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Statement by Stanley Fischer
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at
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Mr. Chairman, Your Excellencies, Ladies and Gentlemen:

Let me begin by thanking the organizers for inviting the IMF to participate in this important event. The annual Gulf Economic Forum conferences have provided important opportunities for substantive and open discussion of issues facing the region. On a personal note, this is my first Gulf Economic Forum Conference, and I am honored to be able to participate on behalf of the IMF. I would like to discuss with you some of the important policy challenges and opportunities facing the GCC countries as a result of changes in the domestic, regional, and international economies.

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The importance of the GCC countries in the global economy is well understood. They have over 50 percent of the world's proven oil reserves and account for a quarter of world production and 40 percent of world exports of petroleum. They hold 14 percent of the world's proven natural gas reserves. With an average per capita income above US$8,300, the GCC countries also enjoy one of the highest living standards among developing country groupings.

With the sharp rise in international oil prices during the 1970s, the GCC countries moved quickly to build up foreign assets, create a modern infrastructure, diversify their economies, and develop an extensive welfare system. At the same time, large investments in human capital substantially improved literacy, health, and other social indicators.

However, this strategy relied on an uncertain oil market. The weakening of oil prices in the 1980s required the GCC countries to adjust to declining levels of oil income. These efforts were interrupted by the Gulf crisis in 1990-91 which created major economic dislocations, particularly for the countries most directly involved in the conflict. The GCC countries emerged from the Gulf crisis in a more difficult economic and financial position, at a time when the needed adjustment process was further complicated by the continued weakness in oil prices and the slow pace of global economic recovery.

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elimination of import exemptions and from a widening of the domestic tax base through broad-based consumption taxes and more forceful income taxation. Taxation is never popular, but as the late President of the United States, Franklin D. Roosevelt said, "Taxes, after all, are the dues that we pay for the privileges of membership in an organized society."

Expenditure policy should be directed at curbing the growth of the government wage bill and reducing unproductive outlays. The efficiency of public sector investment always needs to be assessed and reassessed. Adjusting utility rates to cover costs of production and introducing or increasing fees and charges on government services--which are currently provided free or below cost--would generate additional resources for the budget and in many cases reduce excess usage.

Improving fiscal performance is a necessary condition for sustaining a high rate of economic growth. But it is not sufficient. Indeed, fiscal consolidation may well have a short-term dampening effect on non-oil activities given the dependence on government expenditure. It is therefore appropriate, as well as essential, that the GCC countries are strengthening the enabling environment for private sector investment--by improving the regulatory framework and physical, financial, and social infrastructure.

A number of other policies are relevant in this regard, in particular:

- Eliminating implicit and explicit subsidies--not only to generate resources for the budget, but also to improve resource allocation;

- Expanding both the scope and coverage of privatization programs to ensure private sector decision-making and majority ownership, and the liberalization of rules regarding foreign direct investment;

- Encouraging higher financial flows, including increased equity financing, for the private sector; this requires a sound regulatory framework and a broader participation of foreign investors.

The third pillar of adjustment and reform--human resource development--assumes particular importance in the context of the GCC countries' rapidly growing populations. With about 60 percent of the population below the age of 25, the GCC countries face the challenge of developing and finding employment for a large number of nationals entering the labor force.

Mr. Chairman, the IMF is proud of its active relations with the GCC countries, both at the individual country level and at the regional level through the GCC Secretariat. We are also extremely grateful for the financial support provided by the GCC countries to bolster the IMF's lending facilities--be it through the General Arrangements to Borrow or by providing funds for low income countries through the Enhanced Structural Adjustment Facility.

Through our regular annual economic consultations, the IMF will continue to review with the GCC country authorities economic developments, prospects, and policy implications. We also stand ready to provide further technical assistance in our areas of expertise. You can be assured that we will continue to work closely with the authorities in the GCC countries and assist them in all possible ways.

Thank you, Mr. Chairman.