Macroeconomic Developments and Prospects in Low-Income Developing Countries

The IMF and the 2030 Development Agenda

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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

By financial development

- **All LIDCs**
  - Population: 1.3 billion
  - 60 countries

- **Frontier markets**
  - Population: 665 million
  - 14 countries (e.g., Ghana, Mongolia)

- **Developing markets**
  - Population: 283 million
  - 19 countries (e.g., Ethiopia)

- **Fragile states**
  - Population: 402 million
  - 28 countries (e.g., Guinea, Myanmar)

By export

- **Commodity exporters**
  - Population: 580 million
  - 27 countries

- **Diversified exporters**
  - Population: 747 million
  - 33 countries
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)
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)

Diversified exporters
Commodity (non-oil) exporters
Oil exporters

June 2014-June 2015
June 2014-December 2015
...with Oil Exporters Hardest Hit
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)

* Excluding Yemen.
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)

Commodity Exporters
Diversified Exporters

Commodity Exporters*
Diversified Exporters

* 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)

Real Sector
- High: 47%
- Medium: 48%
- Low: 5%

External Sector
- High: 33%
- Medium: 37%
- Low: 10%

Fiscal Sector
- High: 47%
- Medium: 32%
- Low: 21%

Diversified Exporters
- Commodity Exporters
  - High: 25%
  - Medium: 75%

Low: 13%
Medium: 62%

High: 34%
Medium: 19%
Low: 47%

High: 41%
Medium: 15%
Low: 44%
Rising Debt Vulnerabilities: How Significant?

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

![Graph showing the evolution of the risk of debt distress from 2006 to 2015. The graph indicates a steady increase in the percentage of LIDCs with high debt distress, moderate debt distress, and low debt distress over the years.](chart)
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**

![Diagram showing financial indicators including:
- Return on Assets
- Bank credit to bank deposit ratio
- Growth rate of private credit to GDP
- Growth rate of M2 to GDP
- Cross border deposits to GDP
- Cross border loans to GDP

Years: 2010, 2013, 2014]
Shock Scenario: Impact of Financial Volatility Shock

Growth

Growth and Fiscal Balance
(Cumulative deviation from baseline, three year period)

GDP growth (in percent)  Cumulative Fiscal Balance (in percent of GDP)


0 1 2 3 4 5 6

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

**Average Annual Number of Droughts, Floods, Storms**

(Per million square kilometers)

![Graph showing average annual number of droughts, floods, storms from 1985-95 to 2006-2015 for LIDC, EM, and AM categories.](image)
….and They Are at Greater Risk with Respect to Climate Change than Other Countries

Climate Change Exposure Index, 2015

LIDCs
(Percent share of countries with vulnerability)

Rest of the World
(Percent share of countries with vulnerability)
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)

Notes: the bars and the dots indicate, respectively, the median and third quartile of the distribution of capital inflows.
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

- Capital Inflows: 0.12, 0.25
- FDI Inflows: 0.06, 0.35
- Portfolio Inflows: 0.10, 0.31
- Other Inflows: 0.24, 0.25

Legend: • Investment  ♦ Consumption
The SDG Narrative: Public Borrowing and Investment?

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

### Ghana

![Graph showing sovereign borrowing and public investment in Ghana from 2005 to 2014.]

### Mongolia

![Graph showing sovereign borrowing and public investment in Mongolia from 2005 to 2014.]

(Sovereign borrowing (% GDP), Public investment (% GDP)
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)

Notes: The sample includes Bolivia, Cote d’Ivoire, Ghana, Mongolia, Nigeria, Senegal, Vietnam, and Zambia
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