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 FAILED 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

Real per capita GDP growth, pre- and post-crisis

- World (3 crises)
- LICs (2009)
- World (2009)
- LICs (3 crises)
“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

- Real GDP (% change)
- Fiscal deficit (% of GDP)

1990-99
2000-07
Debt and inflation down

Debt (% of GDP) Inflation (%)

1990-99 2000-07
"Keynesian" fiscal policy response...
... a first for LICs

Average Fiscal Balance
(percent of GDP)

1982 Crisis
1991 crisis
Current crisis
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

New Financing, excl. arrears-related, SDR mn (left axis)
Number of new PRGF/ESF requests (rights axis)
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