



International Monetary Fund

**Macroeconomic Developments and Prospects in Low-
Income Developing Countries**

The IMF and the 2030 Development Agenda

Sean Nolan and Stefania Fabrizio
Strategy, Policy, and Review Department

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Structure of the Presentation

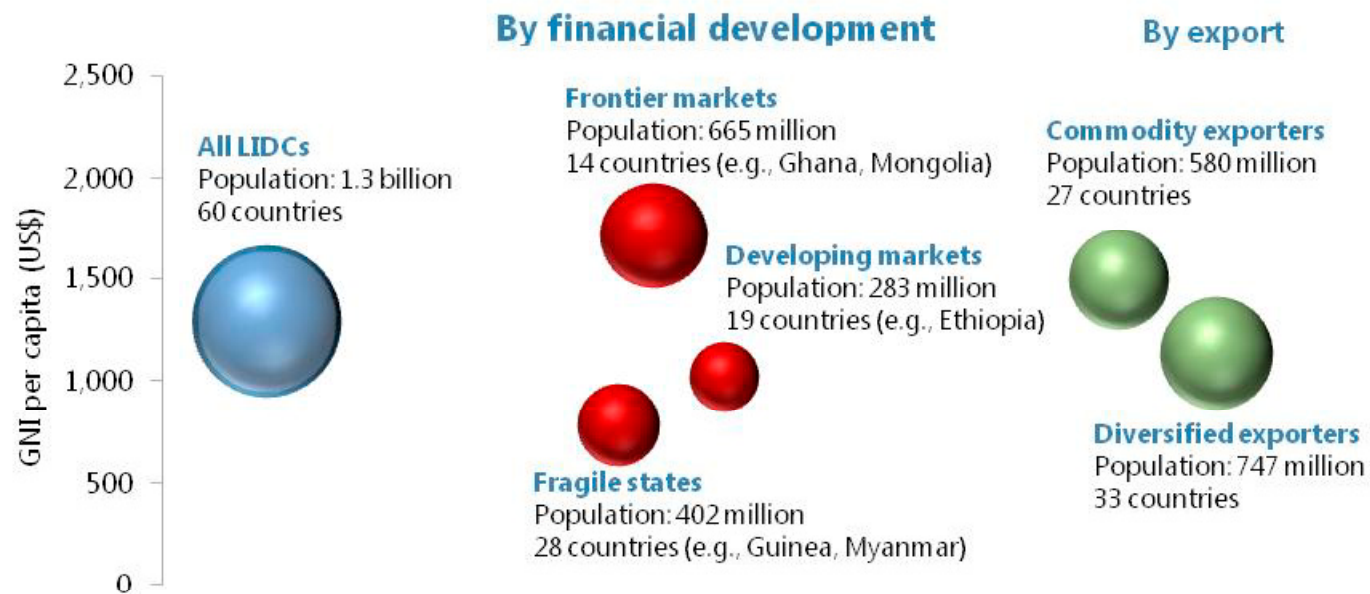


- The 2015 Low-Income Developing Countries (LIDCs) report
 - A) Recent Macroeconomic Developments and Outlook
 - B) Short and Longer-term Macroeconomic Vulnerabilities
 - C) Private Capital Inflows to LIDCs
- The 2030 development agenda
 - New IMF Deliverables

Low-income Developing Countries



LIDC Sub-Groups by GNI per Capita and Population, 2014



Commodity-dependent exporters? Who's who?



- Commodity-Dependent Exporters

Nigeria

Uzbekistan, Sudan, Yemen

Bolivia

Zambia, DRC

- “Diversified” Exporters

Bangladesh, Vietnam, Myanmar

Ethiopia, Kenya, Tanzania, Ghana

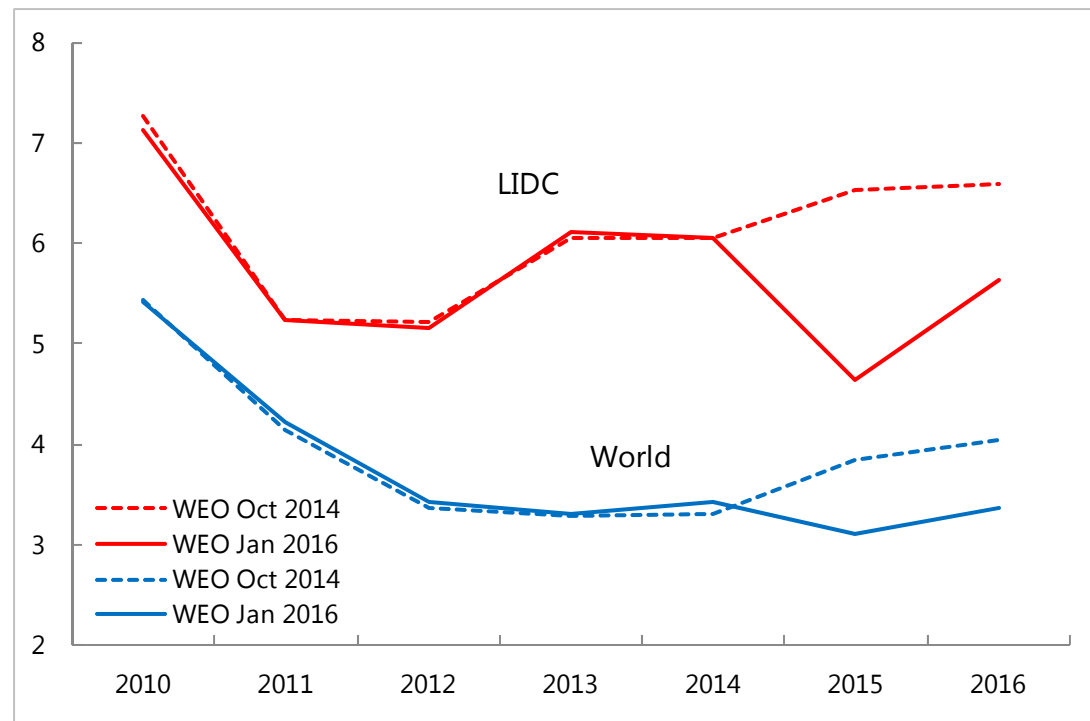


A) Macroeconomic Developments and Outlook

Global Growth and LIDC Performance



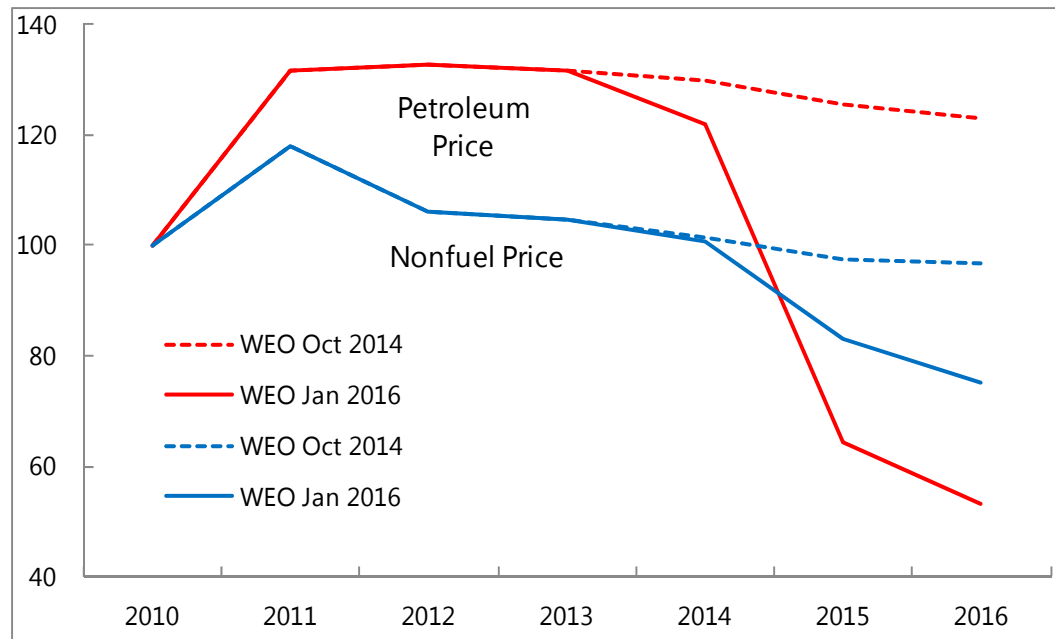
Real GDP Growth, 2010-16
(Weighted average, percent)



