



International Monetary Fund

Macroeconomic Developments and Prospects in Low-Income Developing Countries

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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

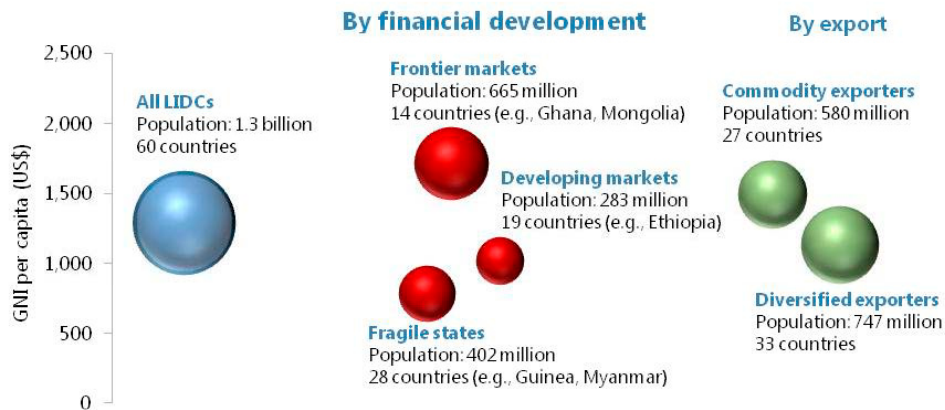
LIDCs: GNI per capita less than 2 * IDA operational cut-off : not Emerging Markets

- The 2030 development agenda
 - New IMF Deliverables

Low-income Developing Countries



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



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LIDCs – Some Concrete Examples



- Commodity-Dependent Exporters
Nigeria
Uzbekistan, Sudan, Yemen
Bolivia, Zambia, DRC
- “Diversified” Exporters
Bangladesh, Vietnam, Myanmar
Ethiopia, Kenya, Tanzania, Ghana

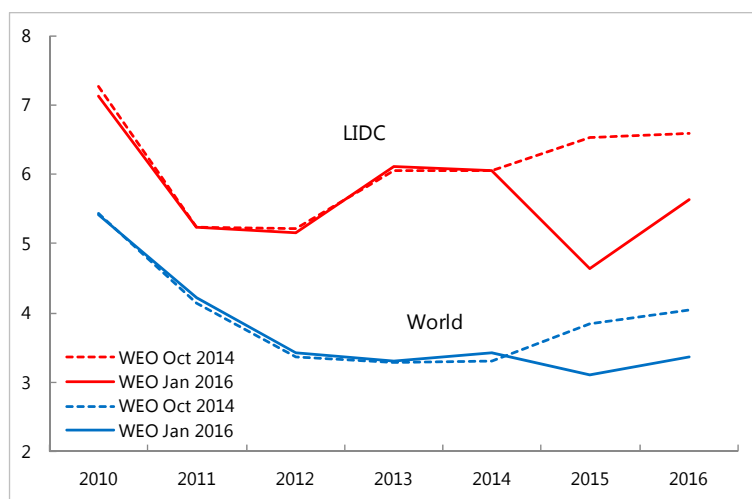
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A) Macroeconomic Developments and Outlook

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Global Growth and LIDC Performance

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

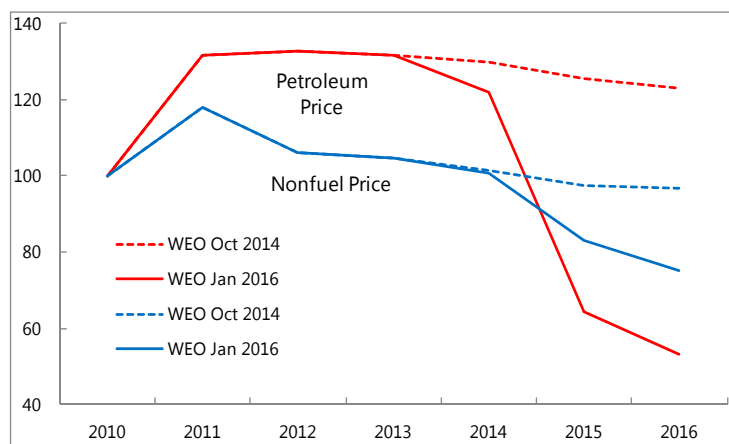


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The Game Changer: Commodity Price Movements



