

IMF Publication

**IMF Managing Director's  
Statement to the Development  
Committee, April 2019**

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**INTERNATIONAL MONETARY FUND**



## DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

April 2019

*While growth in advanced economies is losing momentum amid trade tensions and policy uncertainty, activity in many emerging and low-income developing countries (EMDEs) has remained more robust, supported by still favorable financing conditions. Differences across EMDEs are large, however, and downside risks are building. Policy priorities include enhancing resilience in response to a more challenging global environment, creating fiscal space for essential development spending, containing debt vulnerabilities, and promoting strong and inclusive growth. Strengthening revenue generating capacity, enhancing public spending efficiency, and addressing infrastructure gaps are critical for reaching the 2030 Sustainable Development Goals.*

### ECONOMIC OUTLOOK AND RISKS

**The global expansion is losing momentum, even though growth in most EMs and LIDCs is more resilient.**

**The global expansion is weakening...**

Global growth is projected to moderate to 3.3 percent in 2019—from 3.6 percent in 2018—against the backdrop of high policy uncertainty in many countries, trade tensions, weak growth in labor productivity, and country-specific shocks. The slowdown is most pronounced in advanced economies. After a modest recovery in 2020, growth is expected to level off to around 3½ percent over the medium term. Inflation pressures remain muted across most economies.

**.... although growth in emerging market and developing economies is holding up better...**

In emerging market and developing economies (EMDEs), growth is projected to decline marginally to 4.4 percent in 2019, from 4.5 percent in 2018. The moderation reflects in part slower growth in *China*, as regulatory tightening—needed to rein in domestic imbalances—takes effect and trade tensions with the United States impair sentiment. Activity is projected to remain weak in countries that have suffered from financial strains (*Argentina and Turkey*). But growth is holding up well in many other large emerging economies (*India, Indonesia, Colombia, Peru*), supported by robust domestic demand. In 2020, growth in EMDEs is expected to recover to 4.8 percent.

**...despite sizable downside risks.**

External risks in EMDEs relate to the slowdown in advanced economies, trade tensions, a possible tightening of global financial conditions, and, for commodity exporters, a subdued outlook for most commodity prices. Domestic vulnerabilities remain elevated—including in the financial and corporate sectors—even though they are lower than a few years ago.

**In LIDCs, growth is resilient on average, but with a wide variation across countries.**

In contrast to the slowdown in advanced economies, growth in low-income developing countries (LIDCs) is projected to pick up to 5.0 percent in 2019 from 4.6 percent in 2018. Some non-resource intensive countries are benefiting from lower oil prices (*Ethiopia, Lao PDR, Myanmar*), while frontier economies with market access are boosting investment by taking advantage of still attractive financing conditions (*Côte d'Ivoire, Ghana, Kenya*). This said, in 45 LIDCs—many of them fragile states struggling with security challenges—per capita growth is projected to underperform the global average (including *Burundi, Libya, South Sudan, Yemen*).

**Elevated debt levels remain a concern.**

About two-fifths of LIDCs are assessed to be either at high risk of debt distress or already in debt distress. Reflecting adverse terms-of-trade shocks and accommodative fiscal positions, public debt as a share of GDP in LIDCs surged from a median of 35 percent in 2013 to 50 percent in 2017, before moderating slightly to 47 percent in 2018. In some countries, debt contracted by public entities outside central government also played a role.

## POLICY PRIORITIES FOR EMERGING AND DEVELOPING ECONOMIES

**Both strong domestic policies and international cooperation are key to generating sustainable and inclusive growth**

**Preconditions for vigorous and inclusive growth include both stability-oriented macroeconomic policies in the short term...**

Given rising global risks, short-term priorities include strengthening resilience and reinforcing macroeconomic policy frameworks.

- *Monetary policy.* In countries with elevated inflation or where exchange rate depreciations could trigger inflation pass-through, central banks should focus on containing inflation expectations (*Angola, Argentina, Iran, Turkey*). By contrast, monetary policy can be more accommodative where expectations are well anchored (*Brazil, Indonesia*).
- *Exchange rate flexibility* can help absorb external shocks and prevent persistent misalignment of relative prices and financial imbalances. Where reserves are adequate, foreign exchange intervention can be used to mitigate disorderly market conditions.
- *Fiscal policy.* As with monetary policy, the appropriate stance depends on country circumstances. In general, policymakers should ensure that debt levels remain sustainable, as tighter external financial conditions could expose vulnerabilities from debt that was accumulated when interest rates were very low. In several countries, rationalization of recurrent expenditures is called for, while protecting social spending

and improving the targeting of subsidies (*Senegal, Ukraine*). EMDEs with fiscal space though could employ fiscal policy to support demand if downside risks materialize.

- *Macroprudential policy*. Remaining gaps in macroprudential toolkits should be closed and regulatory and supervisory frameworks strengthened. Strong bank resolution frameworks are also critical.