The Game Changer: Commodity Price Movements



Commodity Prices, 2010-16
(Index, 2010=100)

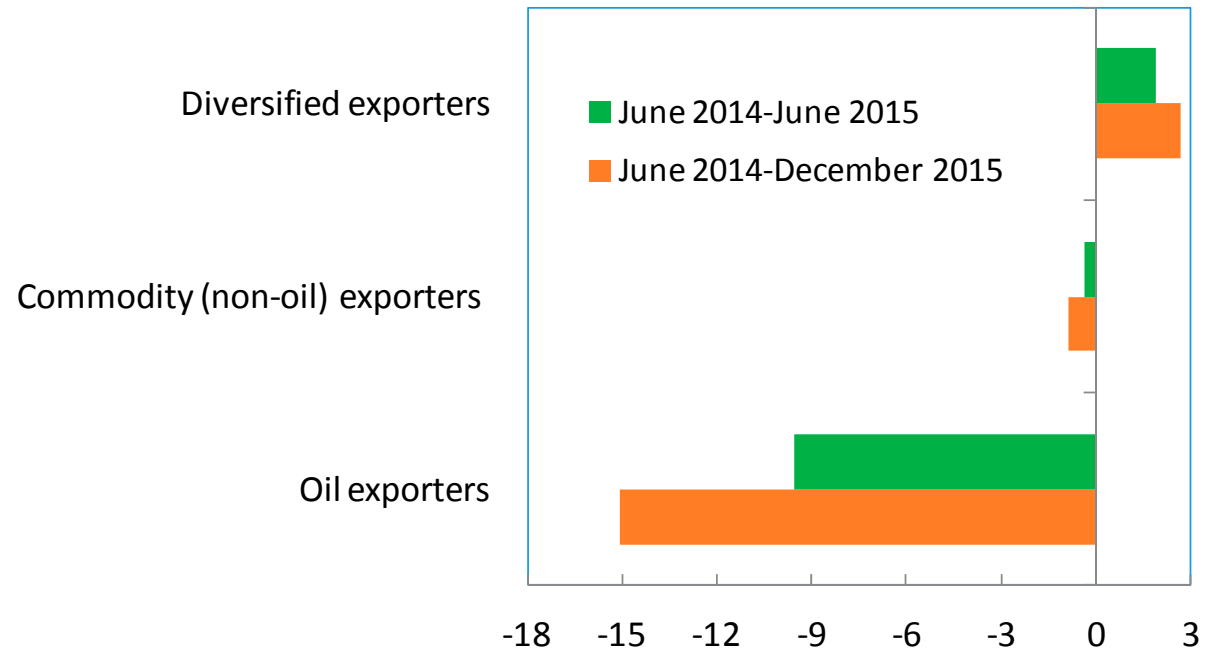


Commodity Price Declines: The Income Effect



Net Impact of Commodity Prices on Income of LIDCs, 2014-15

(In percent of GDP)



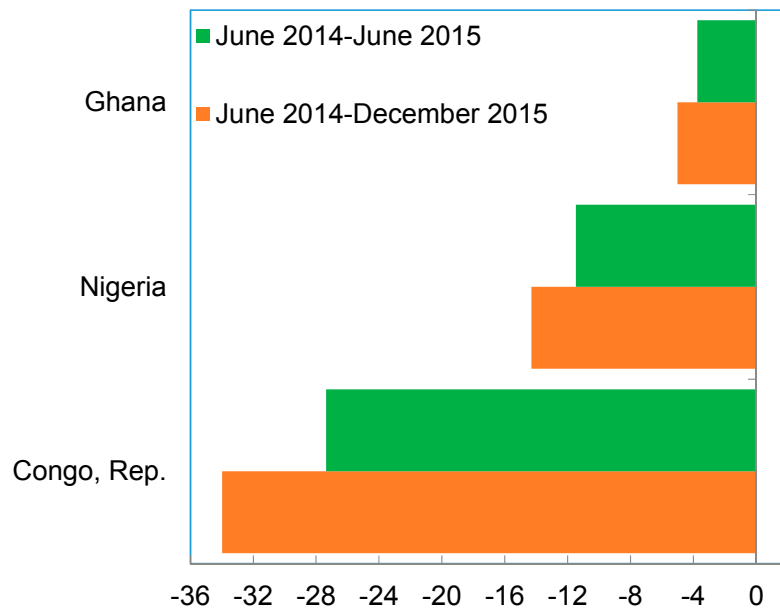
...with Oil Exporters Hardest Hit



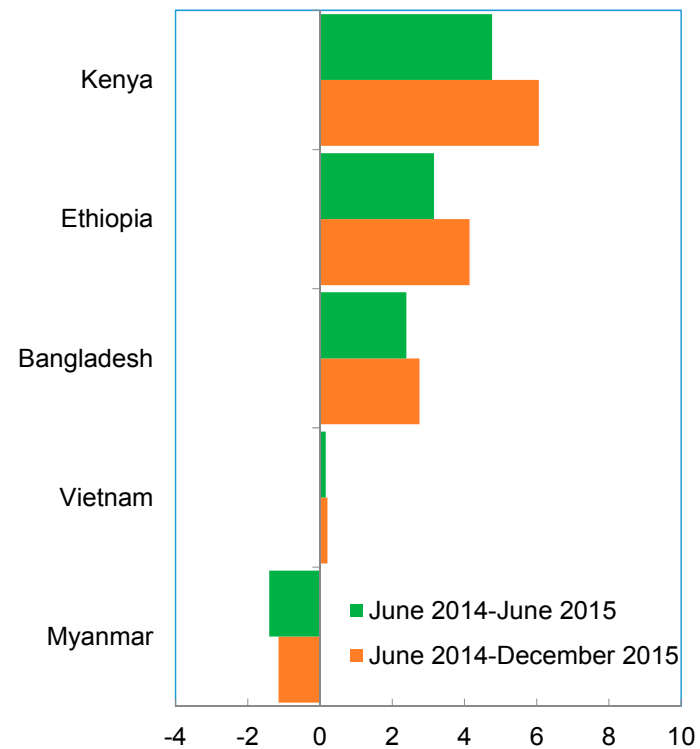
Net Impact of Commodity Prices on Income , 2014-15

(In percent of GDP)

