DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

FOR INFORMATION

EBD/18/45

October 8, 2018

To: Members of the Executive Board

From: The Secretary

Subject: **Managing Director's Statement to the Development Committee**

Board Action:	Executive Directors' **information**
Additional Information:	This statement will also be issued as a Development Committee document.
Publication:	This statement will be published on the Fund and Bank's external websites.

INTERNATIONAL MONETARY FUND

DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

October 2018

Global growth remains strong, but its momentum is moderating amid trade tensions, higher oil prices, and tightened financial conditions in several emerging market economies (EMs). Risks to the outlook are elevated, including from uncertainties surrounding trade policies and the scope for a significant tightening of financial market conditions in advanced economies. Growth is recovering in many low-income developing countries (LIDCs), helped by higher commodity prices, but public debt is at risk of becoming unsustainable in some two-fifths of countries. Policy priorities in EMs and LIDCs include rebuilding policy space and resilience to shocks, advancing structural reforms to boost potential growth, and containing public debt accumulation. Actions needed to underpin progress towards the Sustainable Development Goals (SDGs) include boosting domestic revenue mobilization and improving spending efficiency, tackling infrastructure gaps without imperiling debt sustainability, strengthening education and health systems, and promoting pro-poor inclusive policies. Where financing needs exist, they will require support from development partners and policy efforts to promote private foreign investment.

ECONOMIC OUTLOOK AND RISKS

Economic activity remains strong, but trade uncertainty threatens momentum.

Global growth remains strong, but momentum is moderating…

Global growth is set to remain steady at 3.7 percent in 2018–19 but the expansion is uneven, with economic activity set to ease in some advanced economies (*Euro Area, Japan*). Growth is rising in the United States, helped by an increasing fiscal stimulus, but will later slow as the effect of the stimulus reverses by 2020. Slowing productivity growth, aging populations and weak reform momentum in advanced economies hold back medium-term growth prospects.

…with rising risks from trade tensions and further tightening of financial markets.

Downside risks have risen for the global economy, with the heightened uncertainty surrounding trade policies testing the growth momentum. Escalating trade tensions are a key threat to the global outlook, with higher trade barriers likely to disrupt global supply chains and slow the spread of new technologies, thereby impairing medium-term prospects. Financial market conditions could tighten rapidly in response to inflation surprises in advanced economies, leading to disruptive portfolio adjustments, sharp exchange rate movements, and further reductions in capital flows to EMs.

Growth has picked up in several EMDEs, but this is coupled with declines in others.

In emerging market and developing economies (EMDEs), growth in 2018–19 is expected to remain steady at 4.7 percent, unchanged from 2017. Higher oil prices are supporting recovery among fuel exporters (e.g., *Nigeria, Saudi Arabia, and Russia*). Growth in China is expected to moderate at a steady pace reflecting tighter financial regulations and slower external demand growth but remain strong elsewhere in Asia (*India*, *ASEAN*). Security and state fragility impeded economic activity in several countries (*Yemen*, *Libya*).

Market pressures are elevated in countries with weaker fundamentals.

Financial conditions have tightened for many EMs due to currency depreciation, higher external borrowing costs, and an escalation in trade tensions. Market pressures have been more pronounced in countries with larger external imbalances, higher political risk and weak policy (*Argentina, Turkey*).

Economic activity is picking up in many LIDCs...

Growth in low-income developing countries (LIDCs) is set to rise to 5.0 percent in 2018-19 from 4.7 percent in 2017, helped by strong global growth, higher commodity prices, and continued capital market access for frontier economies. Output is recovering in several exporters (*Chad*), while growth continues at a robust pace in many non-commodity exporters (*Bangladesh, Ethiopia*).

...but debt levels have risen, with many countries at high risk of/in debt distress.