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

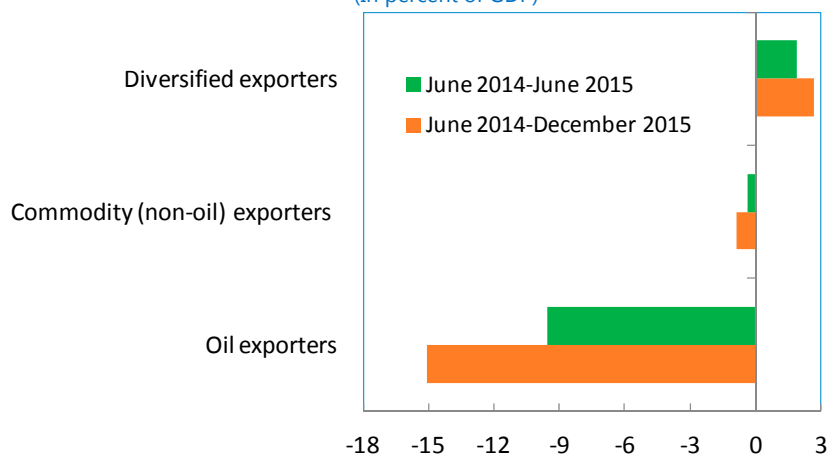


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Commodity Price Declines: The Income Effect



**Net Impact of Commodity Prices on
Income of LIDCs, 2014-15**
(In percent of GDP)



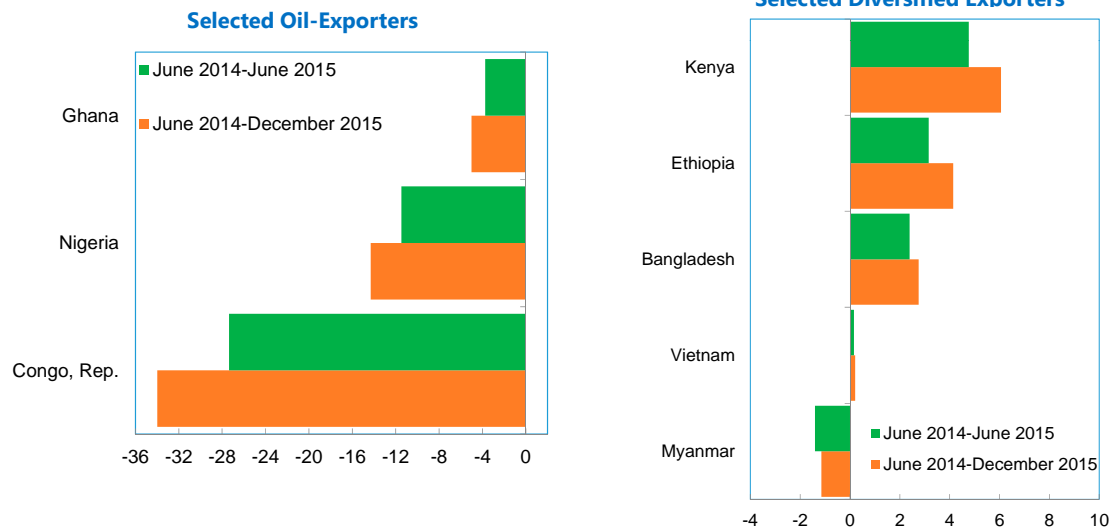
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...with Oil Exporters Hardest Hit



Net Impact of Commodity Prices on Income , 2014-15

(In percent of GDP)



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Commodity Price Declines: Second Round Effects

