



Recent Global Developments



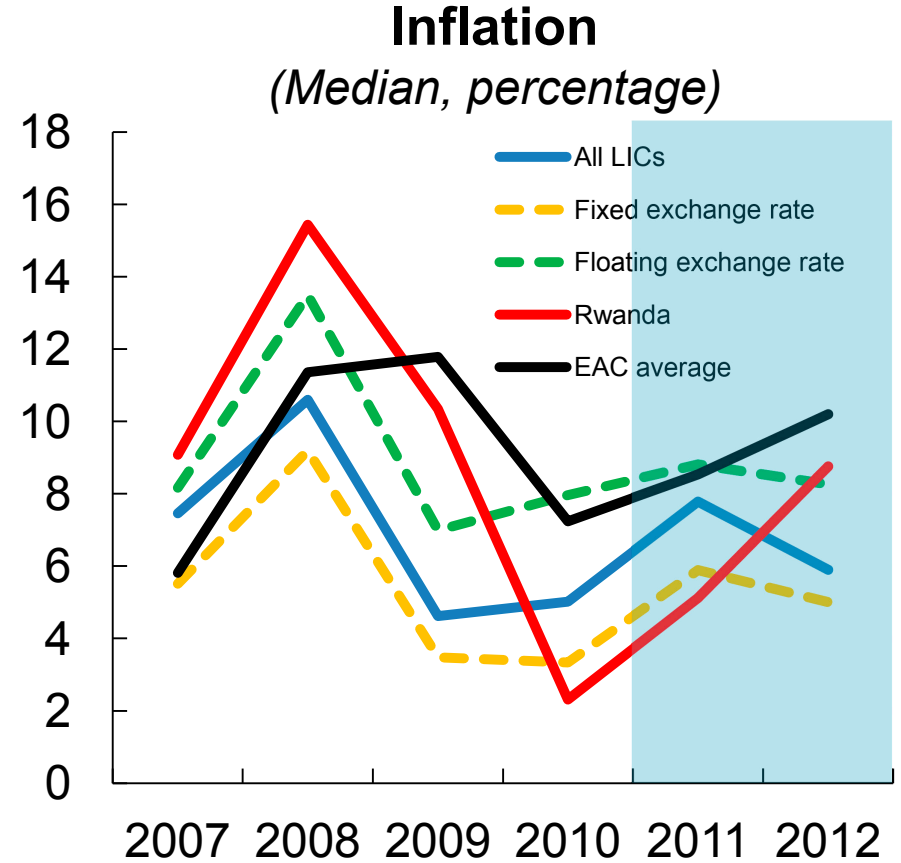
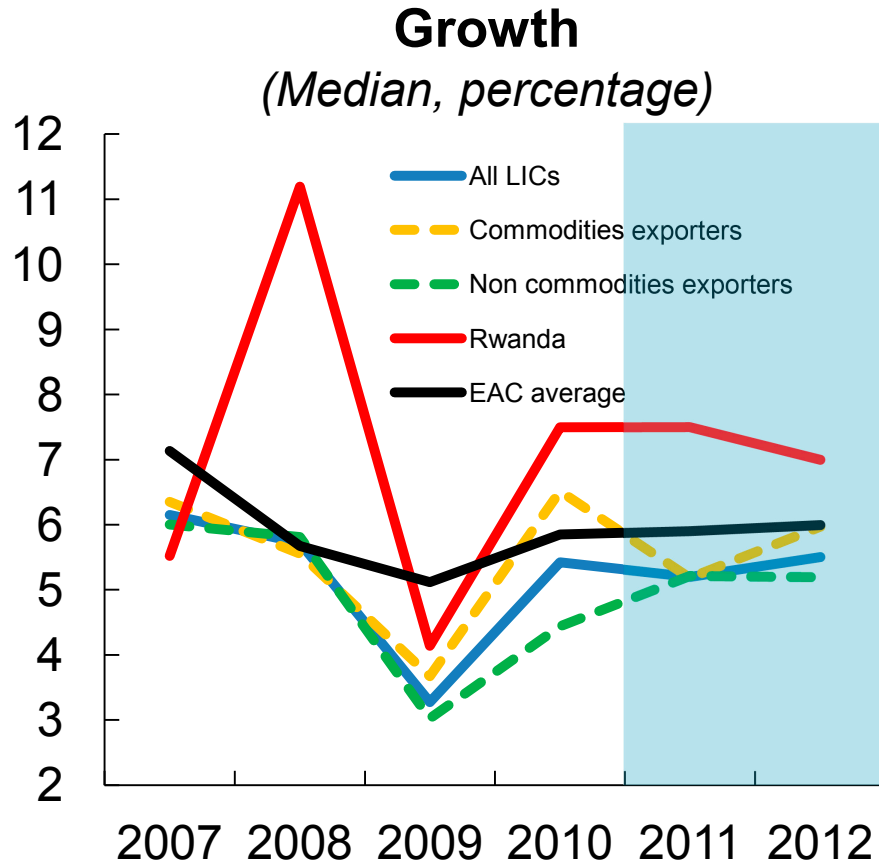
IMF Mission, Rwanda

October 13-29, 2011

Outline of presentation

- Review of recent developments in LICs after crises of 2007—09
- Recent global developments
- Risks to LICs and Rwanda
- How countries have responded so far
- Summary of key observations

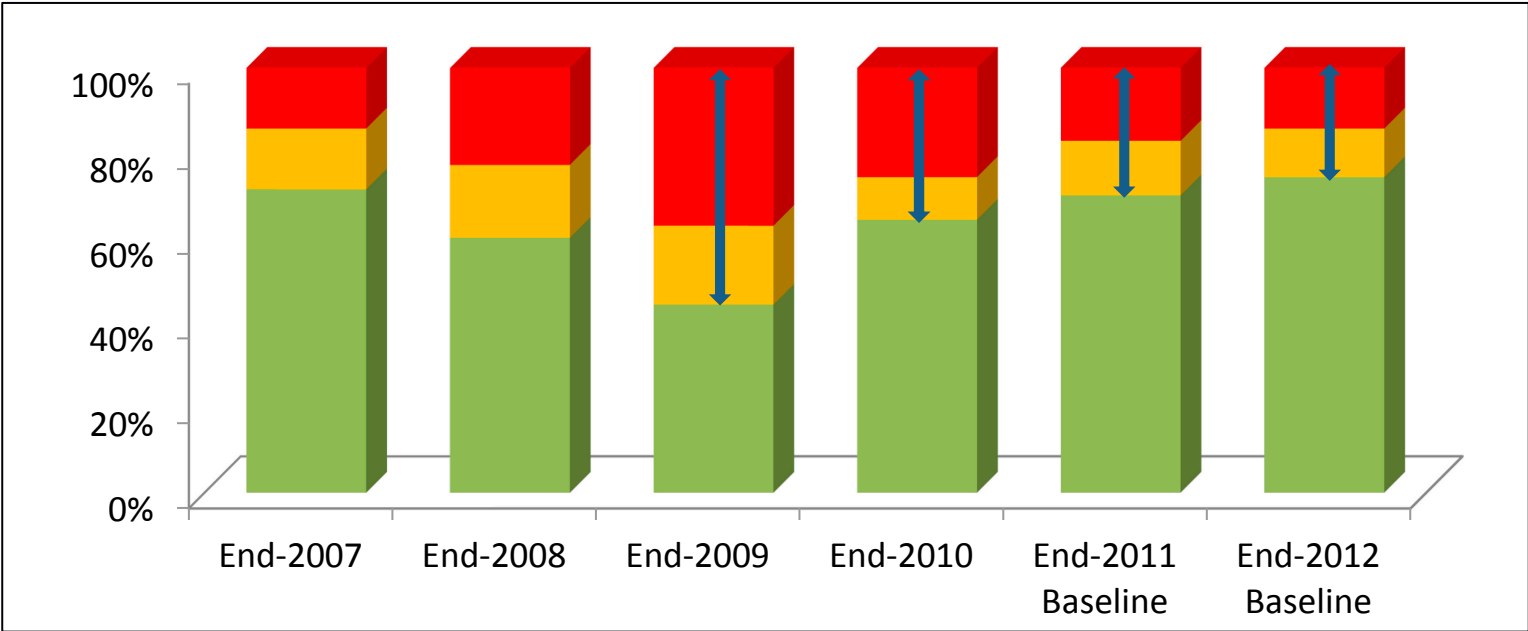
LICs have recovered swiftly from the 2007—09 crises



Robust economic recovery makes LICs less vulnerable to a sharp global downturn...

Overall Vulnerability Index

(share of countries with H, M, L vulnerabilities)



RECENT GLOBAL DEVELOPMENTS

Bad developments—mostly unexpected:

The outlook has deteriorated further in the Euro Area and also in the US.

Probability of a recession over the next year has increased in the last few months (IMF forecast increased from $\frac{1}{3}$ to $\frac{1}{2}$ in the Euro area and from $\frac{1}{4}$ to $\frac{1}{3}$ in the US).

Good developments—mostly expected:

EM/LICs Countries' growth still strong.

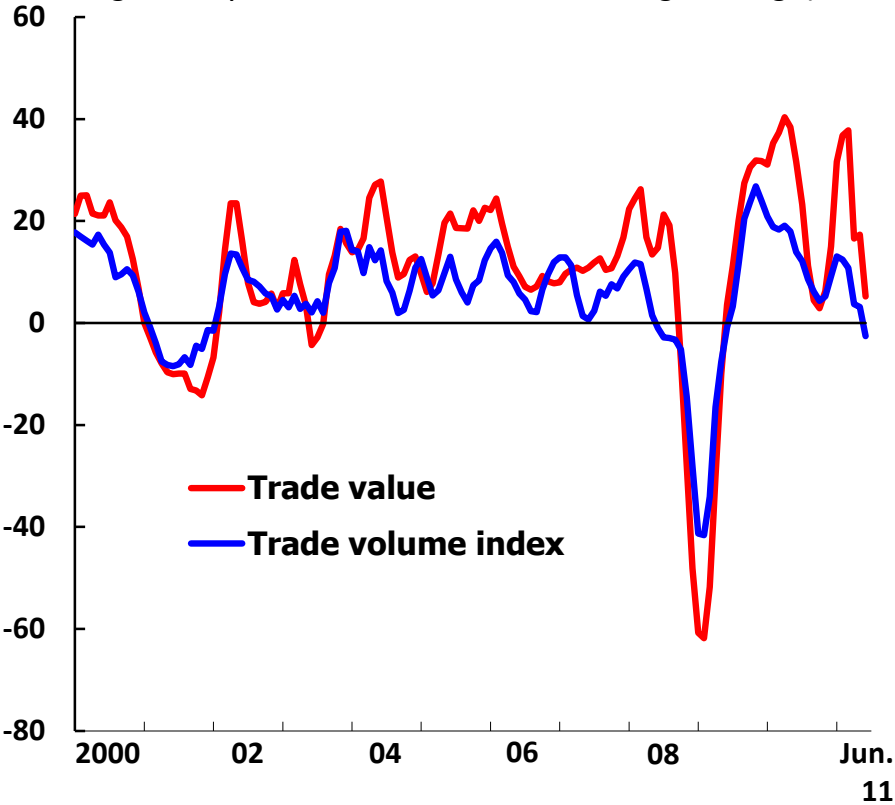
Greater room for policy response in EM/LICs.

Oil and food prices have moderated but are projected to stay high.