Selected Oil-Exporters



Selected Diversified Exporters



Commodity Price Declines: Second Round Effects

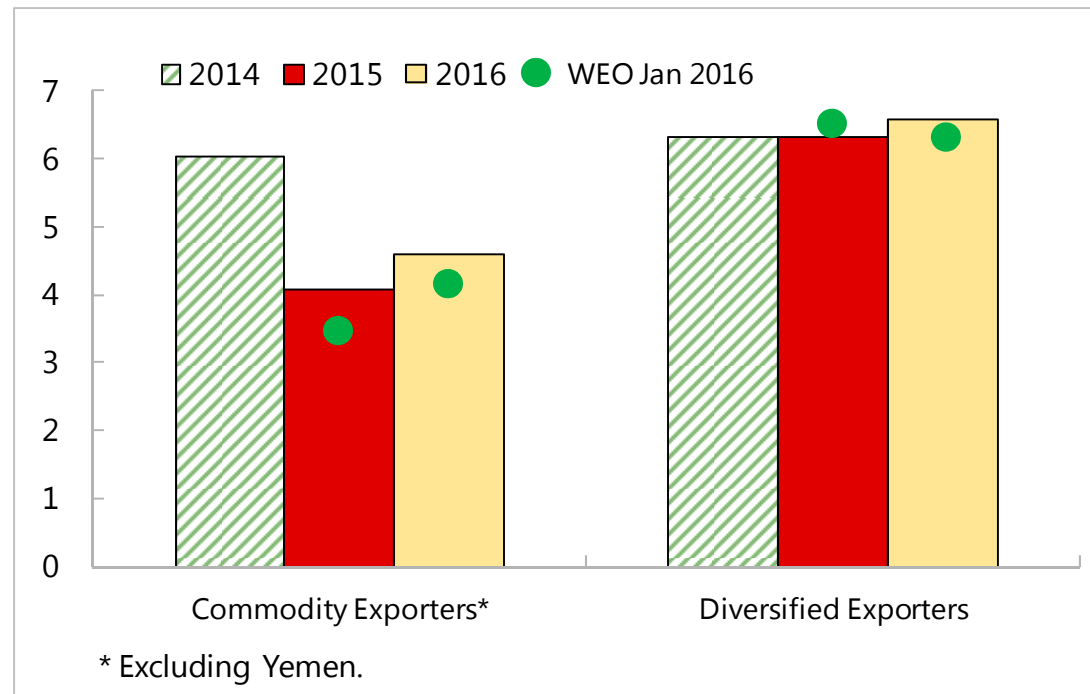


- Supply response: exports and employment
- Investment response
- Income distribution: locals versus foreigners

Divergent Growth Experience



Real GDP Growth, 2014-16
(Weighted average, percent)

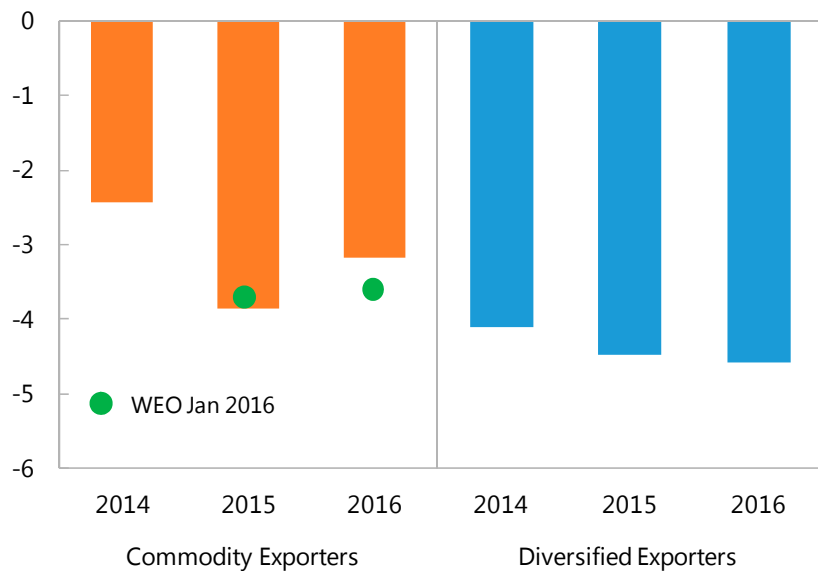


Fiscal Positions are Hit



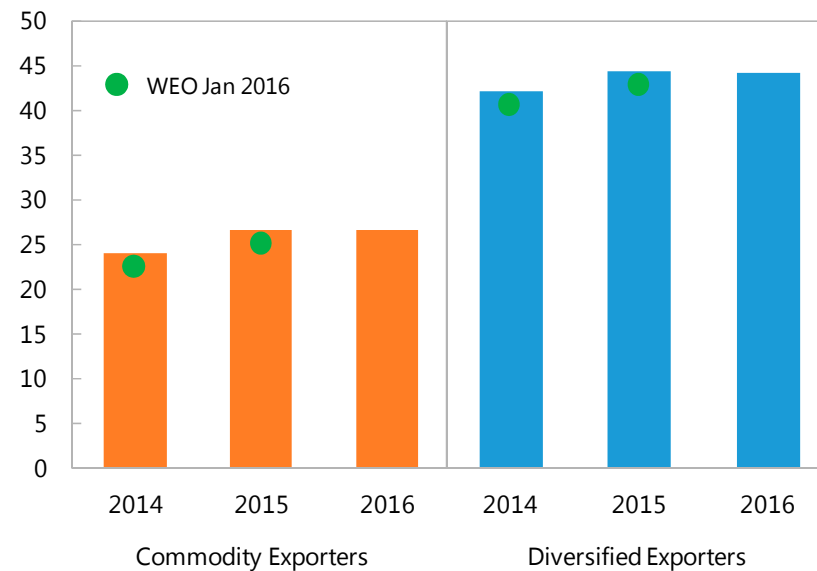
Government Fiscal Balance, 2014-16

(Percent of GDP; PPP-GDP weighted average)



Public Debt, 2014-16

(Percent of GDP; PPP-GDP weighted average)

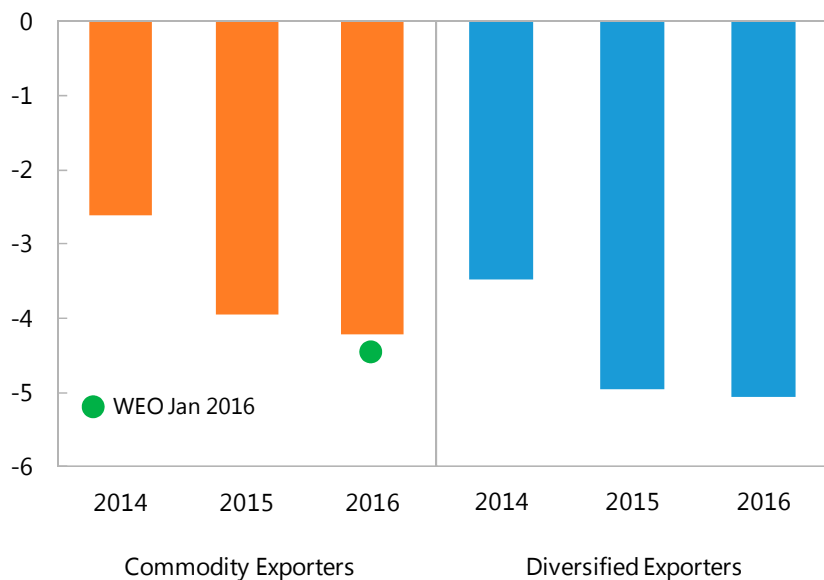


External Positions Weaken—but Drivers Vary



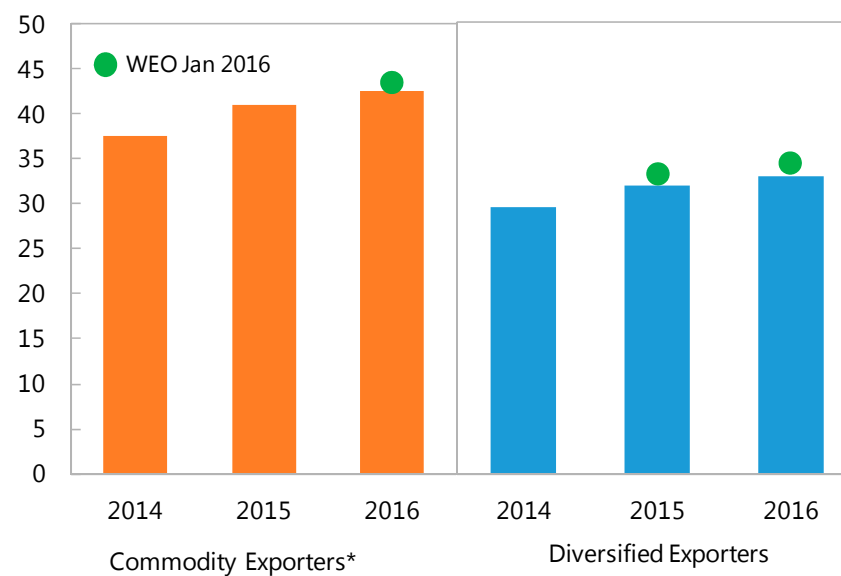
Current Account Balance, 2014-16

(Percent of GDP; PPP-GDP weighted average)



