Emerging from the Crisis and Achieving the MDGs

Prospects and Challenges for Low-Income Countries

Accelerating progress toward the MDGs – Role of the IMF

- Returning quickly to sustainable growth trajectories
- Stepping up social protection, social investments
- Investing in the economic infrastructure
- Challenges:
  - Protecting against future shocks
  - Domestic resource mobilization/expenditure efficiency
  - Managing aid/debt and new sources of development finance

Outline (1)

- **How have LICs fared during the crisis?**
  - Hard hit, but better prepared
  - “Keynesian” response– a first for LICs
  - Debt remains manageable for most
- **How did the IMF respond?**
  - Sharply scaled-up financial support
  - Comprehensive facilities reform
  - Conditionality, debt policies more flexible

Outline (2)

- **Beyond the crisis**
  - Managing volatility
  - How to re-build policy buffers?
  - Investing for growth
  - Implications of the evolving aid architecture
  - Climate change financing needs

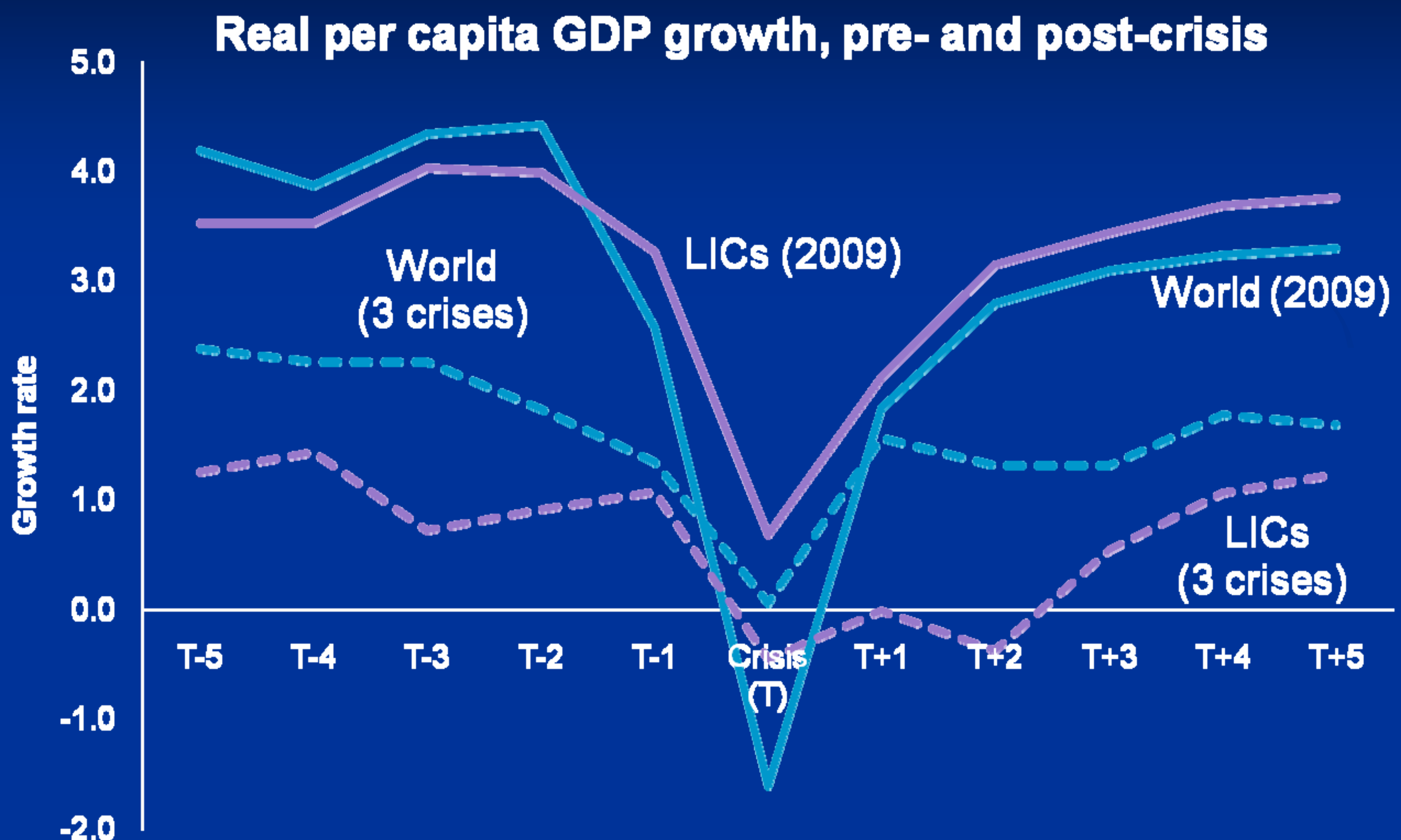
Part I

HOW HAVE LICs FARED DURING THE CRISIS?