Global activity has slowed noticeably

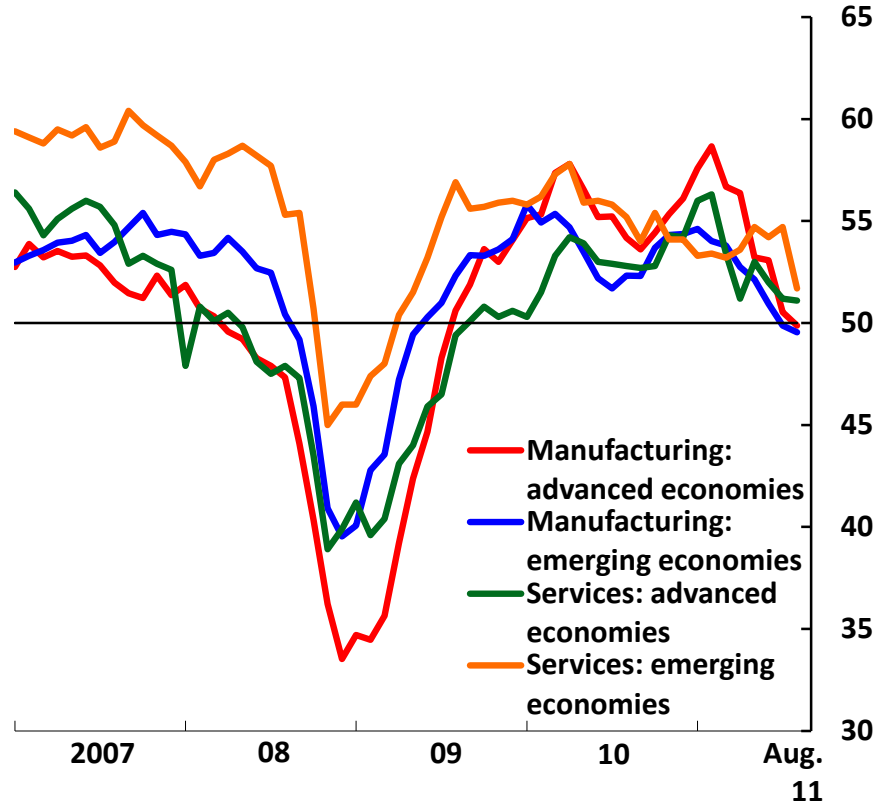
World Trade

(annualized percent change of three-month moving average over previous three-month moving average)

