Macroeconomic Developments and Prospects in Low-Income Developing Countries

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Low-income developing country group: diverse

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

- **All LIDCs**
  - Population: 1.3 billion
  - No. of countries: 60

- **Frontier Markets**
  - Population: 665 millions
  - No. of countries: 14

- **Developing Markets**
  - Population: 283 millions
  - No. of countries: 19

- **Fragile States**
  - Population: 402 millions
  - No. of countries: 28

- **Commodity Exporters**
  - Population: 580 millions
  - No. of countries: 27

- **Diversified Exporters**
  - Population: 747 millions
  - No. of countries: 33
Low-income developing countries’ economic performance in historical perspective
LIDCs sustained strong growth for over a decade, notwithstanding the global crisis
And thanks in part to tighter monetary policies and reduced fiscal imbalances, inflation was stabilized...
Public debt burdens eased reflecting debt relief, strong growth, and improved economic policies
Global challenges facing LIDCs
The global economy has weakened, with global growth slower than previously expected

Real GDP Growth
(weighted avg., percent)
And commodity prices have fallen sharply since mid-2014

Commodity Price Indices
(Index, 2005 =100)
Recent global financial volatility has been among historical highs

Unprecedented Turbulence in Daily Asset Price Movements

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# of stdv. relative to 100d MA

Note: Positive (negative) readings refer to days of positive (negative) changes relative to the 100-day moving average of each asset class. In the case for currencies, changes refer to the base currency (USD and EUR). For bonds, yield changes are used and for the VIX, level changes are used.
Episodes of Sustained U.S. Dollar Appreciation
Macroeconomic challenges in LIDCs
Commodity price changes has had varied effects across LIDCs...

The first-round income effect of recent commodity price declines
(Percent of GDP, December 2015 / June 2014, Annualized)

- Diversified exporters
- Oil exporters
- Commodity exporters

June 2014-December 2015

-12 -9 -6 -3 0 3
External financing conditions have also tightened for LIDCs with market access.
...resulting in significant currency depreciation

Depreciation of Currencies
(Selected LIDCs, June 2014-December 2015)

Commodity Exporters
Diversified Exporters
The share of vulnerable LIDCs now highest since the global crisis

Growth Decline Vulnerability Index, 2009-16
(LIDCs with low, medium and high vulnerabilities; in percent of total)
Looking ahead: three mega trends
Megatrend (1): Climate change

Where are food supplies most vulnerable to climate change?

Higher score = more vulnerable

Source: Notre Dame Global Adaptation Index
Medium-term vulnerabilities: LIDCs are more exposed to natural disasters

Average Annual Number of Droughts, Floods, Storms
(Per million square kilometers)
Megatrend (2): Technological change
Megatrend (3): Demographic change
LIDCs, on average, have been growing at a rapid pace

LIDCs: Per Capita GDP in U.S. Dollars, 1980-2015
Domestic policy challenges remain: growth has been largely driven by factor accumulation, not productivity gains

Contribution to Real GDP Growth
(Percent, average 2000s)

Sources: PRMED growth accounting database, and IMF staff estimates.
Policy priorities—different for diverse groups

• Key commodity prices are unlikely to rebound; commodity exporters need to recalibrate policies
  – Short term: smooth adjustment where there is some policy room
  – Medium term: adjustment cannot be avoided; boost domestic revenue mobilization, achieve diversification, increase TFP through structural reform
  – Key lesson: build macroeconomic policy space during good times to allow countercyclical action during downswings

• Diversified exporters still enjoying strong growth should rebuild eroded policy buffers for timely countercyclical policy action
Policy priorities that are relevant more generally

• Improve domestic revenue mobilization, rationalize spending,

• Address key infrastructure gaps without endangering public debt sustainability

• Modernize monetary frameworks

• Enhance economic resilience (short and medium term)
  – Structural reforms are a must

• Be aware of double-edge nature of capital inflows
  – Build economic policy resilience and sound debt management
  – Consider appropriate pace and sequencing of capital account liberalization
The IMF stands ready to help

- Countercyclical financial support for balance of payments needs
- Continuous and ongoing policy advice and capacity building
- Key IMF deliverables to boost countries’ resilience as they pursue their development goals under the 2030 development agenda
  - Reforms to IMF concessional facilities
  - Boost support for capacity building in domestic revenues and international taxation
  - Help countries address the macroeconomic dimensions of infrastructure gap;
  - Address specific needs of fragile States and small developing countries;
  - Enhance policy analysis on equity, inclusion, and environmental sustainability and bring it to operational work;
THANK YOU

For underlying references to the presentation please see links below:
