



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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**STATEMENT BY THE MANAGING DIRECTOR
OF THE INTERNATIONAL MONETARY FUND**

Attached for information for the Members of the Development Committee is a Statement from the Managing Director of the International Monetary Fund, Christine Lagarde, for the Committee's ninety-fourth meeting to be held in Washington, DC on Saturday, October 8, 2016.

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DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

October 2016

Global growth remains subdued, with recovery uneven across countries and downside risks persisting. Economic expansion has slowed in many advanced economies (AEs), while low global commodity prices continue to weigh on growth in many emerging market and developing economies (EMDEs). Fiscal support for demand is warranted in countries where recovery is weak and there is fiscal policy space; targeted structural reforms are needed to boost growth potential in both AEs and EMDEs. Among EMDEs, many commodity exporters need to complete the adjustment to a global economic environment of lower commodity prices, while some fast-growing economies should take the opportunity to rebuild policy buffers, striking a balance between pursuing development goals and building macroeconomic resilience. The Fund will assist its members tackle near-term challenges and achieve sustained inclusive growth, while continuing its work on systemic issues where multilateral actions are required to achieve lasting solutions.

ECONOMIC OUTLOOK AND RISKS

Global growth remains subdued and uneven.

Despite some green shoots, global growth continues to disappoint.

Global growth will likely ease from 3.2 percent in 2015 to 3.1 percent in 2016, with weak demand and subdued productivity growth limiting recovery in many AEs. Activity has picked up among EMDEs, with sustained strong performance in some economies and a growth rebound in others. However, many EMDEs, including particularly commodity exporters, face significant economic strains. The expansion of international trade has decelerated markedly in recent years, partly reflecting soft global demand but also the slow pace of trade liberalization. Global growth is projected to recover to 3.4 percent in 2017—as the U.S. economy regains momentum and the pick-up in EMDEs continues.

Supply and demand-side difficulties limit growth in advanced economies.

Growth in AEs is set to slow from 2.1 percent in 2015 to 1.6 percent in 2016. Weak investment continues to weigh on demand, while productivity growth has not recovered since the global financial crisis. Fiscal pressures from demographic trends have become more difficult to address in a low-growth environment.

Emerging markets (EMs) show resilience, but weak export prices weigh on many.

Growth in EMDEs is expected to reach 4.2 percent in 2016, up from 4 percent in 2015, as recessions ease in some large economies (Brazil, Russia) and many Asian EMs continue to grow strongly (India, Indonesia, Philippines, and Thailand). The gradual moderation of growth in China continues. Activity is weak across many commodity exporters—stagnating

in some (Angola, South Africa) and contracting in others (Argentina, Azerbaijan, Ecuador).

Capital flows to EMs have picked up recently, but remain volatile; elevated levels of corporate leverage and weak balance sheets remain an important source of vulnerability in many EMs.

Macroeconomic performance continues to diverge across low-income developing countries.

The two-speed growth pattern in low-income developing countries (LIDCs) continues, reflecting the divergent experiences of commodity exporters and those with more diversified sources of foreign exchange earnings.

Many commodity exporters are experiencing a sharp slowdown (Chad, Mongolia, Nigeria), with average growth projected to fall from 2.3 percent in 2015 to 0.5 percent in 2016.

More diversified exporters, by contrast, are continuing to grow at a strong clip (Cambodia, Ethiopia, Senegal, Vietnam), with growth averaging 6 percent in 2016—although policy buffers are being eroded in a number of cases and public debt levels are rising.

Economic activity has been impaired by severe drought in several countries (Malawi, Zambia, Zimbabwe) and by internal conflict in others (South Sudan, Yemen).

Uncertainty remains high.

Downside risks to the outlook remain elevated. A bumpier-than-expected rebalancing in China, including from elevated corporate leverage, would weigh on commodity prices and global growth; financial market and capital flow volatility could resurface from various sources, including geopolitical events; a resort to protectionism in major economies would cause significant short-term disruptions, while also slowing the pace of growth in EMDEs over the medium term.

POLICY CHALLENGES FACING EMERGING AND DEVELOPING ECONOMIES

Policies in EMDEs need to balance securing macroeconomic stability with pursuing development objectives.