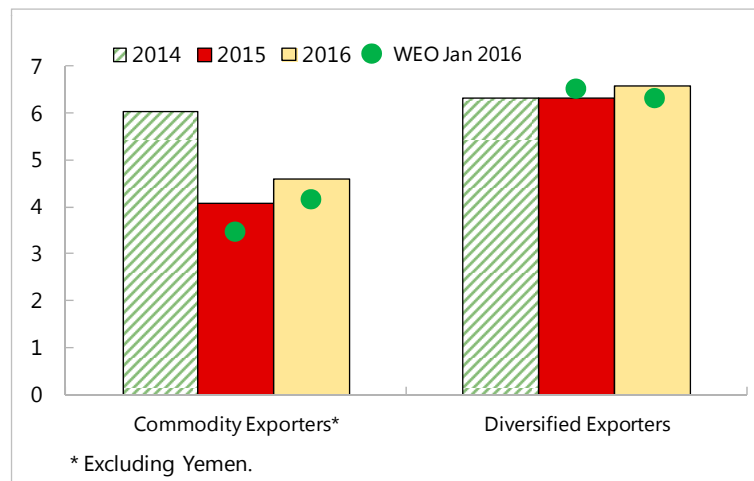


- Income effect: foreign-owned companies
- Supply response: exports and employment
- Investment response: new projects

Divergent Growth Experience



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

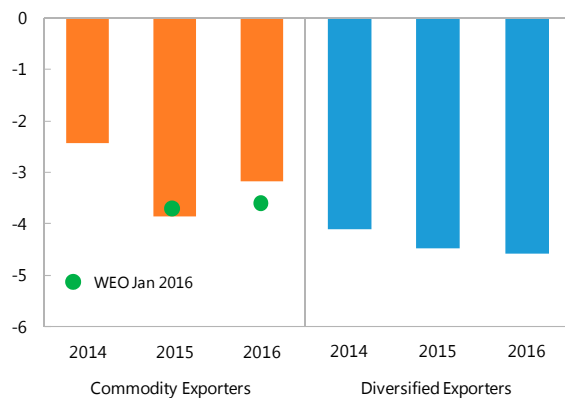


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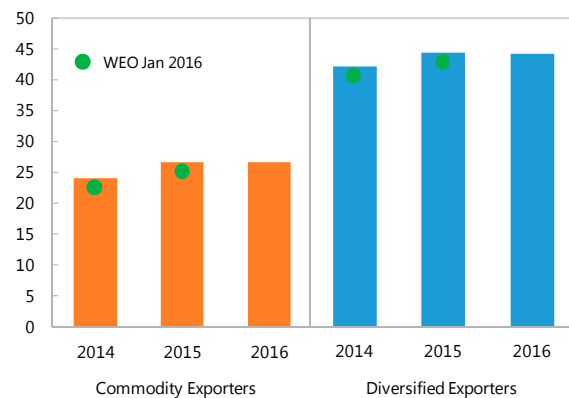
Fiscal Positions are Hit



Government Fiscal Balance, 2014-16
(Percent of GDP; PPP-GDP weighted average)



Public Debt, 2014-16
(Percent of GDP; PPP-GDP weighted average)

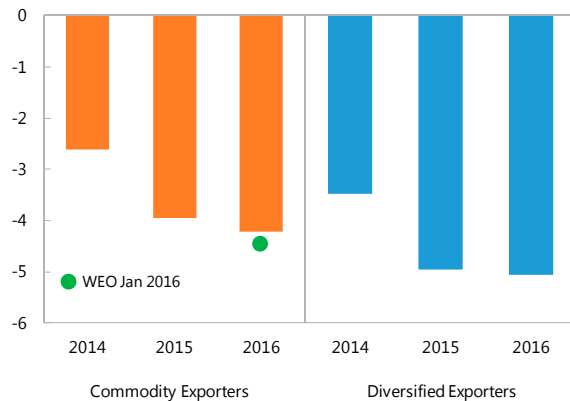


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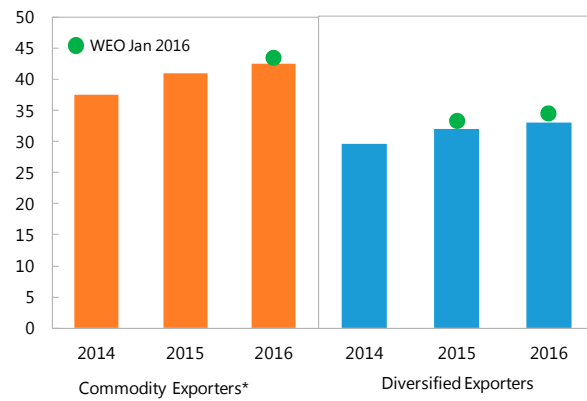
External Positions Weaken—but Drivers Vary