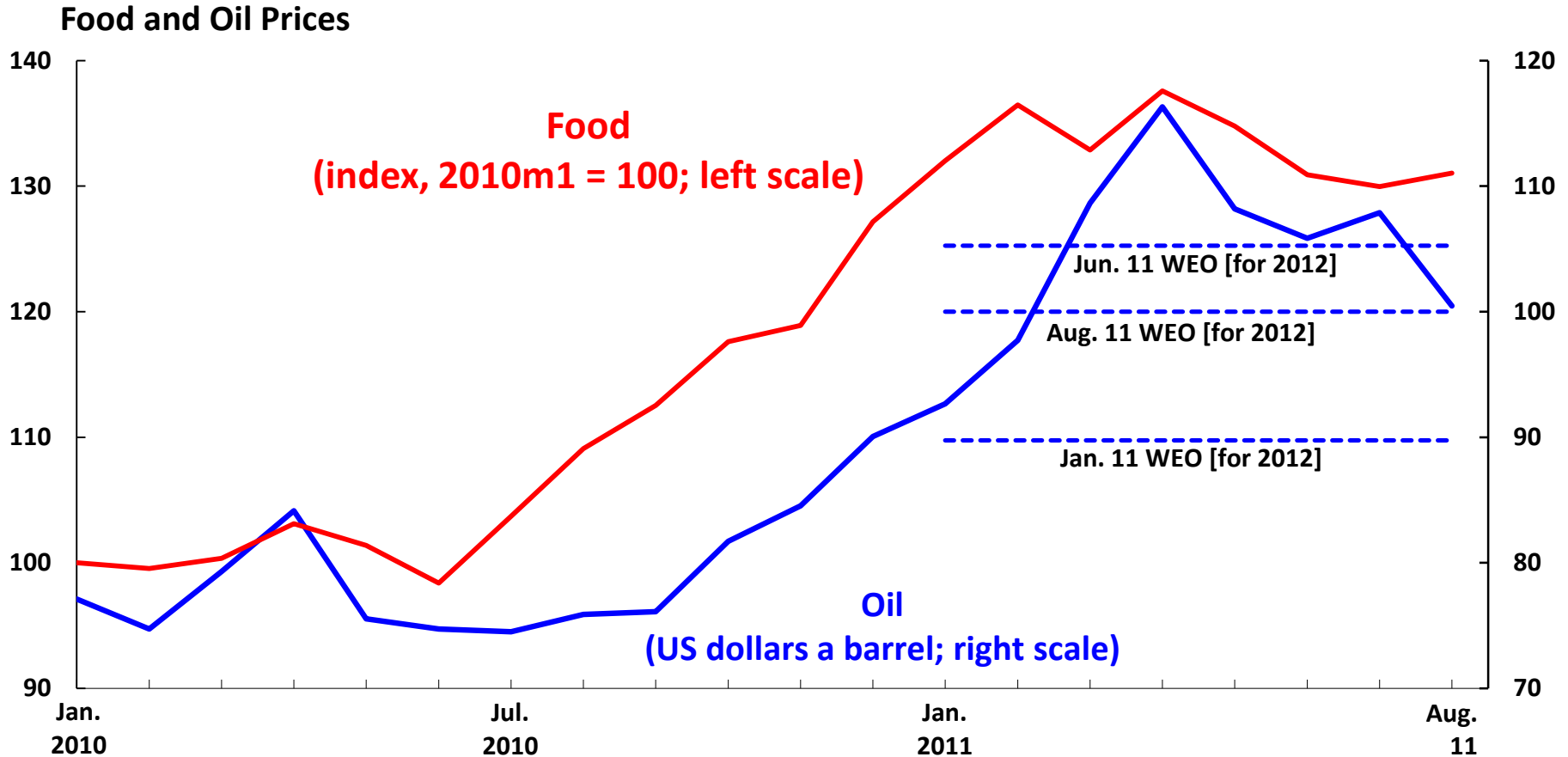


Purchasing Managers' Index

(index)



Oil and food prices have retreated but are still above January 2011 levels



Risks to LICs and Rwanda

Risks:

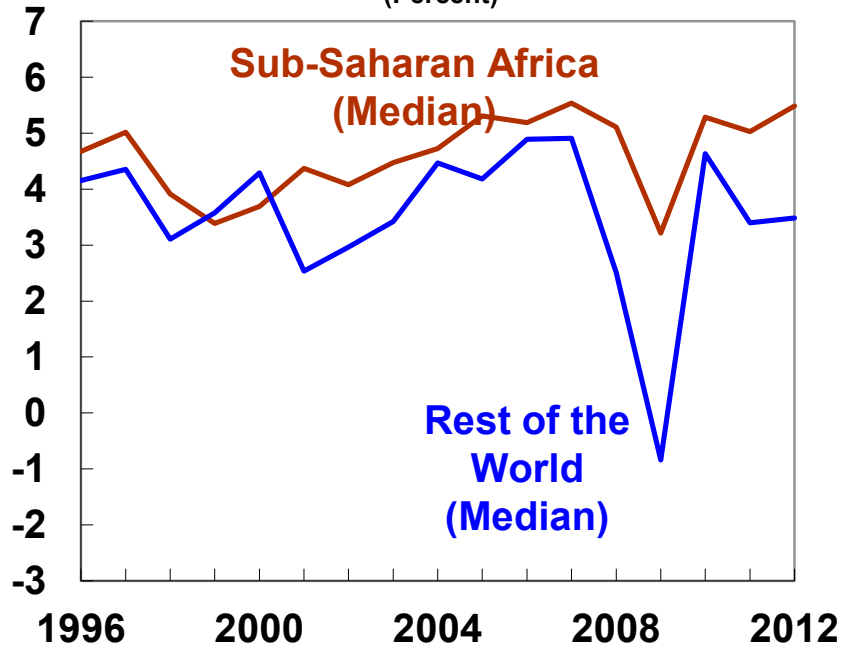
- (i) A sharp downturn in global growth**
- (ii) A new spike in global commodity prices**