External Debt, 2014-16

(Percent of GDP; PPP-GDP weighted average)

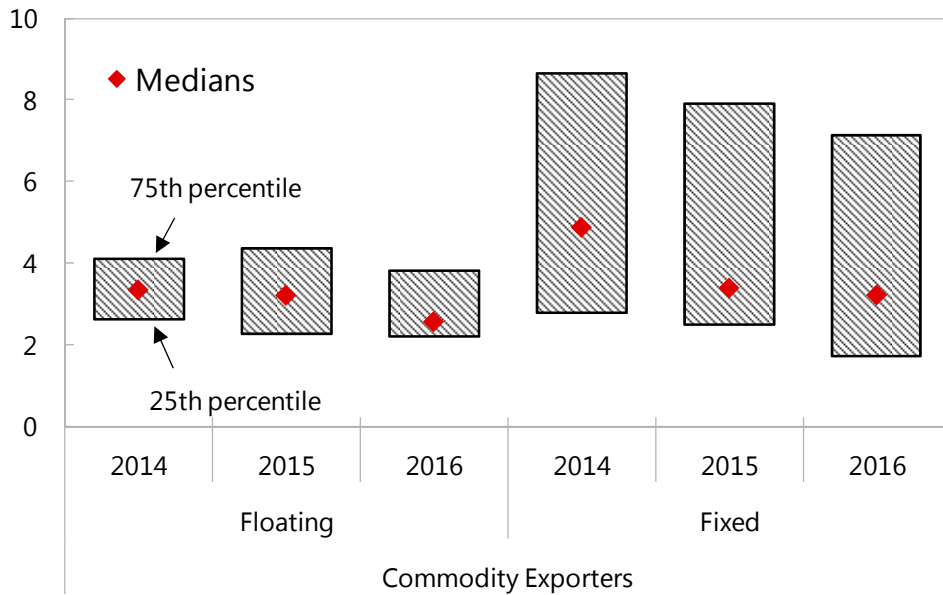


* Excluding Nigeria.

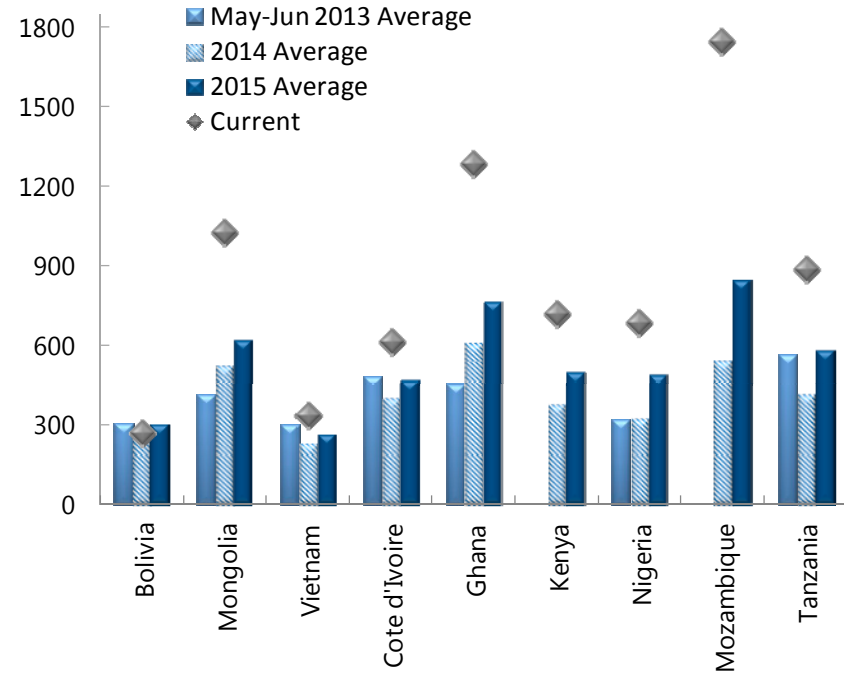
Reserve Positions and Funding Costs



Reserve Coverage, 2014-16
(Months of imports, percentiles)



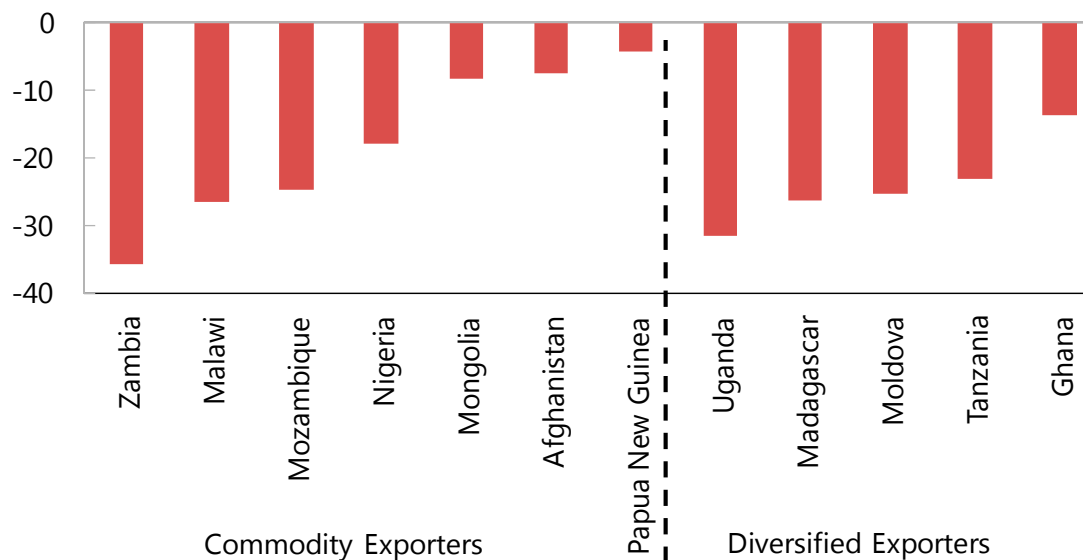
EMBIG Sovereign Spread
(Basis Points, USD-denominated, as of 2/3/2016)



Currencies: Sizeable Declines, Low Pass-Through



Depreciation of Currencies
(Selected LIDCs, June 2014-September 2015)



Policy Messages



- Key commodity prices are unlikely to rebound; exporters need to recalibrate policies
- A reminder: countries need to build macroeconomic policy space to handle external shocks
- A warning: concerns about volatility of access to external capital markets are not theoretical



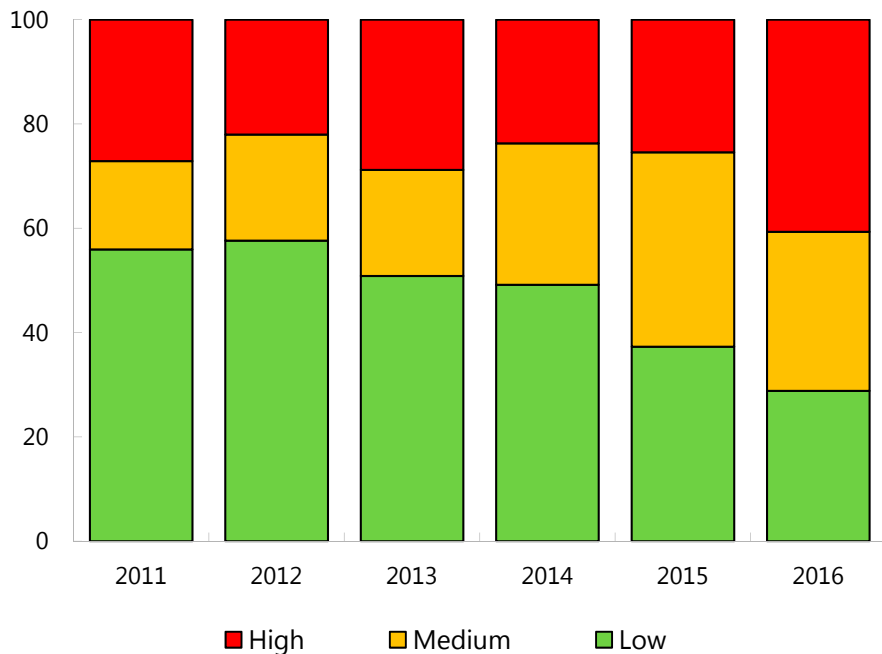
B) Assessing Macroeconomic Vulnerabilities