Current Account Balance, 2014-16
(Percent of GDP; PPP-GDP weighted average)



External Debt, 2014-16
(Percent of GDP; PPP-GDP weighted average)



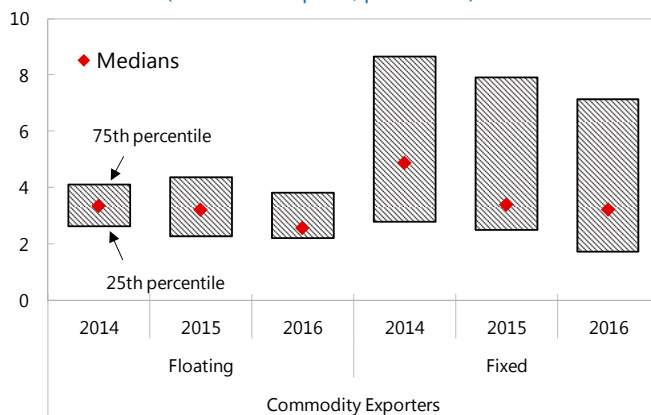
* Excluding Nigeria.

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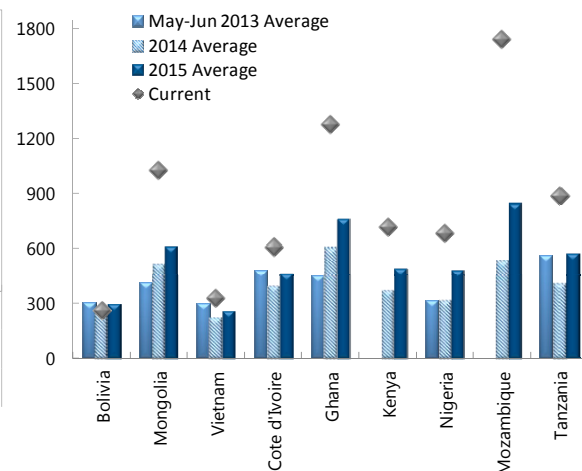
Reserve Positions and Funding Costs



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

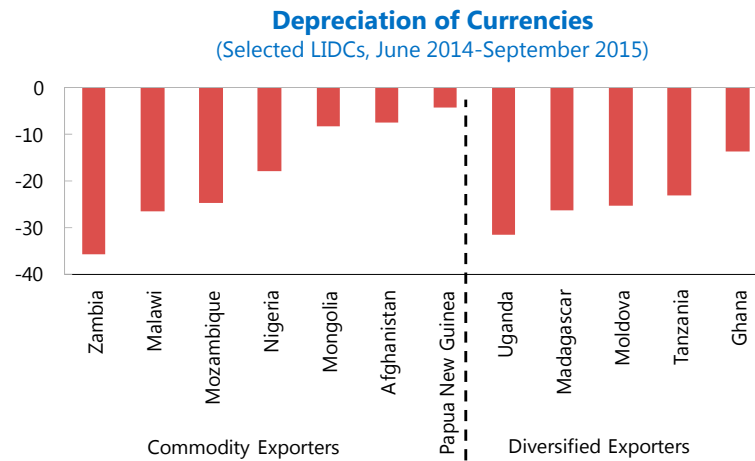


EMBIG Sovereign Spread
(Basis Points, USD-denominated, as of 2/3/2016)



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Currencies: Sizeable Drops, Modest Pass-Through



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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