EMDEs need a balanced policy mix to address domestic and external challenges.

Given diverging growth prospects, policy challenges and room for maneuver differ across EMDEs:

- For countries with sizable output gaps and adequate policy space, it will be important to continue to provide policy support for demand until recovery takes hold.
- Many commodity exporters need to adjust to the new environment of “lower for long” export prices—with the appropriate mix of fiscal

consolidation, exchange rate adjustment, and monetary tightening to contain inflation, depending on individual country circumstances.

- In many fast-growing economies, rebuilding policy buffers by reducing public debt burden and increasing foreign reserves is a priority; there is a need to strike the right balance between addressing development needs and building economic resilience.
- There is significant scope in most countries to improve the composition of fiscal revenues and expenditures—including through greater focus on public infrastructure investment to tackle impediments to growth and by improving the targeting of social spending, including subsidies.
- Macroeconomic policy adjustments and pro-active financial sector oversight are important for managing volatile capital flows and associated risks. In certain circumstances, capital flow management measures may be useful, although not as a substitute for needed macroeconomic policy adjustment.
- Corporate and banking sector weaknesses require careful monitoring, coupled with prompt actions to strengthen regulatory regimes, boost supervisory capacity, put in place sound bank resolution mechanisms, and strengthen insolvency frameworks.
- Structural reforms tailored to country-specific circumstances are key to realizing long-term growth potential: priority areas include improving infrastructure, reducing distortions in product, labor and capital markets, tackling weaknesses in the business environment, and facilitating financial sector deepening. For many commodity exporters and low-income countries, economic diversification is essential for sustained economic resilience.
- More generally, education and labor market reforms, coupled with targeted measures to increase youth and female employment and better integrate migrants, can ensure broad-based improvements in productivity and living standards.

Make progress toward long-term development objectives.

Pressing ahead with national development strategies remains an imperative, even if sharper prioritization is needed where countries face immediate macroeconomic stabilization challenges.

Trade-offs between ensuring macroeconomic stability and promoting development can be eased through efforts to strengthen domestic resource mobilization and improve the efficiency of government spending.

Active measures to promote inclusion and equity are essential, not only as goals in themselves, but also to raise growth dividends over time and underpin social and political stability.

Step up international cooperation.

Domestic stability and growth are dependent on the stability of the international financial and trading system, which can only be ensured through effective international cooperation. Specifically, the gains from globalization, which have lifted millions out of poverty, must be preserved and strengthened to work for all.

Priority areas for cooperation include: containing protectionist pressures and maintaining an open international trading system; completing implementation of the global financial regulatory reform agenda; and cooperation across tax jurisdictions to tackle tax evasion, including through information exchange, and prevent harmful tax competition.

Actions are also needed to strengthen the international monetary system, including through providing a global financial safety net that is “fit for purpose” to help countries handle adverse economic shocks while limiting the impact of contagion on by-standers.

FUND SUPPORT

The Fund is working with member countries to tackle immediate macroeconomic challenges, pursue development objectives, and promote multilateralism that works for all.

Help members address current challenges and enhance resilience.

To assist policymakers, the Fund will:

- Support a three-pronged policy agenda, covering fiscal policy, monetary policy, and critical structural reforms. Key initiatives include: i) assessing fiscal space; ii) expanding the work-stream on macro-financial policies to cover all member countries over time; and iii) integrating the analytical framework for identifying high-priority structural reforms into Fund policy advice.
- Deepen its analysis of linkages between the financial sector and the real economy, drawing on recent pilot cases; review country experiences in dealing with capital flows; and continue its work on the use of macro-prudential policies to support macroeconomic and financial stability.
- Work with countries hit hard by commodity price declines to design adjustment programs that ensure macroeconomic stability while supporting economic diversification and protecting the poorest.
- Improve the methodology used to conduct debt sustainability assessments in low-income countries, to support better-informed decision-making in scaling up debt-financed public investment.
- Work with others to help countries mitigate the negative effects from withdrawal of correspondent banking relationships—through policy advice, standards assessments, and scaling up support for building AML/CFT and financial supervisory capacity.