Vulnerability to a Growth Shock has Increased Steadily



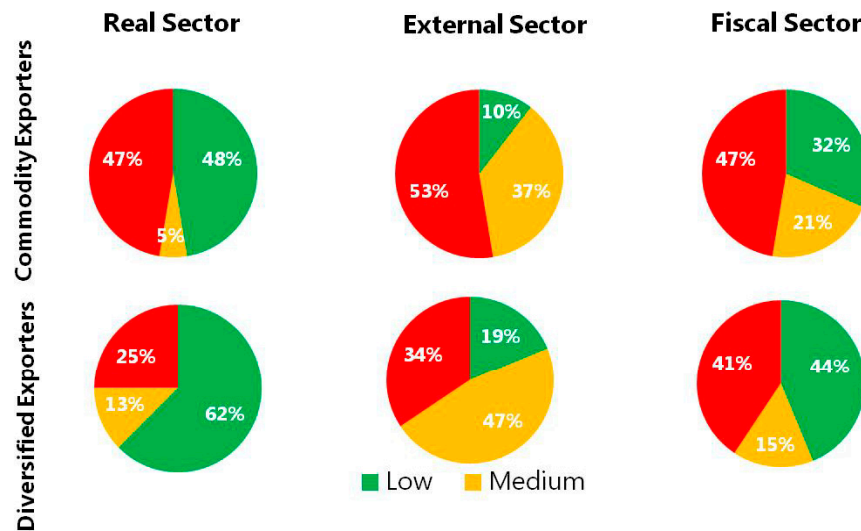
Growth Decline Vulnerability Index, 2009-16

(LIDCs with low, medium and high vulnerabilities; in percent of total, unweighted)



Growth Decline Vulnerability Index by Country Groups, 2016

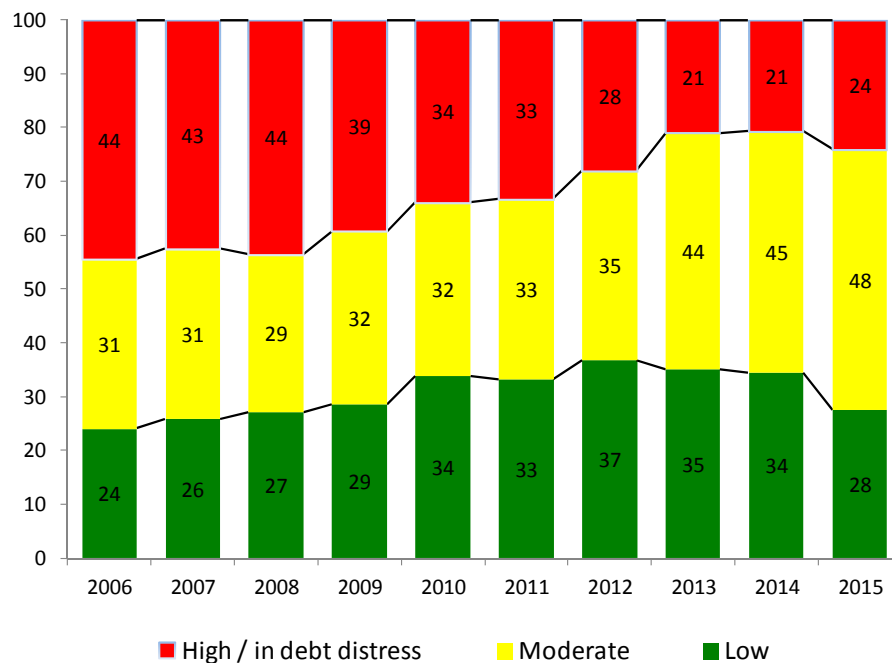
(Share of LIDCs, in percent, unweighted)



Rising Debt Vulnerabilities: How Significant?



Evolution of the Risk of Debt Distress
(In percent of total number of LIDCs with DSA)





Financial Vulnerabilities: Mostly from Rapid Credit Growth and Foreign-Currency Lending

- Financial Vulnerability Index**

Ratio of foreign liabilities to domestic credit

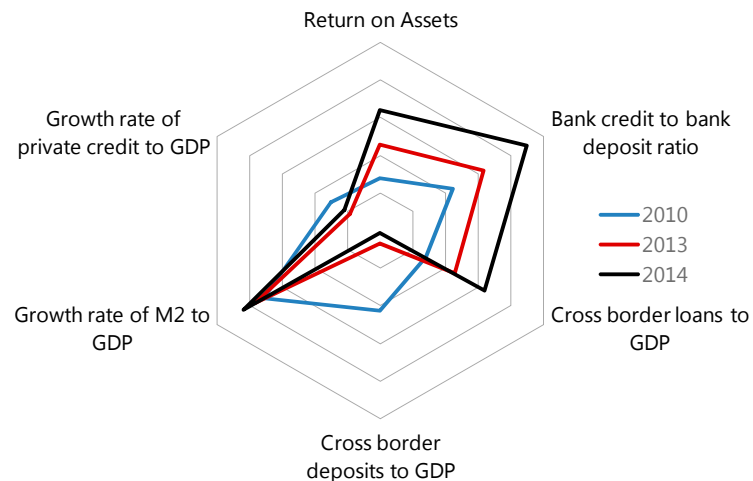
3-year growth of the credit-to GDP ratio