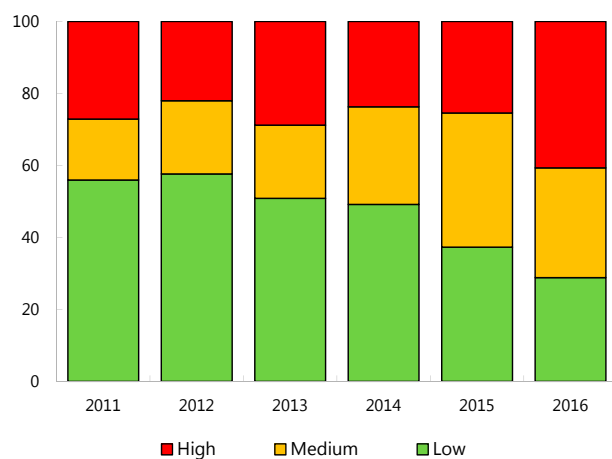
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B) Assessing Macroeconomic Vulnerabilities

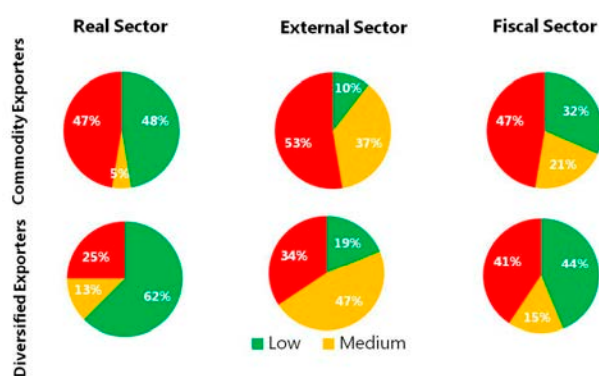
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Vulnerability to a Growth Shock has Increased Steadily

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)

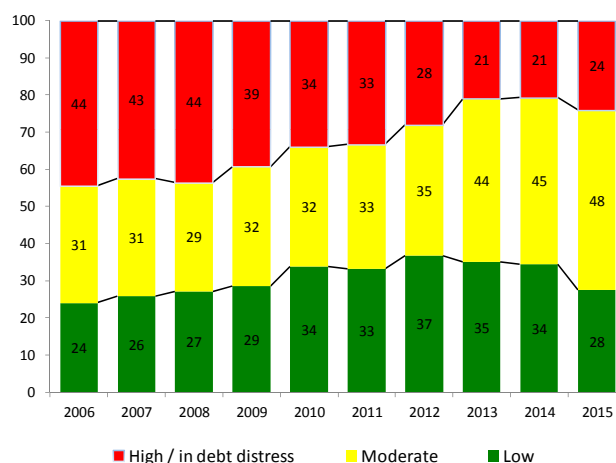


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Rising Debt Vulnerabilities: How Significant?



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



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



- Financial Vulnerability Index**

Ratio of foreign liabilities
to domestic credit

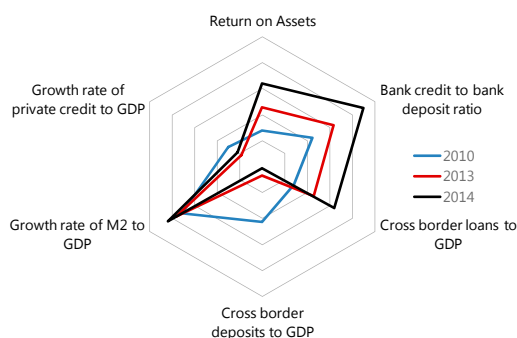
3-year growth of the
credit-to GDP ratio