Rising public and private debt remains a concern among EMDEs. Public debt levels in many EMs, especially commodity exporters, are at levels last seen during the 1980s debt crisis. Among LIDCs, the median level of public debt has risen by 13½ percentage points of GDP since 2013 to about 48 percent of GDP in 2017. About 40 percent of countries are assessed to be at high risk of, or already, experiencing debt distress. Rising debt levels reflect a combination of factors, including accelerated spending levels, adverse revenue shocks, and significant increases in the debts of public entities outside central government.

POLICY PRIORITIES IN EMERGING AND DEVELOPING ECONOMIES

Policy should focus on building resilience to shocks, supporting development, and preserving global prosperity.

With rising global risks, countries should strengthen resilience and support macroeconomic stability.

With interest rates expected to increase further in advanced economies and trade tensions rising, EMDEs need to prepare for an environment characterized by potentially higher volatility and tighter financial conditions—with the right policy mix dependent on country circumstances (cyclical position, available buffers, development needs).

- Monetary policy needs to strike the right balance between supporting output and keeping inflation expectations anchored in the face of higher commodity prices and, in some cases, falling exchange rates. The policy stance should be tightened to re-anchor expectations where inflation continues to be high or is expected to pick up (*India*), while remaining accommodative where unemployment remains high and inflation is subdued *(Brazil)*. Improving monetary policy credibility and central bank independence are key for price stability in some countries (*Argentina*).

- Exchange rate flexibility can help economies absorb external shocks, but the impact of exchange rate depreciation on bank and corporate balance sheets requires monitoring, with macroprudential policies deployed to contain financial risks. Foreign reserve positions need to be preserved at adequate levels given potentially protracted capital outflow pressures (*Brazil, Indonesia, Mexico*).

- In countries where public debt is high, fiscal policy needs to focus on reducing debt burdens and rebuilding fiscal buffers, supported by growth-friendly fiscal measures and actions to protect the most vulnerable. Debt accumulation was in many cases facilitated by non-transparent borrowing practices, often outside the remit of the central government: improved disclosure, coupled with tighter controls on contracting debt, are needed to prevent future slippages.

- Countries with fiscal space have greater room for maneuver, but also need to prioritize growth-friendly fiscal measures and avoid a pro-cyclical stance. Better quality and governance of infrastructure is a priority across a wide range of EMDEs.

Achieving robust inclusive growth will require strong reform programs and, in poorer countries, more external support.

The priorities for achieving inclusive growth and making good progress towards attainment of the Sustainable Development Goals (SDGs) include:

- Achieving a sustained increase in budgetary revenues, building on a medium-term revenue strategy that covers both tax policies and administrative reforms—most importantly in countries with low non-resource tax bases (*Bangladesh*, *Sudan, Nigeria*).

- Reforms to improve the effectiveness of spending across the government, including in education, health, and infrastructure, to improve service delivery, especially for the poor, while creating space to boost priority outlays.

- Reforms to improve the environment for doing business; to enhance the working of labor markets, including by eliminating impediments to women's economic participation; to strengthen institutions and limit vulnerability to corruption; and to tackle infrastructure gaps, including through increased engagement with private investors.

- Strengthening the financial system and enabling access to financial services for low-income households and small/medium enterprises. Leveraging recent developments in Fintech can pave the way for greater access to banking services for low-income households and individuals.

- Increasing integration into global supply chains and to larger regional markets, including through agreements like the African Continental Free Trade Area.

Cooperation to preserve global stability and the gains from integration.

Enhanced cooperation is needed to modernize the multilateral trading system, enhance global financial stability, and tackle other trans-border challenges.

- Strengthen the rules-based multilateral trade system, while promoting more open trade in new areas such as services end e-commerce.
- Complete the global financial regulatory reform agenda and reduce regulatory uncertainty, while working to further strengthen the global financial safety net.
- Move forward with discussions on international taxation issues, including efforts to protect the tax base in developing countries.
- Promote sustainable lending practices and address rising debt vulnerabilities, particularly in LIDCs that have weak economic governance, and support mechanisms to facilitate broad-based official creditor coordination.
- Collaborate in efforts to assist fragile and conflict-affected countries, where living standards are stagnating or falling and where prospects for making progress towards key SDGs are poor, leaving millions behind.
- Take collective actions to address threats from climate change, cyber risks, pandemics, conflict, and large-scale refugee/humanitarian crises.