Possible transmission channels to Rwanda:

- (i) Slowdown in global demand for exports**
- (ii) Reduction in FDI**
- (iii) Slowdown in tourism**
- (iv) Remittances**
- (v) Global aid envelopes may be constrained**

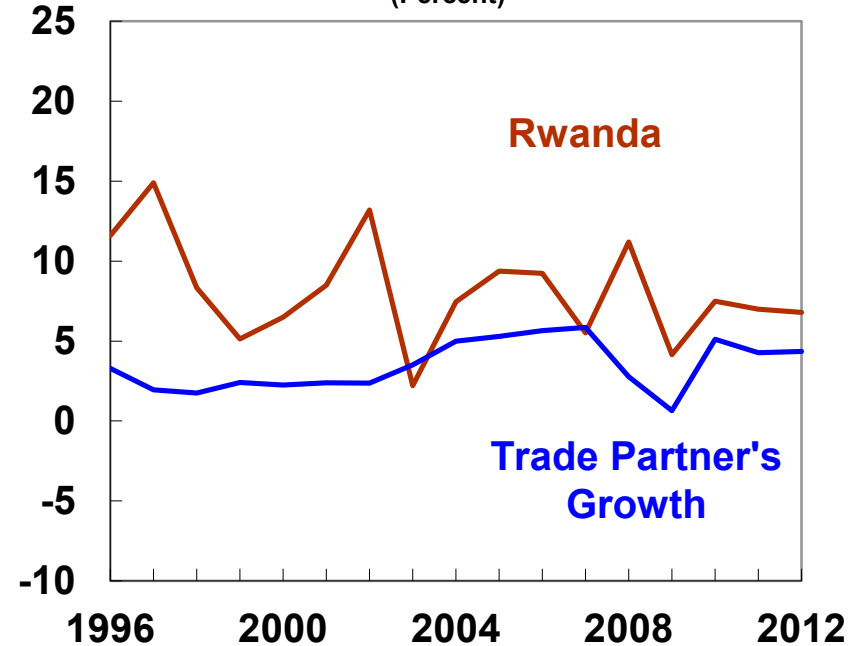
Increased integration into the global economy implies increased dependence on growth in the ROW

Sub-Saharan Africa and the Rest of the World:
Real GDP Growth
(Percent)



Source: IMF, *World Economic Outlook*; and Drummond and Gustavo.

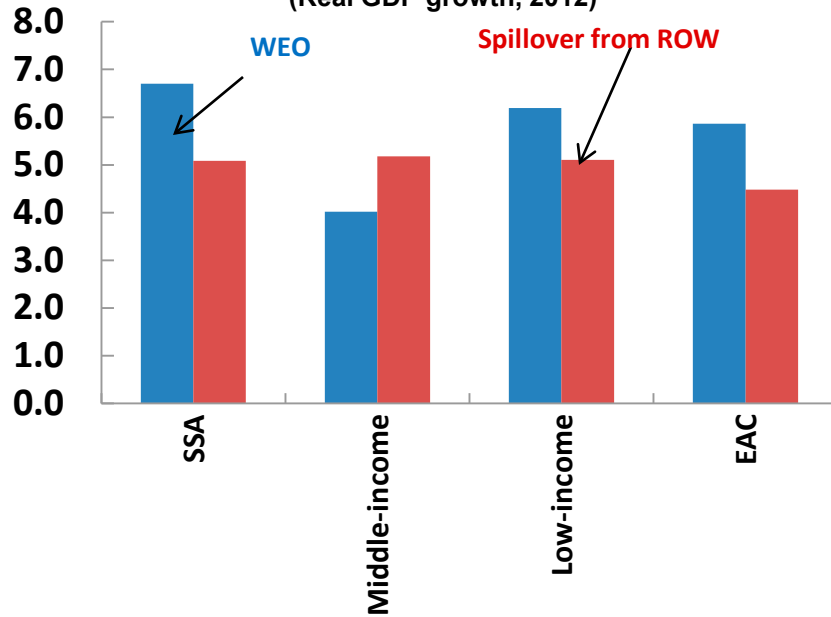
Rwanda and Trade Partners:
Real GDP Growth
(Percent)



Source: IMF, *World Economic Outlook*; and Drummond and Gustavo.