Capital adequacy ratio

Return on assets

Ratio of bank loans
to deposits

- Z-Score Methodology**

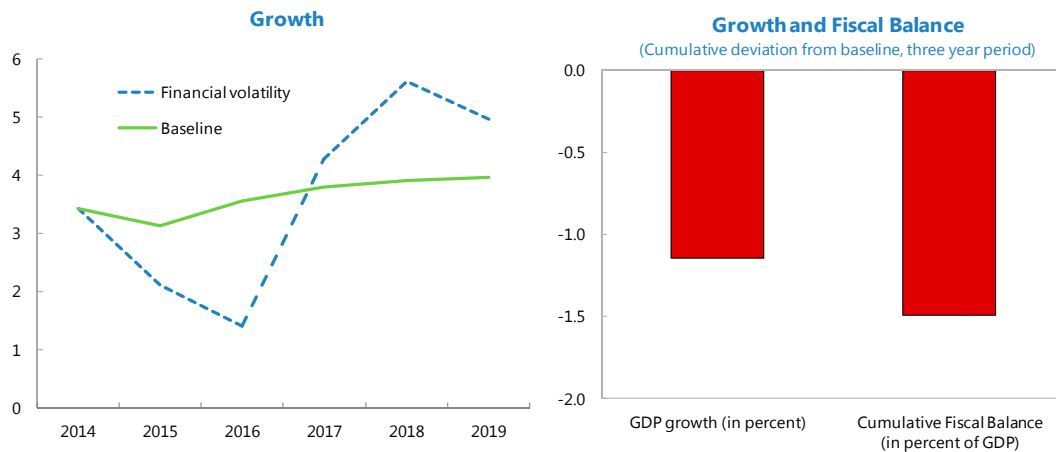


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Shock-Scenario Analysis: an Illustration



Shock Scenario: Impact of Financial Volatility Shock

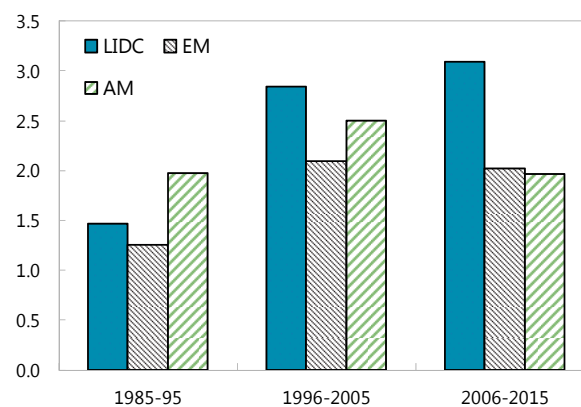


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Medium-Term Vulnerabilities: LIDCs are More Exposed to Severe Natural Disasters...



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

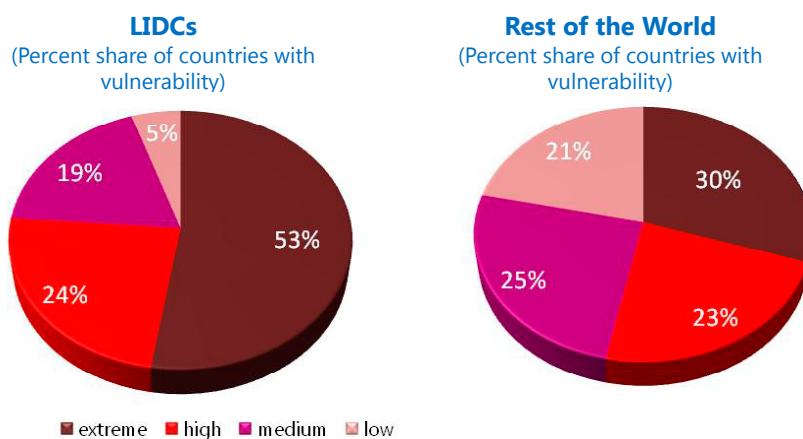


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...and They Are at Greater Risk with Respect to Climate Change than Other Countries



Climate Change Exposure Index, 2015



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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