Global crisis hit LICs hard

- **Transmission channels**
  - Exports, remittances, FDI
  - Credit tightened (including trade finance)
- **Growth dipped more sharply than in previous crises, but:**
  - From higher pre-crisis level
  - Overall decline less than world average

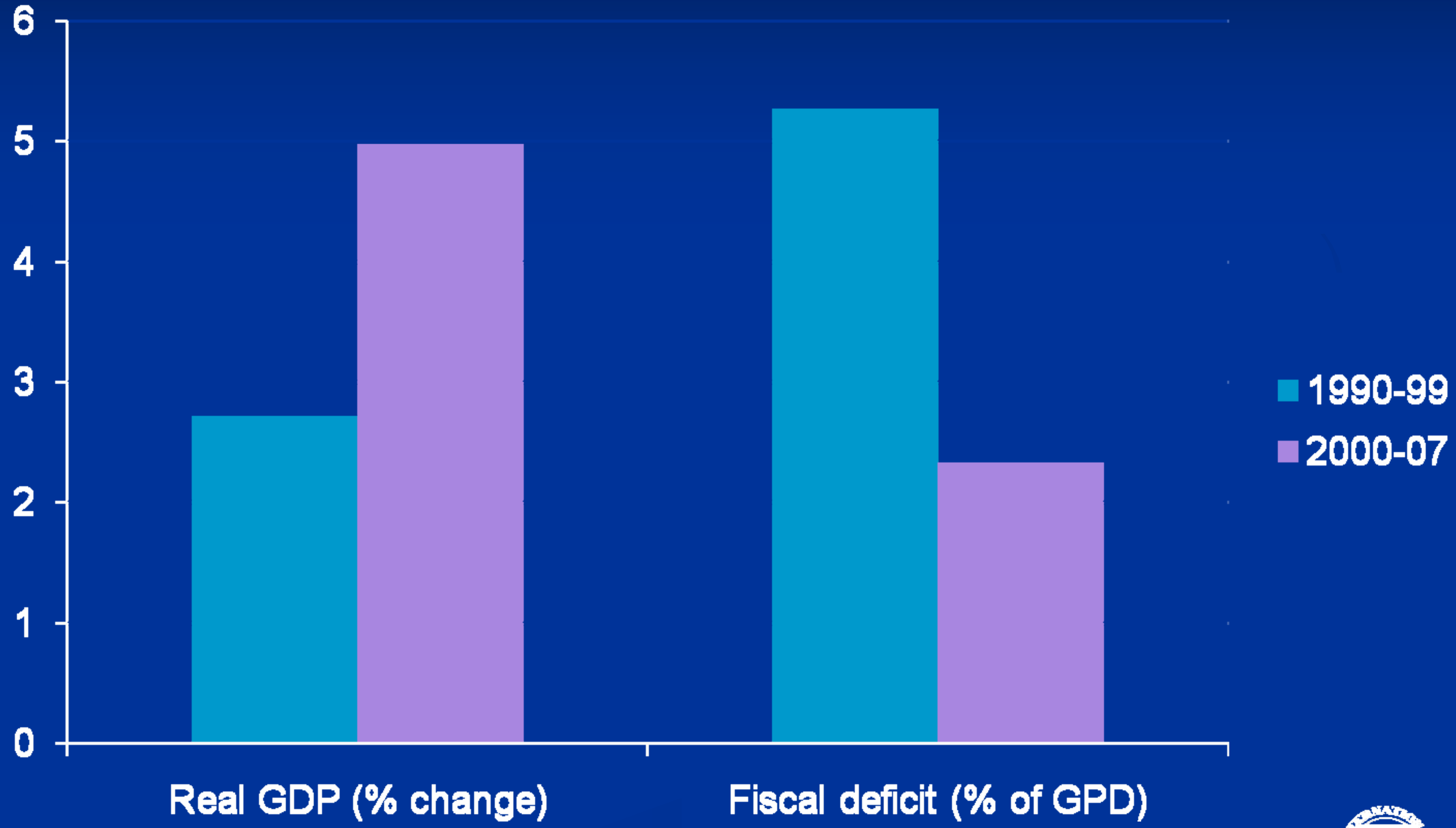
Growth in crises past and present



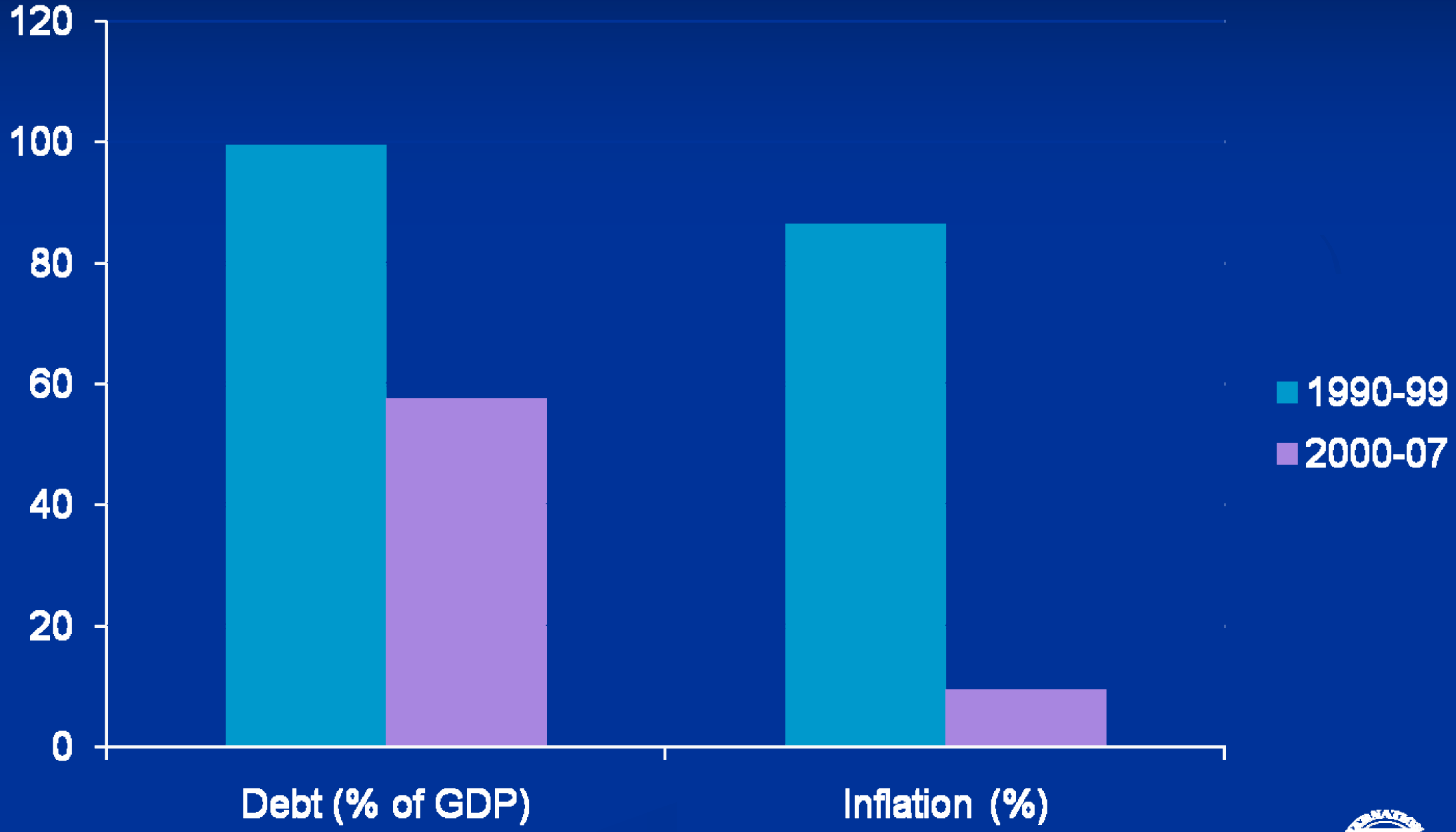
“Keynesian” policy response—a first for LICs