Capital adequacy ratio

Return on assets

Ratio of bank loans to deposits

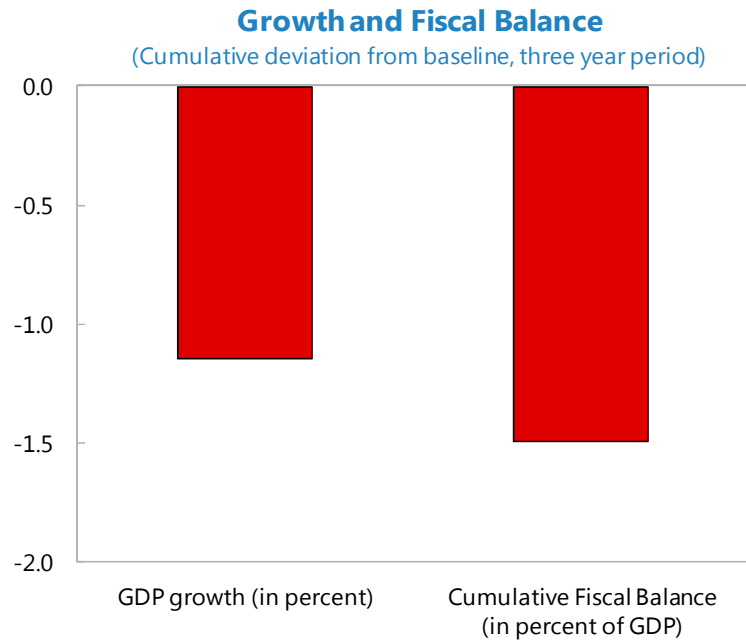
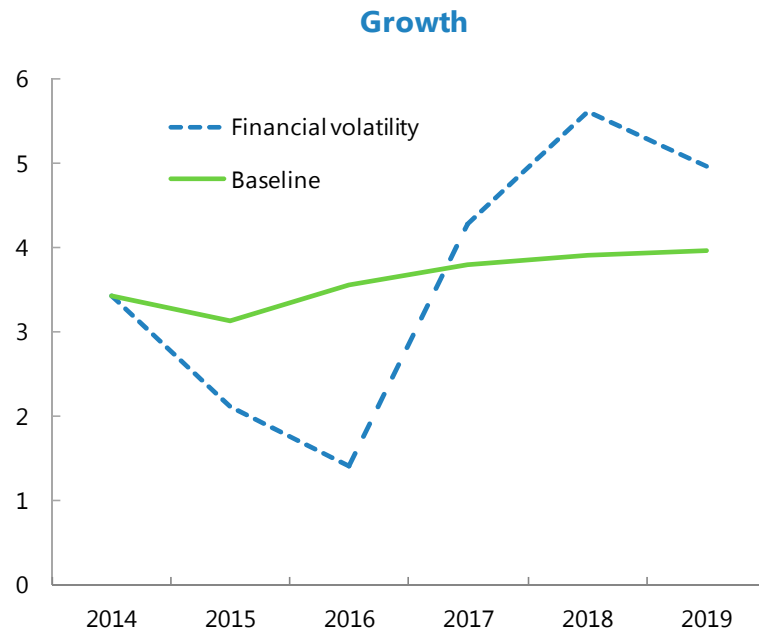
- Z-Score Methodology**



Shock-Scenario Analysis: an Illustration



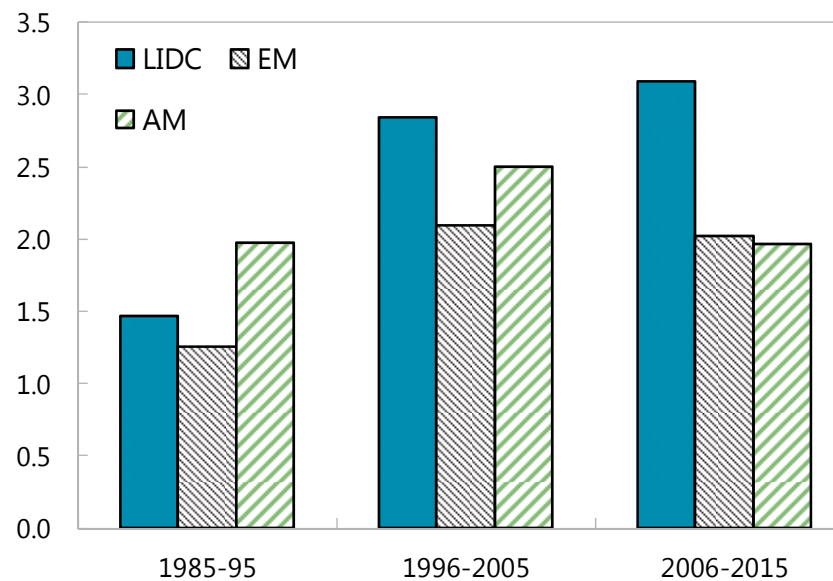
Shock Scenario: Impact of Financial Volatility Shock



Medium-Term Vulnerabilities: LIDCs are More Exposed to Severe Natural Disasters...



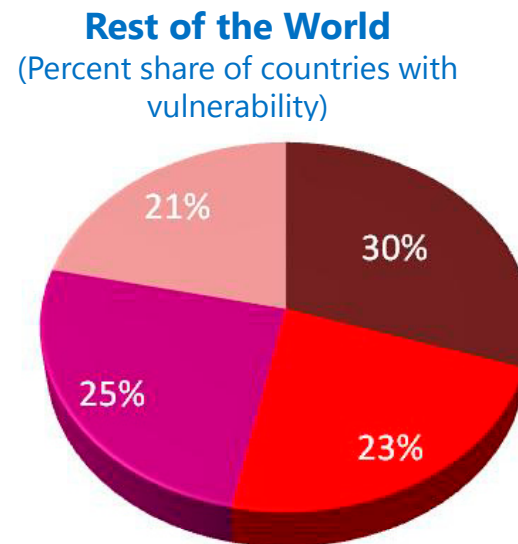
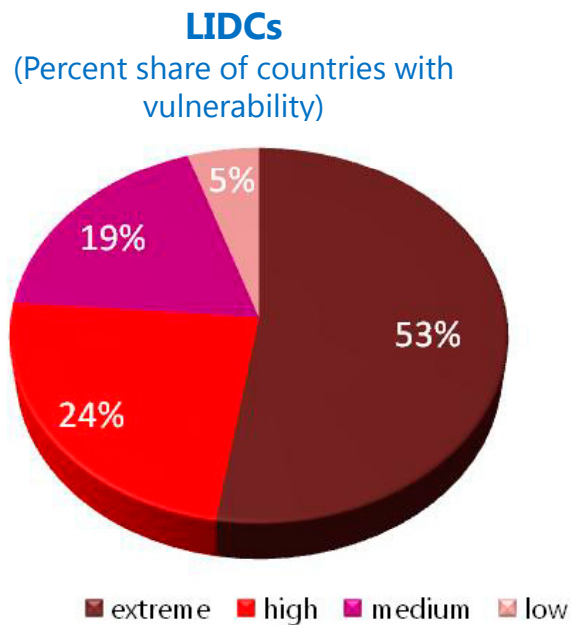
**Average Annual Number of Droughts,
Floods, Storms**
(Per million square kilometers)





...and They Are at Greater Risk with Respect to Climate Change than Other Countries

Climate Change Exposure Index, 2015



Key Messages



- Indicators point to rising macro vulnerabilities in many LIDCs, due to weaker fiscal/external positions.
- Financial sector risks in FMs warrant attention—focused on credit growth and funding sources.
- What we “knew”: LIDCs are more exposed to natural disasters, more at risk to climate change