**...and well-designed fiscal and structural policies for the medium to longer term...**

Without robust and inclusive growth, the 2030 Sustainable Development Goals cannot be achieved. Both fiscal and structural policies have a role to play.

- Fiscal policy needs to generate space for priority development spending, while at the same time preserving public debt sustainability. This requires tax policies and administrative reforms that broaden the tax base and enhance revenue collection, as well as prudent debt management. Increasing the efficiency of public spending is also needed, including in priority areas such as education, health, and infrastructure.
- Strong private investment is a precondition for vibrant and sustained growth and requires strengthening the business climate and eliminating structural obstacles to growth.
- Targeted labor market policies are needed to tackle youth unemployment, especially in view of demographic shifts in many LIDCs that generate sharp increases in the number of new entrants into the labor market. Steps are also needed to eliminate obstacles to women's labor market participation and to reduce gender gaps in education, access to financing, and health.
- Diversified financial systems increase resilience and facilitate access to financial services for small enterprises and lower-income households. Recent developments in Fintech hold both promise and risks in this regard.
- Strong institutions are key to mitigating corruption-related vulnerabilities.

**...but EMs and LIDCs also need support from the international community.**

Global cooperation is vital to tackle common challenges and boost the growth and development prospects of EMDEs.

- Modernizing the rules-based multilateral trade system and promoting open, transparent trade policies are essential to protect the gains from economic integration. The steps taken recently towards achieving an African Continental Free Trade Area demonstrate the importance countries continue to place on trade to achieve their development objectives.
- Stronger efforts by the international community are needed to help finance development outlays in many EMDEs, especially for the poorest and least developed countries. At the same time, lending practices should help avoid

the buildup of excessive debt vulnerabilities. Countries with already high public debt levels would benefit from more grant financing or loans at highly concessional terms.

- Completing the global financial regulatory reform agenda and enhancing the global financial safety net are needed to strengthen financial stability.
- Cross-border collaboration on tax policy would help protect the revenue generating capacity of both advanced and developing economies.
- Steps are required to reduce the costs of sending remittances and restore correspondent banking relations.
- Other areas where international collaboration is critical include climate change, cyber risks, pandemics, refugees, and migration.

## IMF SUPPORT

### Help members achieve their development objectives, through policy advice, capacity building and financing

#### Promote economic stability and growth through tailored policy advice

To assist member countries, the IMF will:

- Help policymakers with assessing macroeconomic and financial conditions and identifying obstacles to sustainable and inclusive growth.
- Proceed with the 2020 Comprehensive Surveillance Review and the 2020 Review of the Financial Sector Assessment Program to ensure that the IMF's surveillance adapts to the rapidly changing global environment.
- Implement the IMF's newly adopted framework for engagement with members on issues relating to governance and corruption.
- Finalize a strategy to guide the IMF's engagement on social spending issues.
- Continue work with the World Bank on a multi-pronged strategy to address debt vulnerabilities, by improving debt coverage and strengthening debt management capacity.

#### Supporting the 2030 agenda

The IMF will:

- Continue to help countries pursue their 2030 SDGs by deepening policy diagnostics, in the context of both surveillance and lending operations. The IMF will also help design strategies for financing and for improving the data for SDG monitoring.

- Support members through capacity development (CD), including on topics that are critical for pursuing the SDGs, such as revenue mobilization and spending efficiency. The IMF's CD spending on LIDCs increased by 28 percent from 2015 to 2018.
- Expand support for fragile and conflict-affected states, with an emphasis on building core institutions and developing capacity.
- Build on the work for Japan's G20 Presidency on the macroeconomic and fiscal implications of aging.
- Deepen the analysis of the macroeconomic impact of climate change and assist countries in devising appropriate policies, including carbon taxation and energy pricing reform.
- Support resilience building in countries vulnerable to natural disasters, including through more analysis of the macro-economic and fiscal impacts of disasters and of resilience-enhancing investments, as well as backing resilience-focused economic programs with IMF financing where warranted.

**Provide financial support to countries implementing adjustment programs**

For countries that face difficult adjustment challenges, the IMF will:

- Continue to provide financial support through its lending facilities. In the past six months, new financial arrangements have been approved for *Angola, Barbados, Ecuador, Morocco, Sierra Leone, and Ukraine*.
- Proceed with its reviews of program design, conditionality, and its concessional facilities to strengthen the IMF's lending framework and align it with member countries' needs. The IMF will also complete the reviews of its debt sustainability frameworks and the debt limits policy.

**Promote global economic cooperation**

The IMF will continue to promote a multilateral approach to addressing global economic challenges. Specifically, it will:

- Continue to highlight the benefits from international cooperation and economic integration, including a rules-based multilateral trade system.
- Participate actively in the international tax debate, including through the Platform for Collaboration on Tax, making sure that the interests of developing countries are addressed.
- Assist developing countries with unsustainable debt burdens with finding durable solutions.
- Help tackle illicit financial flows, through the IMF's work on taxation, AML/CFT, and governance.