- **Most LICs went into crisis better prepared:**
  - Sustained macro stability
  - Stronger institutions
  - Created room for countercyclical policy responses à la Keynes
- **IMF supported larger fiscal deficits as part of global fiscal stimulus**

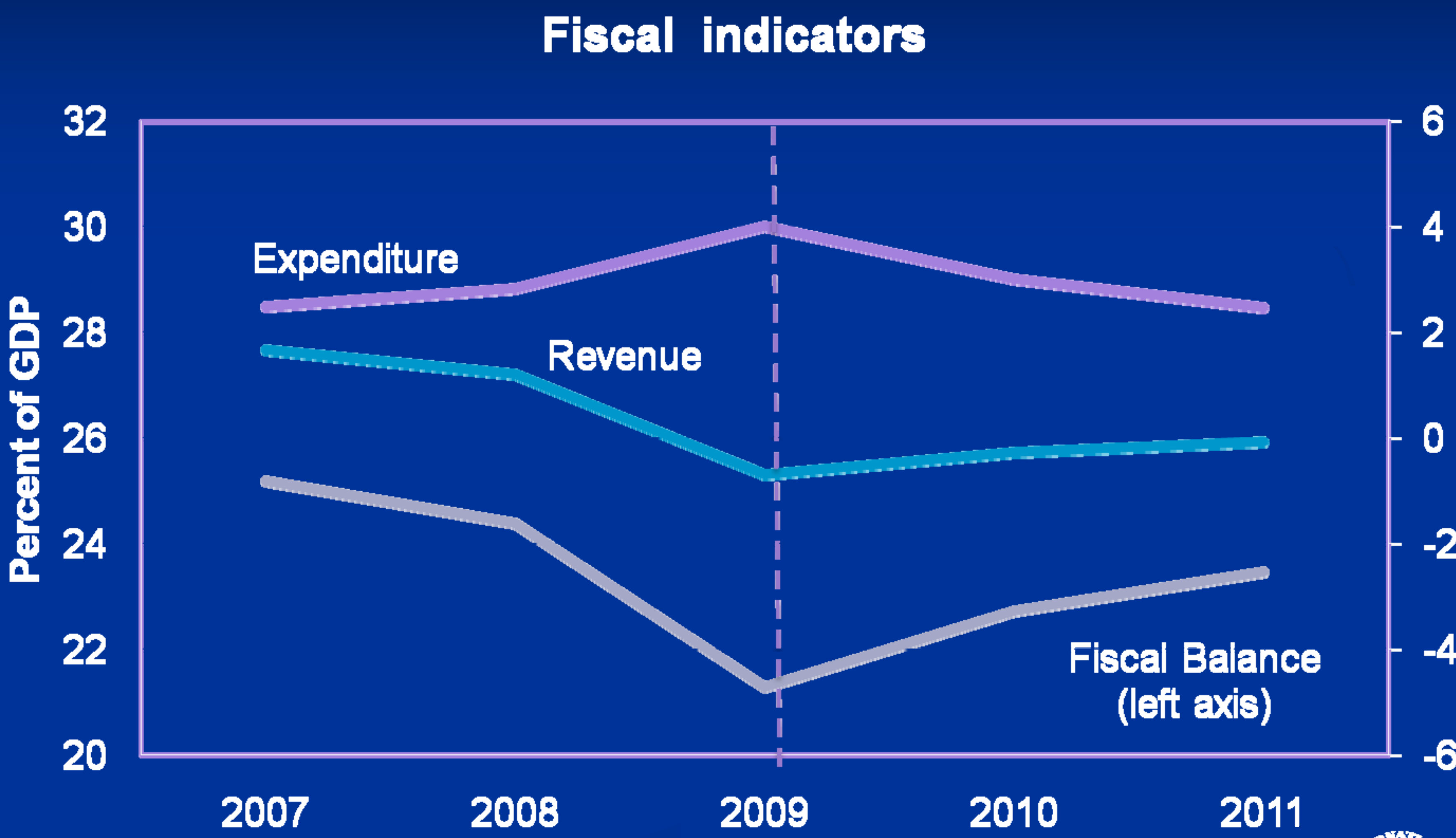
Pre-crisis position much stronger



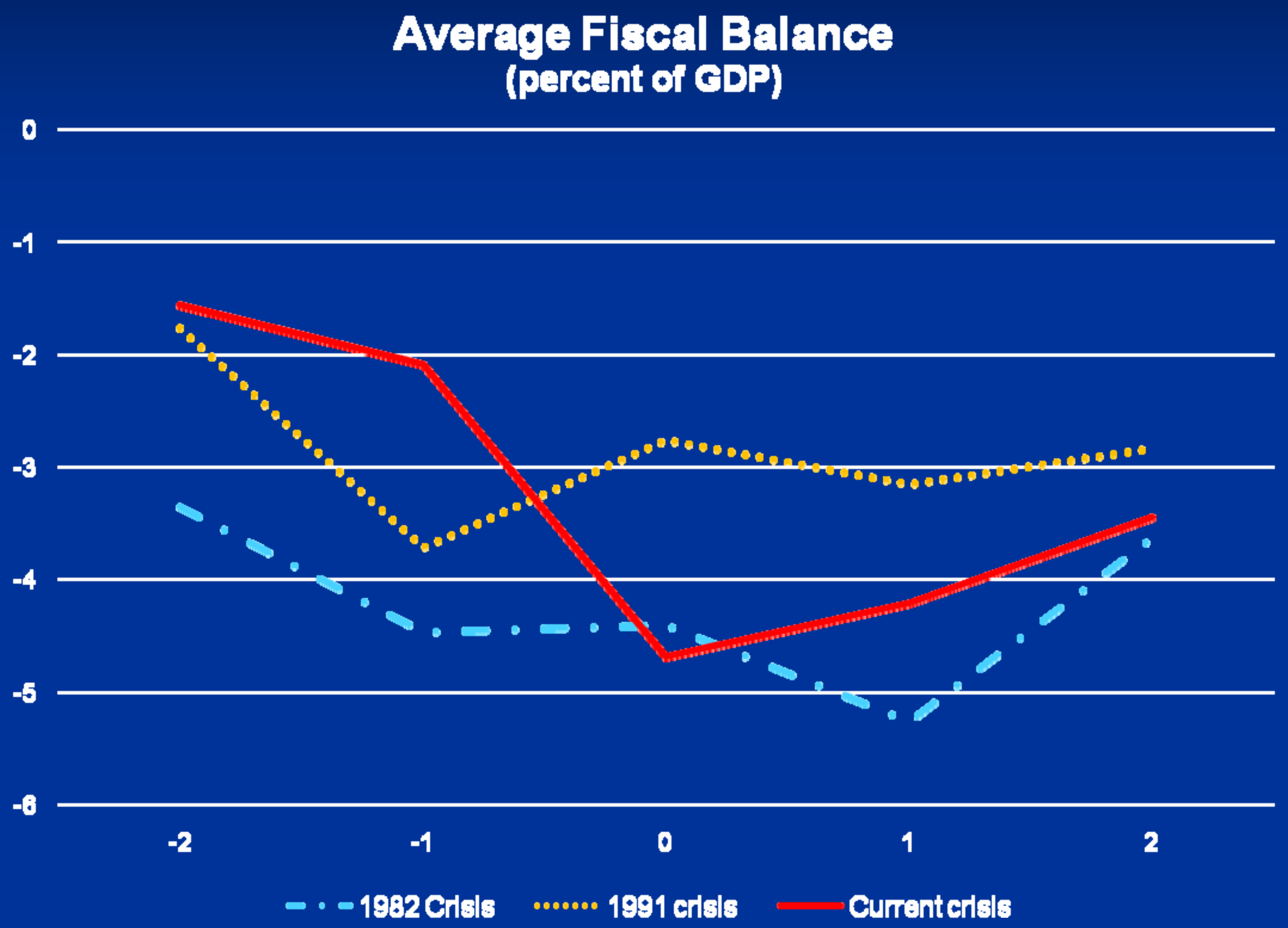
Debt and inflation down



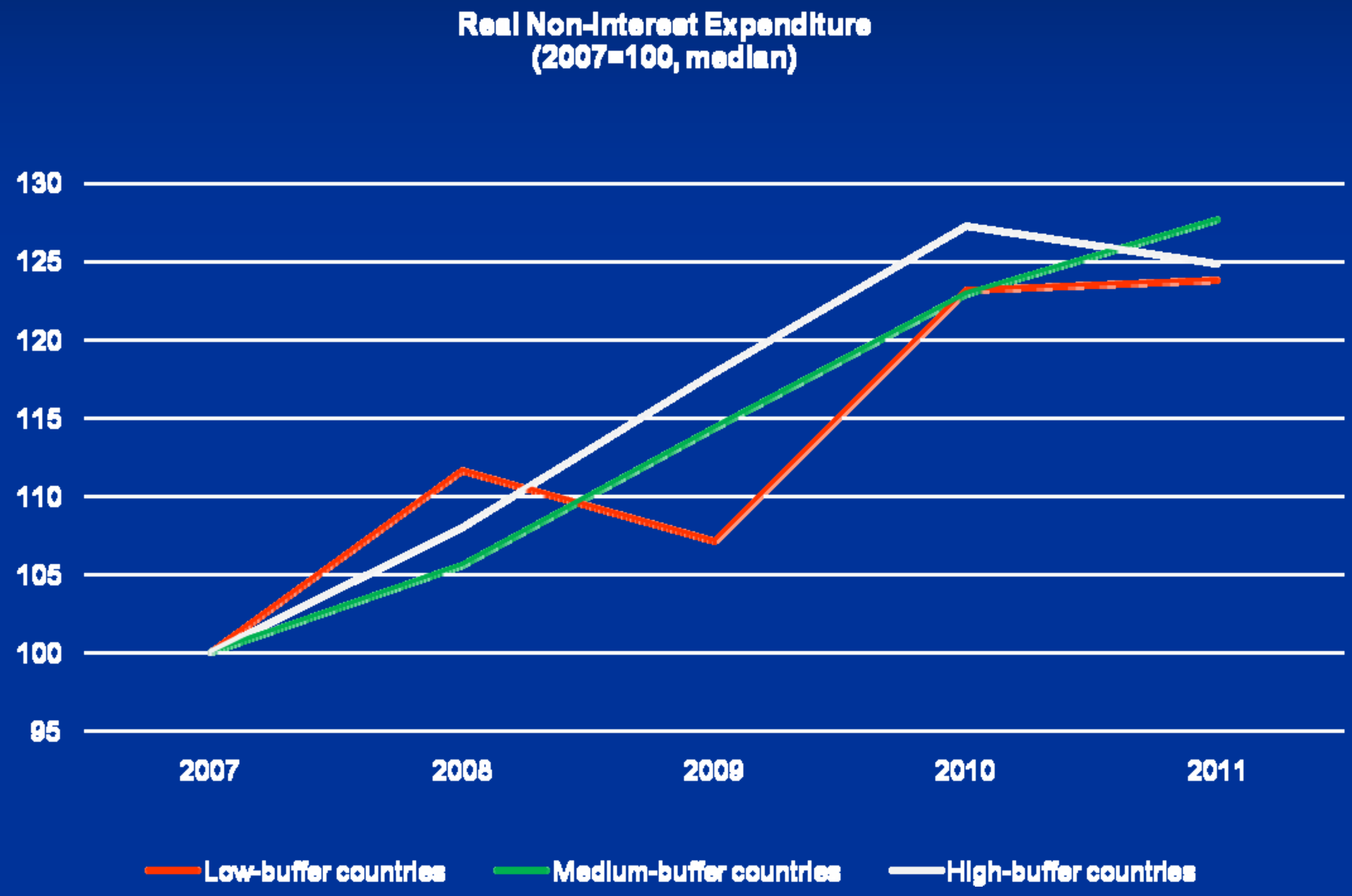
“Keynesian“ fiscal policy response...