IMF SUPPORT

Tailored policy advice, financial support, and domestic capacity building

Customized advice to promote economic stability and robust growth

To better support emerging and developing economies, the IMF will:

- Continue providing tailored policy advice on tackling macroeconomic challenges and maintaining financial stability, including through wider use of tools for assessing fiscal space and its multilateral assessment of exchange rates.
- Draw on its Institutional View on capital flows to advise countries on how best to respond to volatile capital flows, informed by a new stock-taking of capital flow management measures.
- Implement its new Framework for Enhanced Engagement on Governance to assist countries in strengthening institutions and containing corruption.

- Strengthen its engagement with fragile/conflict-affected states, including through the development of new country engagement strategies and human resource policies that ensure the required staff expertise.

- Work with low-income countries to identify public debt vulnerabilities, using the new debt sustainability framework; to strengthen debt management capacity; and to address debt data gaps and improve debt transparency. Forthcoming reviews of the IMF's statistical standards and data provision requirements for surveillance will also aim at improving the understanding of member countries' debt positions.

- Advise on policies to promote inclusive growth and gender equity, including through its regular surveillance activities.

- Analyze the likely impact of technological advances on employment and skill requirements; continue analytical work on the slowdown in potential growth; and examine the effects of gender equality and changes in female labor force participation on structural transformation and growth.

Support for capacity-building and the 2030 development agenda

The IMF will:

- Continue its scaled-up support for countries seeking to strengthen national tax systems, including developing Medium-Term Revenue Strategies.

- Assist countries in building public investment management capacity, drawing on its Public Investment Management Assessment (PIMA) and other tools.

- Assist countries in implementing the reforms needed to maintain/restore correspondent banking relationships while fully addressing AML/CFT concerns.

- Build on its analysis of the spending levels needed to achieve the SDGs in health, education, and public infrastructure to inform medium-term fiscal planning.

- Support countries in tackling climate change, including through advice on carbon taxation and energy pricing reforms and on how to build resilience to climate shocks and other natural disasters

- Undertake an assessment of its capacity-building programs to identify how impact and traction can be enhanced, using a results-based framework.

Providing financial support

The IMF continues to provide financial support to countries undertaking economic adjustment programs through its set of lending facilities: in the past six months, new financial arrangements have been approved for *Argentina, Colombia,* and *Malawi*. A comprehensive reassessment of its concessional lending facilities is currently underway, with Board decisions on reform proposals expected by March 2019.

Supporting global economic cooperation

The IMF will continue to promote global cooperation and policy coordination in areas covered by its mandate. It will:

- Support efforts to resolve tensions within the multilateral trade system; analyze the macroeconomic impact of tariffs on the international economy and the adverse spillover effects from distortive trade policies; and provide analysis of global imbalances using a refined methodology in its *External Sector Report*.

- Contribute fully to the international tax debate, including through analysis of corporate taxation issues; ensure close collaboration with the OECD, UN, and World Bank through the Platform for Collaboration on Tax; and help tackle illicit financial flows through its tax, AML/CFT, and governance work.

- Guided by the Bali Fintech Agenda, work with member countries and other international institutions on the implications for policymakers of likely changes in financial systems driven by fintech.

- Continue its support for the G-20's Compact with Africa initiative to boost private investment in the continent.

Quota and governance reforms

Work with its members to strengthen official creditor coordination, facilitating timely debt restructuring for countries that cannot service their debts. The IMF is working to complete the 15th General Review of Quotas by no later than the Annual Meetings in 2019. Completion of the review would help maintain a strong, quota-based, adequately resourced IMF at the center of the global financial safety net, while better aligning quota shares with members' relative positions in the world economy and protecting the voice and representation of the poorest members.