions to consolidate efforts that build a synergy for the benefit of the Arab region. The joint programs aim to boost debt markets developments in term of regulations, institutional framework, governance, policies to create market liquidity, as well as enhancing market infrastructures and introducing new capital markets tools.

In addition, more collective efforts can be made in identifying challenges to mobilize private capital for green investment. Many of these challenges can be addressed by financial innovations, knowledge sharing and capacity building, risk analysis and international cooperation.

Finally, we all recognize the important link between investment in infrastructure and development of long-term investors such as pensions and insurance sector. This connection is not only important to create a source of funding for infrastructure, but also to contribute to the long-term sustainability of pension systems, which require quality long term investments with adequate returns such as those commonly available through infrastructure. Supporting Arab countries in their efforts to reform their pension systems, is a high priority for the Arab Monetary Fund.

There are no illusions about the scale of the infrastructure challenge for our region and we all are well aware that tackling the needs of a diverse region of 22 countries is well beyond the financial capability of one single institution. The Arab Monetary Fund is keenly aware of our region's needs to develop and access new sources of investment capital and seeks to deepen cooperation with its partners on this regard. We call for further and productive dialogue towards ensuring the synergy of all relevant international partners to increase the use of capital markets for investment financing. For this reason, the AMF wishes to forge a critical alliance with trusted partners to support region efforts in addressing the important issue of infrastructure finance through local capital markets.

We are committed to adopt a progressive investment agenda of infrastructure and development projects through deepening the local markets. We all believe that a consistent regional approach is needed, then, we encourage IFIs to optimize and take joint actions to formulate ambitious programs to support infrastructure investment through capital markets financing, including catalyzing private sector funding.

We look forward to further work on launching a Global Initiative to build the synergy and enhance cooperation for infrastructure financing, including those at regional level. We call our international partners to adhere to a joint action plan to promote diversified financing instruments for infrastructure through local capital markets.

To conclude, let me reiterate, once again AMF appreciation for the Group of Twenty-Four for the opportunity given to tackle these critical issues for Arab region.

Thank you.

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