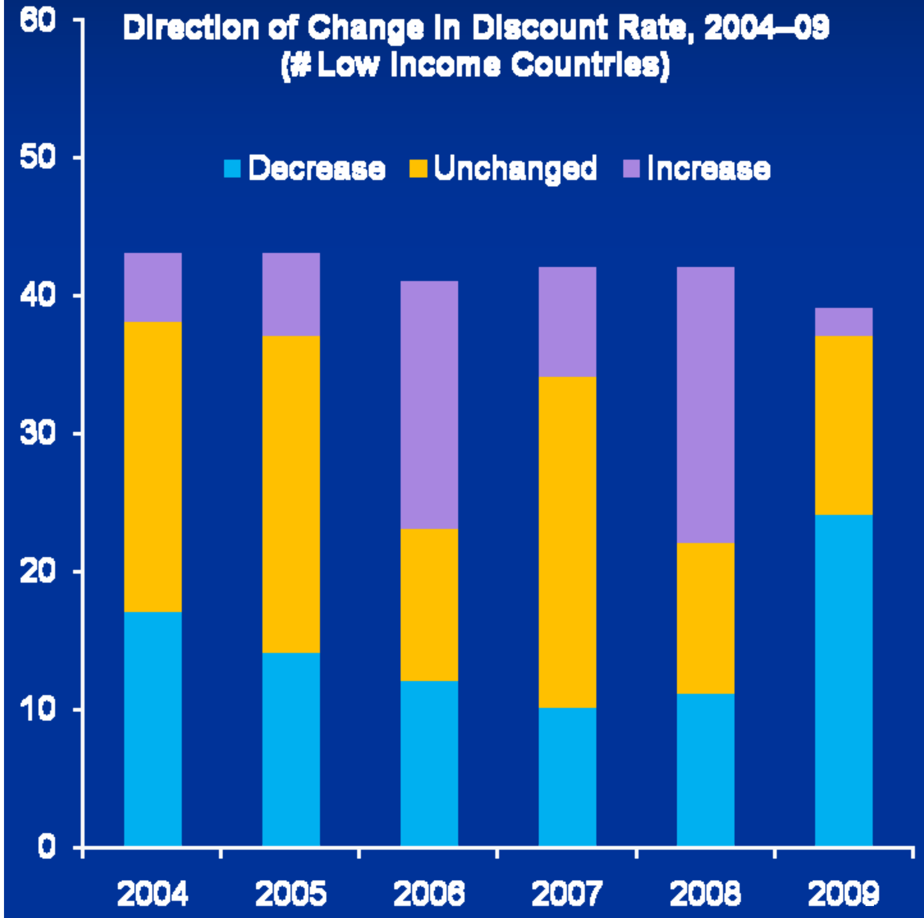
… a first for LICs

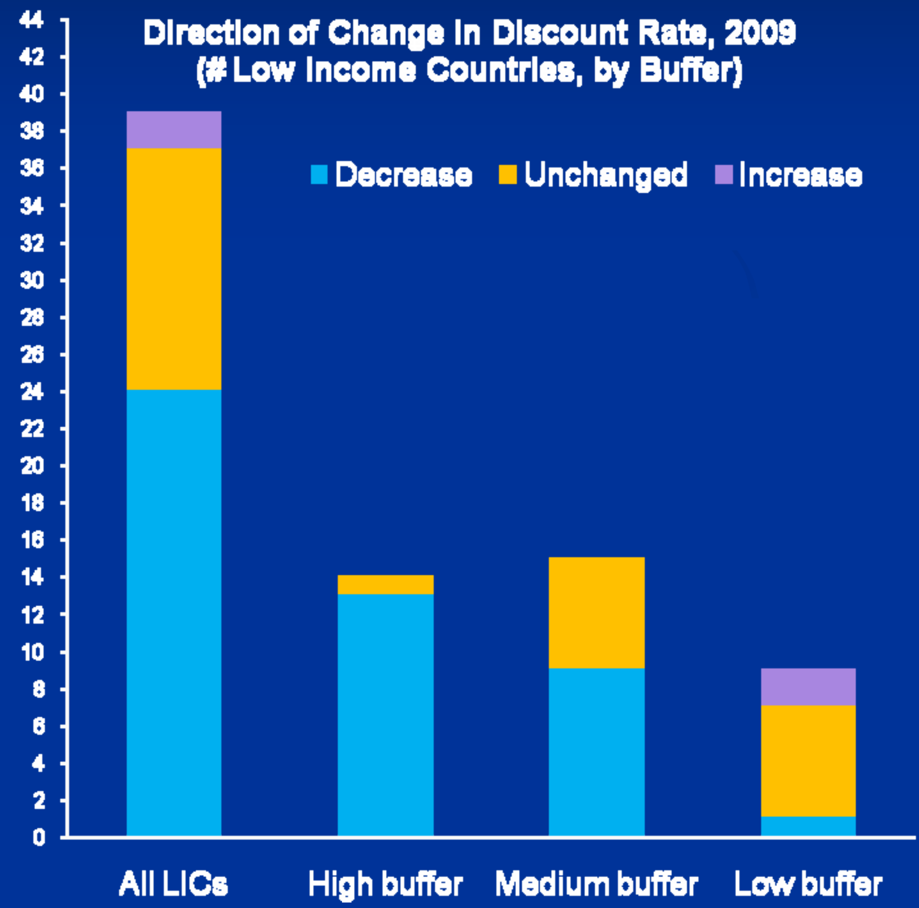


Countries with larger "buffers" could afford stronger fiscal stimulus to support the economy



The same was true of monetary stimulus





Debt remains manageable for most

- **Crisis worsened debt ratios**
- **But should not result in systemic debt problems across LICs *if*:**
  - No permanent impact on growth
  - LICs progressively undo fiscal easing implemented during the crisis

