



DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

October 2019

The global economy is facing increasing headwinds. Growth both in advanced economies and in emerging and developing economies has slowed, with some emerging economies experiencing acute economic stress. Risks to the outlook are substantial as uncertainty is spilling over into market sentiment and investment, which could trigger bouts of risk sell-offs and financial strains. Emerging and developing economies should strengthen macroeconomic and structural policies to increase resilience and put themselves into a position to better cope with such risks. At the same time, multilateral cooperation is indispensable to resolve many pressing challenges.

ECONOMIC OUTLOOK AND RISKS

The global economic outlook is precarious.

The global economy is expanding at the slowest pace since 2008/09.

Global growth is projected at 3.0 percent in 2019, down from 3.6 percent in 2018—the slowest pace of economic expansion in a decade. The slowdown is especially pronounced in advanced economies (AEs), driven by weakening industrial production, and occurs against the backdrop of escalating trade tensions and increasing geopolitical risks. For 2020, the IMF's baseline growth projection foresees a recovery to 3.4 percent, but this forecast hinges on improved performance in several emerging economies that are currently experiencing acute macroeconomic stress (see below).

With activity weakening, global inflationary pressures have remained muted, and many central banks have again adopted a more accommodative monetary stance. Despite rising geopolitical tensions, energy prices have declined since the 2019 Spring Meetings, reflecting weak expected demand. Food and metal prices have remained broadly flat.

Several emerging economies are experiencing acute macroeconomic stress.

Growth in emerging and developing economies (EMDEs) has also slowed, from 4.5 percent in 2018 to a projected 3.9 percent this year. The slowdown has several sources. Activity continues to soften in *China*, reflecting both trade disruptions and regulatory strengthening that is needed to contain debt vulnerabilities. Some emerging market economies (EMs) have been or continue to be under severe economic stress—such as *Argentina, Turkey, Venezuela, and Iran*—but growth is subdued also in many other large EMs, including *Brazil, Mexico, Russia, and South Africa*. This said, several EMs have thus far largely escaped the global slowdown (e.g., *Colombia, Indonesia, Romania*).

Growth in low-income developing countries has held up, helped by a gradual recovery in several commodity exporters

Activity in low-income developing countries (LIDCs) has remained relatively resilient to date, with growth in 2019 projected at 5.0 percent, unchanged from 2018. The average hides large variation across countries, however:

- Many commodity exporters—including *Republic of Congo*, *Nigeria*, and *Sierra Leone*—continue to recover gradually from recessions triggered by the 2014-15 export price shocks, even though growth is still well below par.
- Countries less dependent on commodity exports—such as *Ghana* or *Vietnam*—have experienced some easing in the pace of growth in 2018-19, but from a high base. The median growth rate for this group remains close to 6 percent, with several countries having recorded high growth rates for several consecutive years—such as *Bangladesh*, *Cambodia*, and *Ethiopia*.
- By contrast, economic activity in many fragile and conflict-affected states—including *Nicaragua*, *Sudan*, and *Burundi*—has been weak or even contracting. Medium-term prospects appear rather bleak as well.
- Several countries have been able to take advantage of investors' search for yield by issuing sovereign bonds. Some LIDCs (*Papua New Guinea*, *Benin*) tapped international markets for the first time in 2019, while others were repeat issuers (*Côte d'Ivoire*, *Ghana*, *Kenya*, *Senegal*).

Risks to the outlook are substantial.

While shifts in the global economic configuration may provide short-term opportunities for some EMDEs—cheaper financing for frontier economies, lower fuel prices for energy importers, trade diversion and production relocation for some exporters (e.g., *Brazil*, *Malaysia*, or *Vietnam*)—the increase in uncertainty, deteriorating market sentiment, and knock-on effects on investment are negative for all.

Key external risks for EMDEs include a further escalation of trade tensions and a more protracted slowdown in AEs, especially as many AEs have limited policy space left for offsetting counter-cyclical policies. In such an environment, financial disturbances cannot be excluded, such as surges in risk aversion and sell-offs of EMDE assets. Such events could, in turn, tighten financing conditions for vulnerable economies and trigger currency adjustments.

High public debt remains a concern in many LIDCs, although the pace of debt accumulation has slowed since 2017. More than 40 percent of LIDCs are currently assessed to be at high risk of, or already in, debt distress, based on the IMF-World Bank debt sustainability assessments. A more challenging financial environment could complicate servicing and/or rolling over these debts.

POLICY PRIORITIES

Strengthening resilience requires both domestic and global efforts.