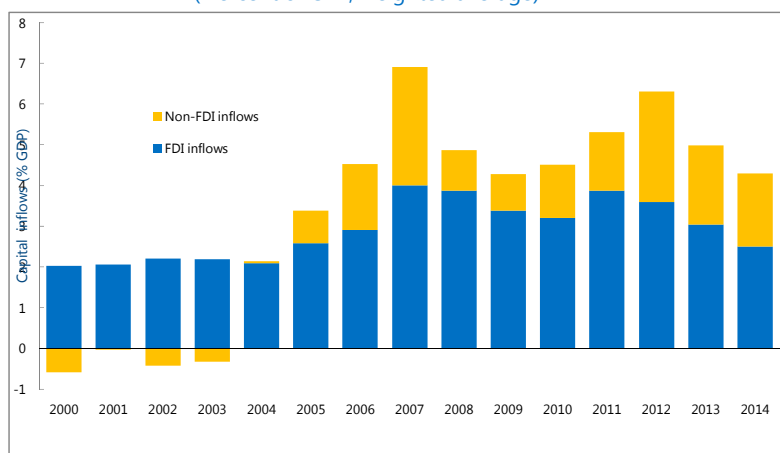
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C) Private Capital Inflows to LIDCs

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Capital Inflows to LIDCs have Grown Sharply

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

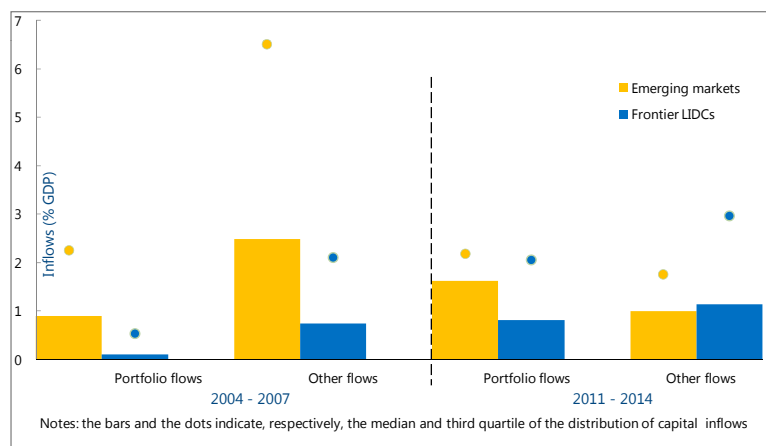


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Frontier LIDCs have Driven the Uptick in non-FDI Flows



Non-FDI Inflows
(Percent of GDP)

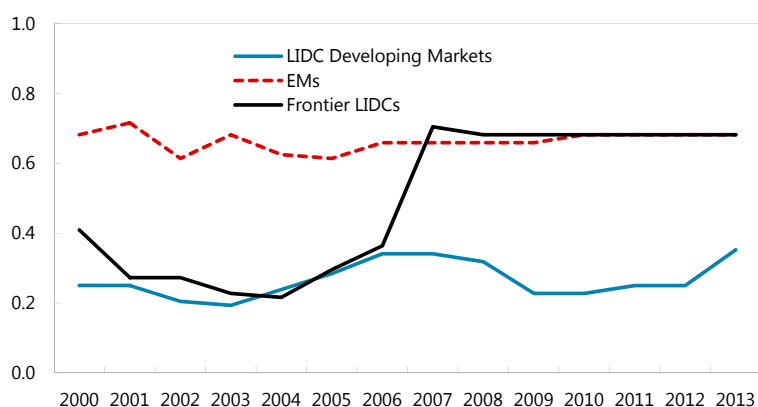


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Many frontier LIDCs have liberalized capital accounts ...



Total Capital Account Liberalization Index
(Median)

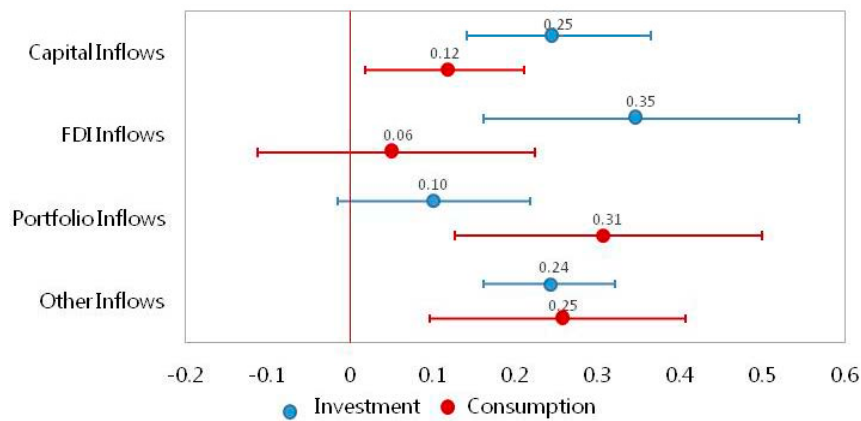


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Capital Flows: Links to Investment?



