



# *Office Memorandum*

To: Members of the Executive Board

August 18, 2014

From: The Acting Secretary

Subject: **Macroeconomic Developments in Low-Income Developing Countries: 2014 Report—Description of Contents**

Attached for the **information** of Executive Directors is a report on macroeconomic developments in low-income developing countries: 2014 report—description of contents.

It is not intended to publish this paper as it's a preliminary summary of a future Board document which will be published.

Questions may be referred to Mr. Unterberdoerster, SPR (ext. 35448) and Ms. Moreno Badia, FAD (ext. 34762).

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## MACROECONOMIC DEVELOPMENTS IN LOW-INCOME DEVELOPING COUNTRIES: 2014 REPORT—DESCRIPTION OF CONTENTS

August 18, 2014

Approved By  
**Sanjeev Gupta and  
Seán Nolan**

Prepared by the Fiscal Affairs Department and the Strategy, Policy, and Review Department

1. **The report examines macroeconomic developments, the near-term outlook, and related vulnerabilities in low-income developing countries (LIDCs).**<sup>1</sup>

This grouping includes some 60 countries that collectively account for about one-fifth of the world's population but only 3½ percent of global GDP. Typically overlooked in discussions of global economic developments, LIDCs have distinctive economic and social performance that warrant treating them as a separate subgroup within the wider category of developing countries.

2. **The first of the three sections of the paper reviews recent macroeconomic developments and trends and the near- and medium-term economic outlook for LIDCs,** both in the aggregate and by key subgrouping.

- The section first examines the distinctive socioeconomic characteristics of LIDCs, including important data concerns. It also flags the heterogeneity of the grouping, and introduces three analytical subgroups of countries: commodity exporters, frontier market economies, and fragile/conflict-affected states.
- This is followed by a discussion of growth, inflation, and capital flows over the past decade. The impact of the global financial crisis on LIDCs is examined, as are the reasons why growth in some countries has fallen well behind the group average.
- Recent macroeconomic developments, including the evolution of fiscal positions, the monetary aggregates, the balance of payments, and related policies are covered in some detail.

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<sup>1</sup> The LIDC country grouping contains all countries that are a) eligible for concessional financing from the IMF and b) have a per capita income level below a specified level (about \$2,500 per capita). See [Proposed New WEO Grouping in WEO Country Classification](#) for a detailed discussion.

- The section concludes with a discussion of the near- and medium-term outlook and key risks to that outlook, drawing on the analysis and country-level projections in the IMF's *World Economic Outlook* and *Fiscal Monitor*.

3. **The second section examines the structural vulnerability of LIDCs to various adverse global shocks and assesses how the baseline outlook for LIDCs would be affected in specific shock scenarios.** The analysis makes use of a methodology that has been employed in earlier IMF papers on vulnerabilities in low-income countries, the most recent in September 2013.<sup>2</sup>

- The evolution of the Growth Decline Vulnerability Index (GDVI), capturing a country's underlying vulnerability to growth shocks, across the LIDC group is examined.
- The shock scenarios considered draw on the *World Economic Outlook*, and include an oil price shock, financial turbulence associated with monetary tightening in some major advanced economies, and a protracted period of sluggish global growth.
- This is followed by an assessment of financial sector vulnerabilities in LIDCs, with a special focus on frontier market economies; and quantification of the vulnerability of LIDCs to natural disasters and the associated impact on growth and food security—an issue of particular relevance to the poorest LIDCs.

4. **The third section of the report examines the evolution of public debt (both domestic and external) across the LIDC group in recent years.** A majority of LIDCs have benefited from debt relief under the HIPC/MDRI initiatives, providing them with both fiscal space to finance priority outlays and borrowing space to finance investment scaling up. The discussion explores how debt levels have evolved since debt relief and provides an initial assessment as to whether recent trends point to any significant stability risks.<sup>3</sup>

- The analysis distinguishes between “early HIPCs” (countries that received debt relief prior to 2007), “late-HIPCs” (countries that have received debt relief since then), and non-HIPC countries. For countries where debt has risen significantly, the drivers of debt dynamics are analyzed.
- In the next step, the evolution of debt distress ratings (produced by the joint Bank-Fund Low-Income Country Debt Sustainability Framework) is examined

<sup>2</sup> See <http://www.imf.org/external/np/pp/eng/2013/090613.pdf>.

<sup>3</sup> Debt developments in low-income countries in the wake of debt relief are to be analyzed in depth in a joint Bank-Fund paper, to be presented to the two Boards in 2015.

with particular attention to cases where debt distress ratings have deteriorated. Other diagnostics to evaluate the risks to fiscal positions and debt levels are also deployed.

- The risks and opportunities associated with increased access to borrowing opportunities are explored using seven country case studies that represent a diverse set of experiences: Djibouti, Haiti, Kenya, and Mozambique (where debt burdens have either changed little or eased) and Ghana, Honduras, and Vietnam (where debt burdens have risen). Policy lessons are drawn from the case studies.