Sound domestic policies are key for managing a more

Stability-oriented fiscal policies are critical to weathering a more precarious global environment. *Revenue generating reforms* and *policy measures to enhance the efficiency of public spending* are often needed to safeguard the health of public

volatile environment and boosting growth prospects...

finances while generating space for priority outlays and protecting the most vulnerable. EMDEs with access to international capital markets should use this option prudently to avoid overborrowing and debt sustainability problems.

Exchange rate flexibility, supported by sound macro-economic policies, can help mitigate exogenous shocks, such as sudden swings in investor sentiment. Well-designed *macroprudential policy tools*, *regulatory frameworks*, and *financial safety nets* are paramount for alleviating the impact of possible financial stress.

Structural reforms can help strengthen resilience, contain vulnerabilities, boost growth and investment prospects, and foster inclusion. Tackling *corruption* is essential for preserving the social fabric and safeguarding the legitimacy of public institutions. Clear and stable rules in a *business-friendly environment* are a prerequisite for private investment. Policies fostering *women's labor market participation* are critical for reducing poverty, inequality, and gender gaps.

...however, common challenges require multilateral solutions.

Individual countries cannot resolve all challenges on their own, however. Multilateral cooperation remains indispensable.

- Resolving *trade disputes* and modernizing the rules-based multilateral trade system is essential to reduce uncertainty and protect the gains from economic integration. Progress is needed in areas such as services trade, electronic commerce, agricultural and industrial subsidies, and technological transfers.
- Much more support, both technical and financial, is needed to help countries pursue the *2030 Sustainable Development Goals*, especially for the poorest and least developed countries. While many EMs can finance higher outlays on health, education, and priority infrastructure through domestic revenue mobilization, most LIDCs will need substantially higher levels of aid.
- Curbing greenhouse gas emissions and containing the consequences of rising global temperatures are urgent global imperatives. A redoubling of efforts is needed. Mitigation measures need to be accompanied by policy actions that assist those losing out from changing production patterns.
- Multilateral cooperation is also needed to provide for a more level playing field in international taxation, to tackle illicit financial flows, and to preserve and strengthen the global financial safety net.

IMF SUPPORT

The IMF continues to assist its members, including the most vulnerable.

Ongoing initiatives in support of emerging and developing economies cover both traditional areas of IMF

Several recent IMF initiatives aim at supporting emerging and developing economies and at better serving their needs. Many of these initiatives are joint with the World Bank, building on the long-standing close collaboration between both institutions.

- In May 2019, the IMF reformed its [lending framework for low-income countries](#). The reform increased access limits across all concessional facilities by one-third. Facilities were also modified to better meet the needs of

engagement and new challenges.

fragile states and countries hit by natural disasters.

- In the past six months, *new lending arrangements* were approved for Armenia, Ecuador, Honduras, Pakistan, the Republic of Congo, Mali, and São Tomé and Príncipe, to help these countries with difficult adjustment challenges. Overall, 36 lending arrangements are ongoing. Mozambique and Comoros received rapid financial assistance in the aftermath of natural disasters.
- A comprehensive assessment of the IMF's *bilateral and multilateral surveillance* is scheduled to be completed in the first half of 2020.
- The IMF and the World Bank are implementing a *multi-pronged strategy to tackle debt vulnerabilities* in lower-income countries. Key objectives include ensuring better and broader public debt coverage, greater transparency on the composition of debt, and stronger debt management capacity.
- The IMF continues to support countries' efforts to attain the *2030 Sustainable Development Goals*, by providing technical assistance in areas such as revenue mobilization and public financial management, offering policy advice to foster macroeconomic stability, and through costing exercises that identify longer-term financing needs. [A recent review of the IMF's initiatives to support the 2030 agenda](#) shows a 28 percent increase in support for capacity development in LIDCs from 2015 to 2018. The IMF has also advanced related initiatives, such as adopting a framework for assessing governance vulnerabilities, and a strategy to engage on social spending issues.
- The IMF is implementing its 2018 plan to enhance *engagement on fragile states*, including through tailored support to build institutional and human capacity, and by addressing staffing challenges on fragile and conflict-affected states in its human resources strategy.
- The IMF is stepping up its engagement on the *macroeconomic impact of climate change*. [Fiscal policies to attain the Paris agreement climate mitigation targets](#) were discussed in a May 2019 Board paper and the October 2019 Fiscal Monitor. An analysis of how to [build resilience in countries vulnerable to natural disasters](#) was published in June, another area where the IMF is cooperating closely with the World Bank. Sustainable finance features in the October 2019 Global Financial Stability Report. A strategy to integrate climate change more systematically into IMF surveillance is under development.