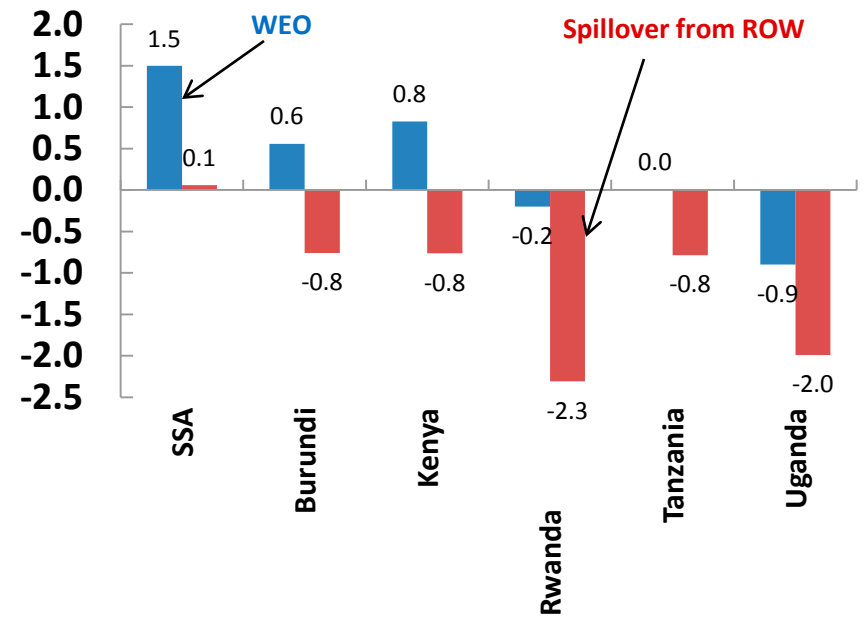
Without appropriate policy responses, spillovers can be quite high

Sub-Saharan Africa and the Spillovers from the Rest of the World:
(Real GDP growth, 2012)



