Five Things to Know About the Prospects for Low-Income Developing Countries
February 2017

The sharp realignment of world commodity prices has set back growth for commodity-exporting low-income and developing countries while generally helping others, leading to increasing divergence between the two groups, a recent IMF staff paper says. The IMF Executive Board recently discussed the paper, “Macroeconomic Developments and Prospects in Low-Income Developing Countries, 2016.” This is the third in a series. The first such paper, in 2014, focused on medium-term growth trends, which were generally very positive during the 2000-14 period, and on the evolution of public debt levels. The 2015 paper focused on the impact of the new world of “low for long” global commodity prices on low-income countries, identifying the losers and winners, while exploring the experience with capital flows in low-income countries. This last theme was taken forward in the 2016 paper, which also gave specific attention to investment in infrastructure. Here are five things to know about the papers findings and the significance of this topic.

1. **Lower for Longer:** The paper highlights the diverse implications of a new world of “lower for longer” commodity prices on low-income countries. Many commodity exporters have taken a severe hit from the drop in world commodity prices since 2014 and are still far from returning to a sustainable macroeconomic trajectory. In contrast, many countries less dependent on commodity exports (e.g. Vietnam, Bangladesh, and Senegal) benefited from the sharp fuel price drop and have continued to grow at a strong pace.

2. **No growth, no SDGs?** The divergent growth prospects among the low-income and developing countries (LIDCs), and overall rising economic and financial vulnerabilities in many, present a challenge for these countries to stay on track in pursuing their sustainable development goals (SDGs). This is especially true for commodity-exporters who have experienced a marked slowing of economic activity—sometimes even going into recession (e.g. Chad and Nigeria)—and have a much higher likelihood of financial sector stress in the short-term.

3. **Can’t go far without good macro and finances:** For many commodity exporters facing pressing economic challenges, fiscal consolidation is an imminent priority to restore stability, and contain debt accumulation. Large terms of trade shocks are adding to financial sector stresses in a significant number of LIDCs, warranting pro-active oversight by the relevant regulatory authorities to help contain these stresses. Exchange rates also need to adjust to external pressures as needed. Countries seeing rapidly building inflation pressures need to tighten monetary policy. In the medium term, to improve resilience to cyclical economic challenges, LIDCs need to prioritize developing a diverse export base, building adequate foreign reserves, improving financial sector regulation and supervision, and strengthening broad-based domestic tax systems.

4. **Definitely not far enough without good infrastructure.** Economic resilience, sustained growth, and attainment of the SDGs are all intertwined, with infrastructure investment a driver for robust and inclusive growth and a vital part of national development strategies. Despite recent progress, the quality, quantity and accessibility of infrastructure in LIDCs is still considerably low.

5. **A balancing act.** There is a clear need to spend more on infrastructure in most LIDCs—but higher spending levels need to be financed through a mix of boosting tax revenues, or cutting back on lower-priority spending, or increasing borrowing levels. Evidently, there is an important balancing act between borrowing to finance investment and maintaining debt sustainability over time—an issue that Fund staff typically examine in detail.