Capital Inflows and Domestic Demand



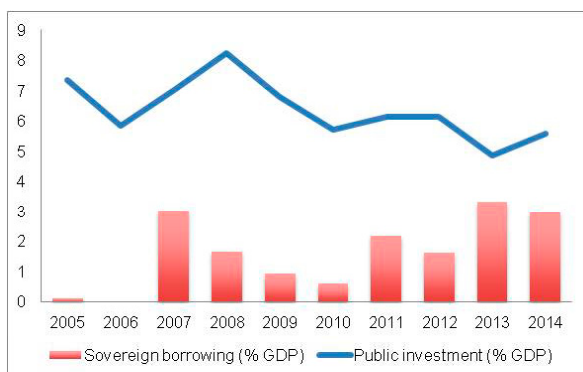
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The SDG Narrative: Public Borrowing and Investment?

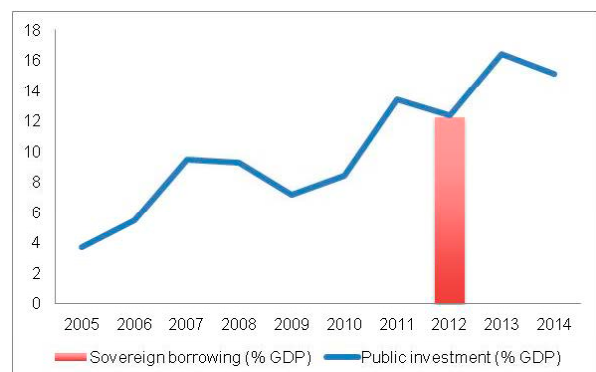


Sovereign Borrowing and Public Investment, 2005-14 (In percent of GDP)

Ghana



Mongolia



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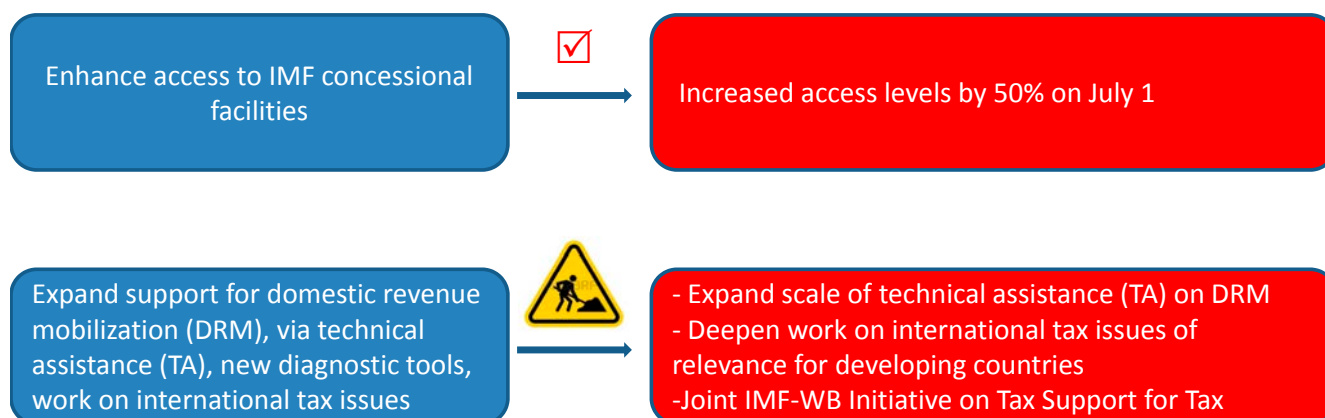


The IMF and the 2030 development agenda

- Core Business
- New Commitments

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The IMF Committed to Several FfD/SDG Initiatives



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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

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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

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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>