- Expand use of financial sector stability reviews (FSSRs) as a diagnostic tool to identify financial sector vulnerabilities in non-systemic EMDEs.
- Update the Fund's policy on governance and corruption issues, to better support the development of effective public institutions.
- Draw lessons from the ongoing review of the Fund's lending toolkit to help countries better handle adverse external shocks.
- The Fund has recently set interest rates to zero for all its concessional lending facilities, to last at a minimum through end-2018. The access of low-income countries to all forms of Fund resources—including non-concessional loans and precautionary finance—is also under review.

Support the 2030 development agenda.

The Fund is implementing its own commitments to support the 2030 development agenda by:

- Scaling up technical support to strengthen domestic tax systems in developing countries, including through work on international taxation and tax transparency issues (in the Philippines, Peru, and Senegal), thereby helping developing countries to limit illicit financial outflows.
- Supporting countries in meeting infrastructure needs while maintaining debt sustainability, including by expanding the Infrastructure Policy Support Initiative to more countries.
- Expanding efforts to build state capacity in post-conflict countries, via a new Capacity Building Framework to be piloted this year.
- Supporting actions to address climate change and strengthen resilience to natural disasters, including by i) covering macro-critical climate issues in a series of pilot countries (including China, Jamaica, and Jordan), and ii) developing an integrated economic policy framework for small states vulnerable to natural disasters.
- Continuing to analyze the forces impeding income, gender, and financial inclusion, assessing the impact of policy reforms through pilot studies in countries where these issues are macro-critical (including Bolivia, India, Morocco, and Republic of Congo).

Strengthen capacity development to support financing for development.

The Fund will complete its capacity development (CD) delivery architecture, involving both regional technical assistance and training centers and multi-donor topical trust funds. It will seek to enhance the effectiveness and flexibility of its CD delivery; and will deepen existing partnerships with other CD suppliers, while engaging with new external CD partners.

Advocate for multilateralism that works all.

The Fund will work to strengthen the global financial safety net, both by ensuring the adequacy of the Fund's own resources and by deepening collaboration with regional financing arrangements. It will also undertake analytical work to assess the drivers and policy implications of the global trade slowdown and prospects of further trade integration, and strengthen the international monetary system.

CONCLUDING REMARKS

Over the last six months, the Fund stepped up financial support, policy advice, and capacity building to its members.

Lending.

The Fund continues to provide financial support to help member countries meet pressing balance of payments needs.

New loan arrangements have been approved for Afghanistan, Bosnia and Herzegovina, Central African Republic, Iraq, Jordan, Madagascar, Rwanda, Sri Lanka, Suriname, and Tunisia. Emergency financial support was provided to Ecuador, hit by an earthquake in April, under the Rapid Financing Instrument. Increased access under the Flexible Credit Line was provided to Colombia and Mexico; a third Precautionary Liquidity Line for Morocco was approved in July.

Efforts to raise an additional SDR 11 billion in PRGT loan resources are underway, which would enable the Fund to continue its concessional financial support for low-income countries for years to come.

Capacity building and policy advice.

Support for capacity development in EMDEs has expanded, with a strong focus on assisting lower-income countries.

With support from bilateral donors, the Fund is increasing its already-large engagement in boosting domestic resource mobilization (via the Revenue Mobilization Trust Fund) and improving the management and use of natural resources (via a Managing Natural Resource Wealth Trust Fund), and has been expanding its placement of long-term experts in the field.

A Platform for Collaboration on Tax with the OECD, UN, and World Bank has been established as a move to enhance cooperation on taxation policies.

A South Asia Regional Training and Technical Assistance Center (SARTTAC) has been established to meet the specific needs of countries in the region.

Quota and governance reforms.

The entry into force of the 14th General Review of Quotas and the Board Reform Amendment constituted an important step toward achieving better representation of dynamic EMDEs in the Fund's governance structure.

Given the importance of a strong, quota-based, and adequately resourced IMF, the Fund will continue to work toward the completion of the 15th General Review of Quotas.

The Fund will continue its actions to increase the diversity of its staff and promote greater gender diversity in the Executive Board.