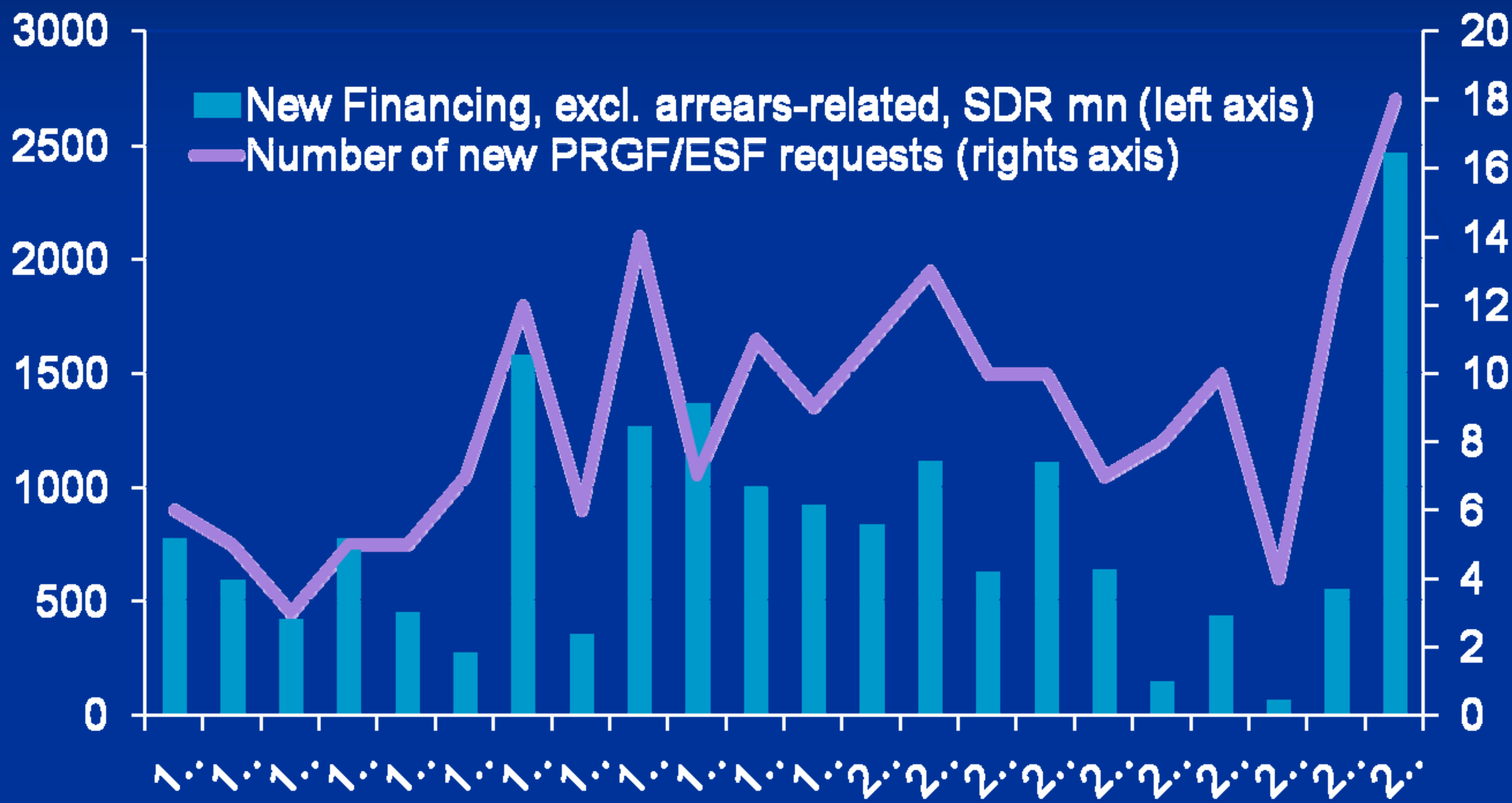
Part II

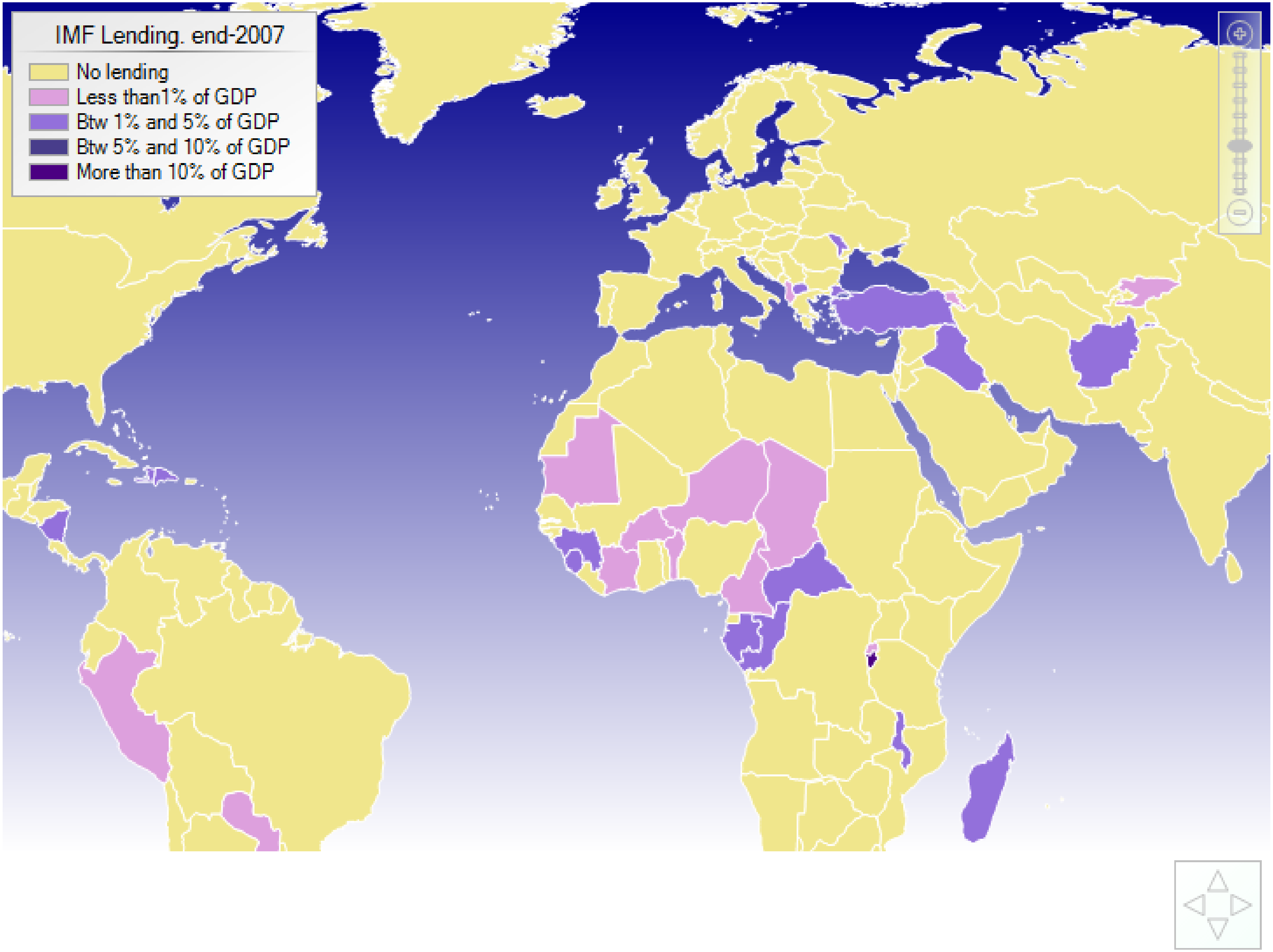
HOW HAS THE IMF RESPONDED?