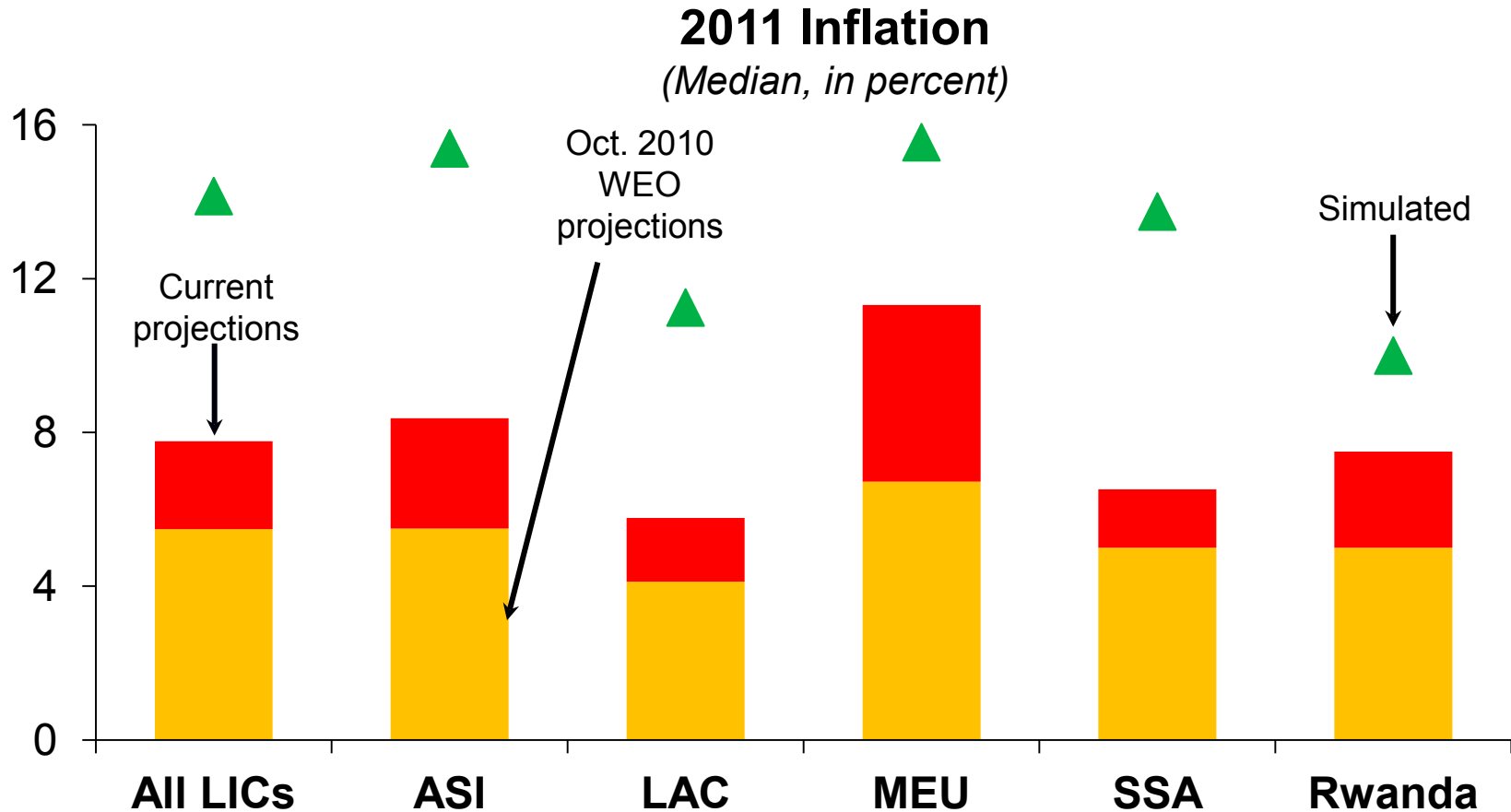
Source: IMF, *World Economic Outlook*; and Drummond and Gustavo.

EAC and the Spillovers from the Rest of the World:
(Percent change in real GDP growth, from 2011 to 2012)



Source: IMF, *World Economic Outlook*; and Drummond and Gustavo.

Spikes in global commodity prices have elevated inflationary pressures, though not as much as expected



Some Recent Policy Responses

Fiscal policy response: SSA

	2007/08 Episode Number of countries:	2010/11 Episode Number of countries:
Fuel		
Tax decreases	7	11
Subsidy increases	6	11
Food		
Tax decreases	11	4
Subsidy increases	4	4
Other responses	6	8
Total number of countries with measures	20	20

Source: Staff estimates based on data provided by country teams and authorities

Monetary policy response in SSA

- A recent IMF survey found that about three-fourth of countries in SSA pursued policies to accommodate the first round effects of the price shocks in 2010/11. For several countries, this involved continuation of the monetary policy easing prompted by the global economic crisis.
- Several countries (incl. Tanzania, Uganda, and Kenya) have taken steps to tighten monetary policy to resist second round inflationary effects.
- Exchange rates have moved little, if at all, in most countries in response to the food and fuel price shocks. (Uganda and Kenya are exception)

Summary of key observations

Key Observations

- **Inflation:**

- Countries with fixed exchange rate regimes (or stable exchange rates) did better with inflation than those with flexible exchange rate regimes.
- In Rwanda, stable exchange rate and good harvest have helped to contain the inflationary impact. Also focused fiscal response (reducing fuel taxes) helped to contain the impact of high fuel prices.

- **Growth:**

- Greater integration of SSA economies into the global economy means fortunes in SSA (and Rwanda) are increasingly becoming dependent on developments in the ROW.
- Countries with greater export diversification had a relatively lower spillover on growth (Kenya).
- Countries benefiting from higher commodity prices (minerals) also had a lower spillover on growth (Tanzania).