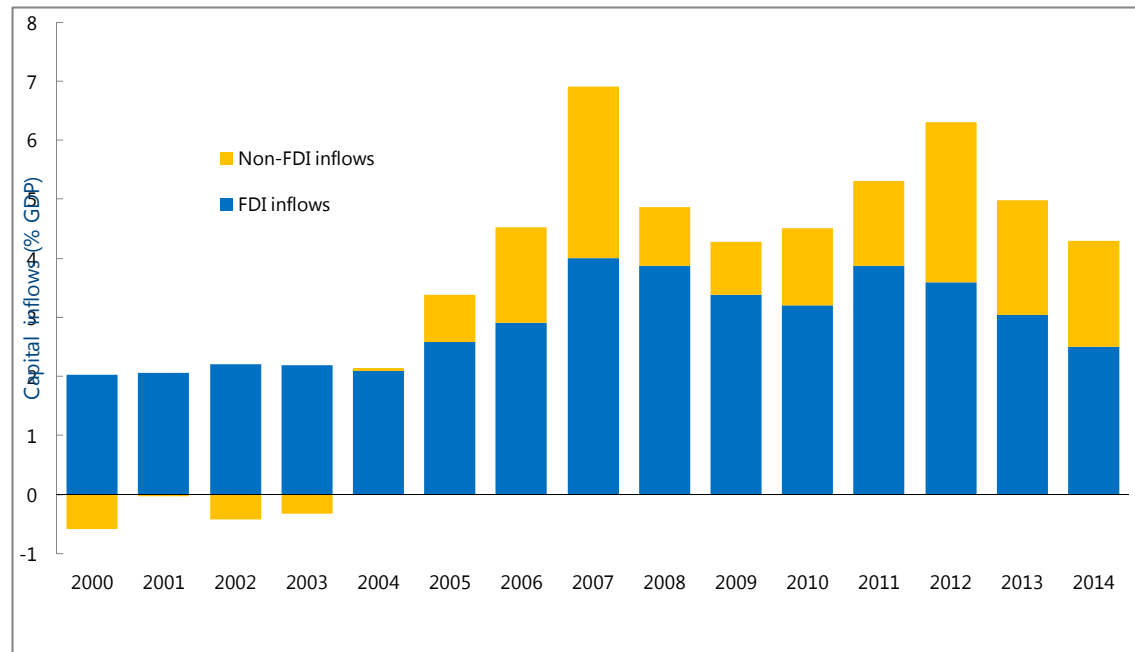


C) Private Capital Inflows to LIDCs

Capital Inflows to LIDCs have Grown Sharply



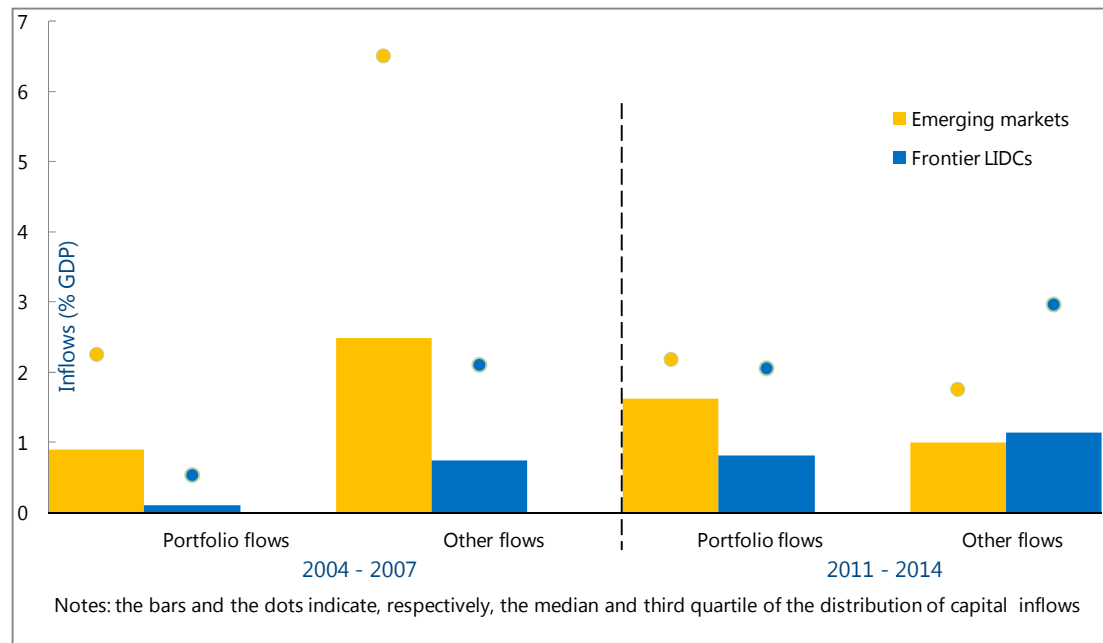
Capital Inflows to LIDCs, 2000-14
(Percent of GDP, weighted average)



Frontier LIDCs have Driven the Uptick in non-FDI Flows



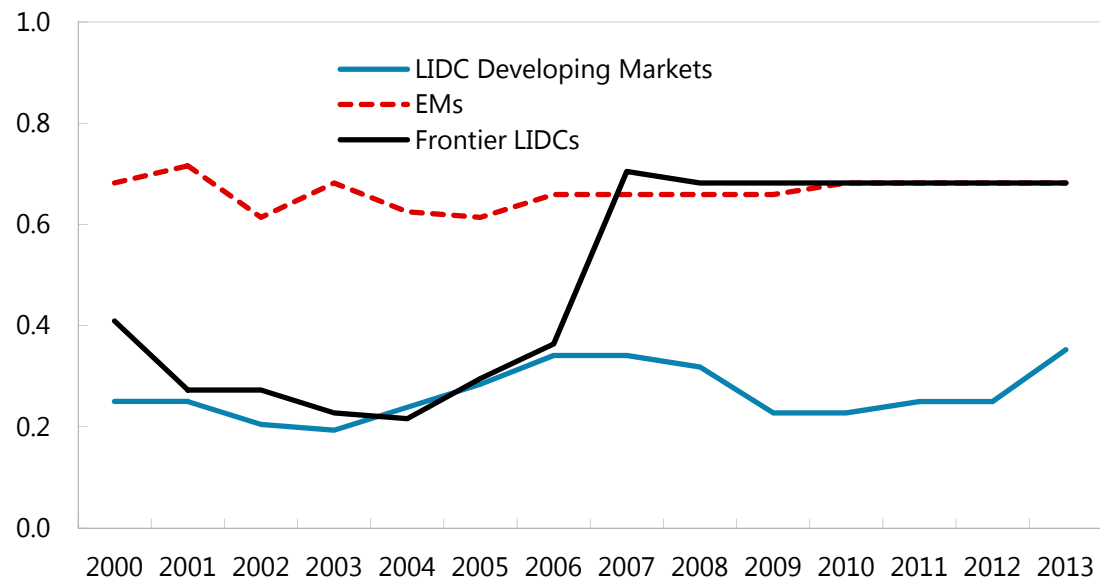
Non-FDI Inflows
(Percent of GDP)



Frontier LIDCs have opened their capital accounts reaching emerging markets' levels



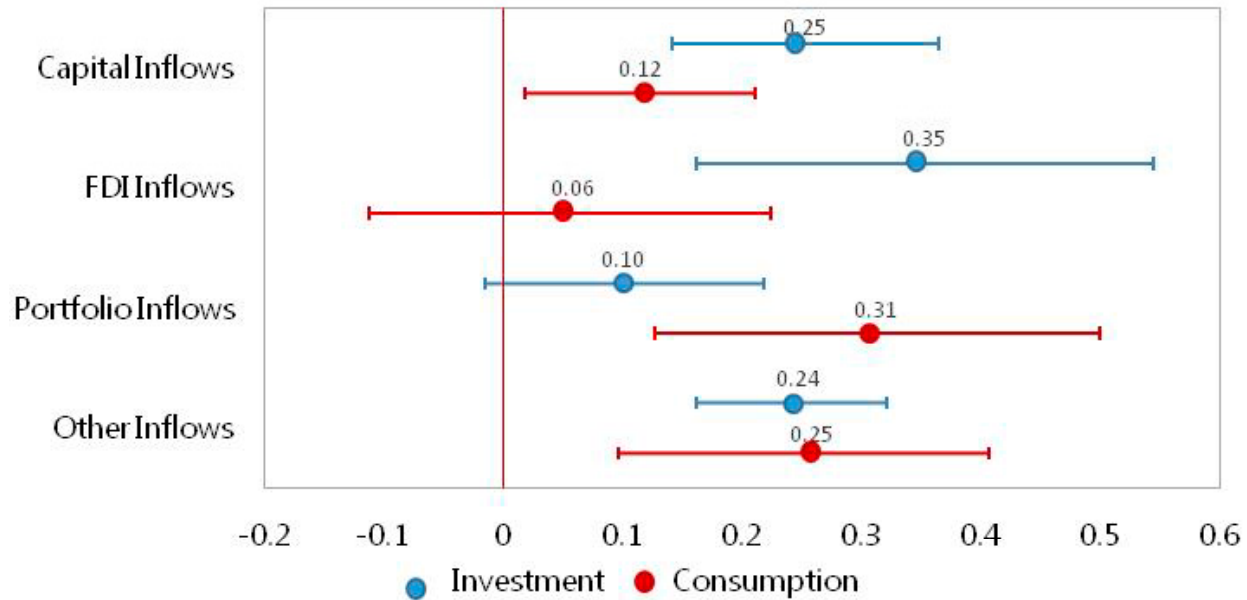
Total Capital Account Liberalization Index
(Median)



Capital Flows: Links to Investment?