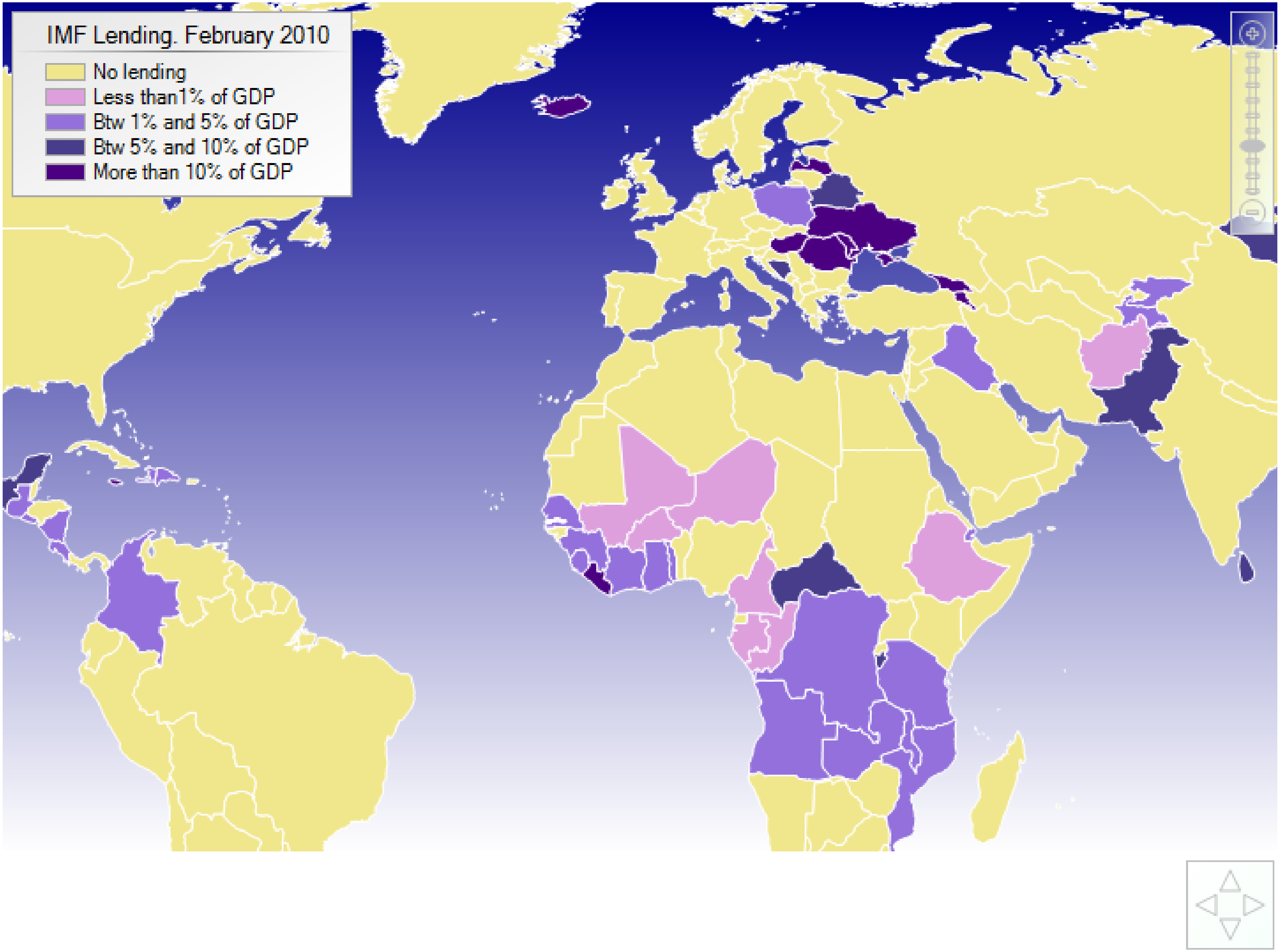
Sharply scaled-up financial support

- **2009: IMF concessional assistance at $3.8 billion (historical: $1bn)**
- **Concessional lending capacity doubled, to $17 bn through 2014/15**
- **Financed partly by gold sales**
- **SDR allocation**
- **Zero interest on all concessional credit**
- **Support of countercyclical programs**

IMF financial support sharply higher




IMF Lending. end-2007
No lending
Less than1% of GDP
Btw 1% and 5% of GDP
Btw 5% and 10% of GDP
More than 10% of GDP


IMF Lending. February 2010
No lending
Less than1% of GDP
Btw 1% and 5% of GDP
Btw 5% and 10% of GDP
More than 10% of GDP

Comprehensive 2009 reform

- **More flexible facilities under Poverty Reduction and Growth Trust (PRGT) to meet diverse LIC needs:**
  - ECF – medium-term support
  - SCF – short-term (and precautionary) support
  - RCF – emergency support
- **Access to financing doubled**
- **Zero interest through end-2011**
- **Permanently higher concessionality**

Conditionality made more flexible

- **Support country-owned PR strategies**
- **Explicit safeguards to social spending**
- **Structural conditionality more focused on macro critical areas**
- **Binding structural conditions and wage ceilings abolished (review-based)**
- **Debt limits more flexible to meet infrastructure gaps**
- **Improved DSF/DSA**

Part III

BEYOND THE CRISIS

Managing volatility

- **Achieving MDGs depends critically on minimizing further disruption to growth**
- **LICs more exposed to economic shocks, natural disasters than others**
- **Exposure will grow further with global integration and climate change**
- **LICs generally under-insured**
- **But cost of holding reserves high**
- **Need (i) policy buffers and (ii) concessional shocks support**

How to re-build policy buffers?

- First, do no harm: avoid premature or overly rapid fiscal tightening
- When strengthening fiscal positions: focus on revenue growth and preserve priority spending
- Borrow for high-return investment
- Avoid overreliance on debt-creating capital inflows, develop local savings and financial sectors

Investing for growth

- **Massive infrastructure deficit , esp. in Africa → key growth bottleneck**
- **LIC governments rightly keen to scale up public investment**
- **But quality is critical →strengthen public finance institutions**

Evolving aid architecture

- **Can traditional donors deliver finance?**
- **Aid holding up, but not meeting Gleneagles commitments**
- **Realistically, huge investment needs will require nonconcessional credit**
- **China as largest bilateral donor in Africa → coordination important**
- **Need to tap private finance more effectively**
- **Fragile, conflict, and catastrophe-affected states → weigh risks of engaging against risks of not engaging**

Climate change financing needs

- Global challenge, but uneven impact: LICs contributed least, but may be most affected
- Need large-scale, long-term investments for adaptation/mitigation
- Appropriate financing terms essential
- "Green Fund" idea as bridge to overcome collective action problem
- Raise $100 billion a year by 2020

Thank you