Capital Inflows and Domestic Demand

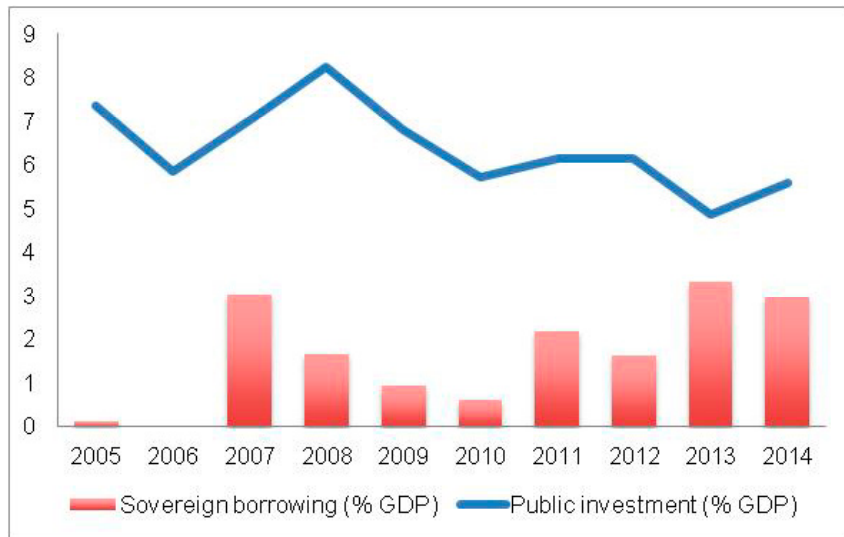


The SDG Narrative: Public Borrowing and Investment?

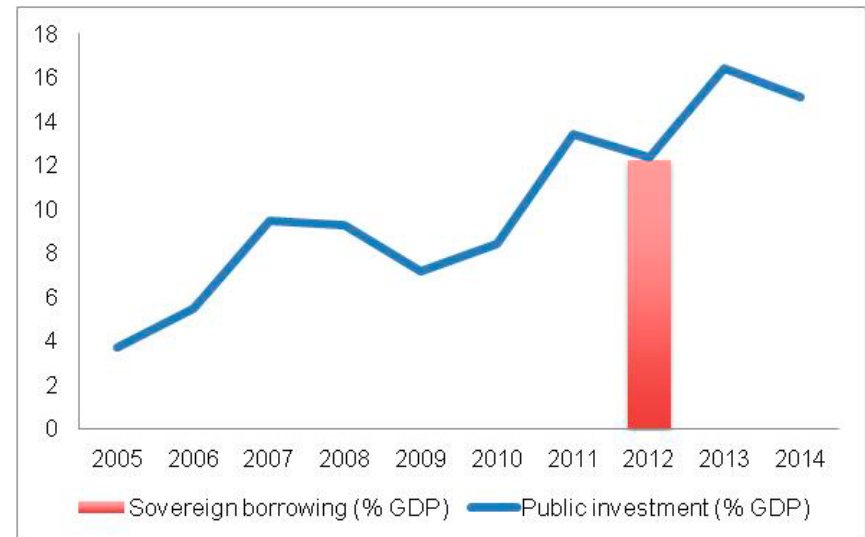


Sovereign Borrowing and Public Investment, 2005-14 (In percent of GDP)

Ghana



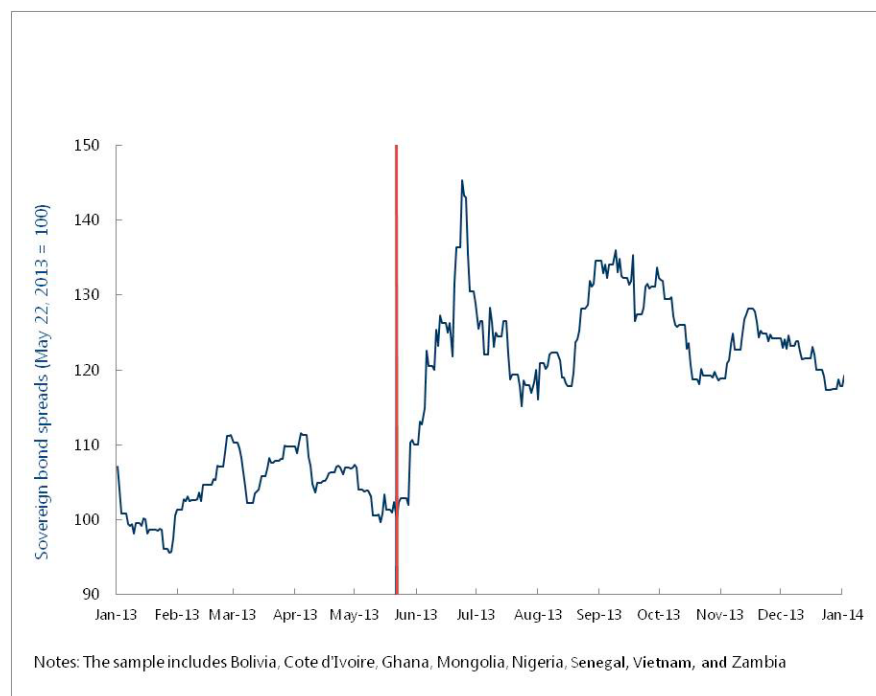
Mongolia



Levels and Costs of Capital Flows are Responsive to Economic and Global Financial Conditions



Sovereign Bond Spreads around the Tapper Tantrum in Selected frontier LIDCs
(Average)





The IMF and the 2030 development agenda

- Core Business
- New Commitments

The IMF Committed to Several FfD/SDG Initiatives



Enhance access to IMF concessional facilities



Increased access levels by 50% on July 1

Expand support for domestic revenue mobilization (DRM), via technical assistance (TA), new diagnostic tools, work on international tax issues



- Expand scale of technical assistance (TA) on DRM
- Joint IMF-WB initiative to: a) deepen dialogue with developing countries on international tax issues; b) develop a standardized tax policy diagnostic tool to help countries assess/prioritize policy reforms.

The IMF Committed to Several FfD/SDG Initiatives



Help address efficiently large infrastructure gap



-New tools to assess investment management capacity, PPP fiscal risks, analyze investment-growth-debt trade-offs

Enhance support for Fragile States and Small Developing Countries



- Emphasis on medium-term capacity-building strategies in Fragile States
- New approach on macro-frameworks and policies for countries vulnerable to natural disasters

The IMF Committed to Several FfD/SDG Initiatives



Promote the development of domestic financial markets



Focus: promoting financial market development (deepening) and inclusion (broader access)
-Tools: expand TA on financial market deepening; analytical work on both deepening and inclusion.
-New diagnostic tool to assess FMD challenges??
-Financial sector stability reviews.

Develop policies to address equity, inclusion, and environmental sustainability



-Pilot initiatives underway on inequality, gender, and energy sector issues
-Expanded analytical work on jobs and growth, inequality, gender equity, financial inclusion

IMF Commitments in the Context of Climate Change



Further analytical work

- Benefits of energy pricing reform
- Growth impact of moving to a less carbon-intensive economy

TA and Policy Dialogue

- Technical assistance on energy and carbon price issues
- Integration of climate/energy issues in consultations (where macro-critical)

IMF Commitments in the Context of Climate Change



Financial Sector (joint):

disclosure requirements;
stress testing for climate risks;
prudential requirements in insurance;
new markets/instruments

Medium-term Policy Frameworks

Integrate natural disaster risks and preparedness within macroeconomic frameworks.

Work (joint) to incorporate adaptation policies into medium-term strategies.



Thank you

<http://www.imf.org/external/np/pp/eng/2015/111915.pdf>

<http://www.imf.org/external/np/pp/eng/2015/061515.pdf>

<http://www.imf.org/external/np/pp/eng/2015/112515.pdf>