



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-seventh meeting to be held in Washington, DC on Saturday, April 21, 2018.

DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

April 2018

The global expansion continues to gain momentum, but medium-term risks are skewed to the downside. Growth in emerging markets and developing economies (EMDEs) is set to rise slightly to 4.9 percent in 2018, while the recovery in large commodity exporting economies is strengthening. But a sizable number of countries are falling behind in terms of per capita income growth—including many fragile and conflict affected states (FCS)—while rising public debt levels are an increasing concern in many developing countries. Solid growth performance allows countries to strengthen macroeconomic resilience while pressing ahead with policies to achieve tangible progress toward the Sustainable Development Goals (SDGs). Countries with sluggish income growth and pressing debt problems face more difficult challenges; policy actions to achieve a sustainable macroeconomic position are essential.

ECONOMIC OUTLOOK AND RISKS

Economic activity continues to strengthen but medium-term prospects remain subdued.

The global expansion gains strength, but financial market risks are on the rise.

Global growth is set to remain strong in the near term (3.9 percent in 2018 versus 3.8 percent in 2017), boosted by a rebound in investment and trade, and supported by favorable financing conditions and expansionary fiscal policies in some major economies. However, concerns over escalating trade conflicts threaten that momentum; medium-term prospects remain subdued given demographics, crisis legacies, and sluggish reforms; and financial vulnerabilities are increasing.

Strong growth continues in many, but not all, emerging and developing economies.

With strong demand in *China* and continued recovery in large commodity-exporting economies (*Brazil, Russia*), growth in EMDEs should reach 4.9 percent in 2018, from 4.8 percent in 2017. Growth among more diversified economies is expected to level off at 5.7 percent in 2018, underpinned by continued strong growth in Asia (*India, China, and the Philippines*) and parts of sub-Saharan Africa (*Ethiopia and Côte d'Ivoire*).

Vulnerabilities in EMDEs remain substantial as investors have moved into riskier asset classes in a search for yield. Corporate debt remains high in some emerging markets (*Chile, China, and Malaysia*), while public debt levels across middle-income countries have reached 50 percent of GDP—a level not seen since the 1980s.

Growth remains robust in many low-income countries, and commodity exporters are recovering....

Growth in low-income developing economies (LIDCs) is projected to pick up to 5.0 percent in 2018 on the back of the global economic upswing, some recovery in commodity prices, a rebound in oil production (*Nigeria and Republic of Congo*) and the easing of drought conditions that had depressed agricultural output (*Kenya, Malawi, and Zambia*).

Commodity exporters, hit hard by falling prices from 2014, are recovering, but average growth, at 3.1 percent in 2018, is still well below the continued robust growth (some

6 percent) recorded by more diversified economies. Fragility and difficult security challenges impede growth in many cases (*Burundi and Yemen*).

...but debt levels are rising across a wide range of countries.

Public debt as a share of GDP in LIDCs increased from 33½ percent in 2013 to 47 percent in 2017, while the share of countries assessed to be at high risk of/in debt distress increased from one-fifth in 2013 to two-fifths in early 2018. Rising debt levels can be attributed to adverse shocks in many cases, but expansionary fiscal policy was a key contributor—along with “debt surprises,” as public liabilities outside central government came onto the government balance sheet.

POLICY PRIORITIES IN EMERGING AND DEVELOPING ECONOMIES

Priorities include achieving sustainable fiscal positions, funding essential development spending, and promoting economic inclusion

Macroeconomic stability and resilience are the bedrock for sustainable growth.

Macroeconomic policy priorities vary across countries:

- Fast-growing economies should take advantage of favorable conditions to build economic resilience, including strong fiscal frameworks, sustainable public debt positions, and adequate buffers to handle adverse shocks.
- Countries dependent on commodity exports need to continue the adjustment to lower export prices through fiscal consolidation, while safeguarding critical public investment and social spending.
- Countries with elevated levels of public debt need to reduce borrowing needs, via growth-friendly fiscal consolidation that directs spending towards priority outlays and seeks also to improve spending efficiency.
- Gaps in macroprudential toolkits need to be filled to complement the role of direct supervision in containing financial market risks, while strong resolution frameworks should be in place to help deal with adverse shocks.

Generate financing for development; use the funds effectively; and tackle key reform priorities.

The favorable global environment is an opportunity for many countries to advance their development agenda while containing threats to macroeconomic stability by:

- Boosting domestic revenue mobilization on a sustained basis, which is an imperative for many developing countries to provide the fiscal space for development outlays without undue reliance on issuance of public debt.
- Improving public spending efficiency to achieve better results from scarce resources; reviewing expenditure programs and phasing out those that are ineffective.

- Strengthening public investment management capacity, while making judicious use of public-private partnerships, and paying close attention to the full risk exposure of the government.
- Tackling obstacles to private investment—addressing the key weaknesses in the business climate, eliminating barriers to entry and to competition, and targeting reform efforts on the critical obstacles identified by investors.
- Promoting inclusion and pro-poor policies, including by eliminating legal impediments to women's economic participation, and promoting rural economic development and provision of quality public services to the less well-off.

Strengthen cooperation to tackle shared challenges.

International cooperation is needed to tackle global challenges and maximize the benefits of economic integration:

- Maintaining an open and rules-based multilateral trade system is essential to protect the gains from economic integration and support global prosperity.
- Ensuring global financial stability requires completion of the global financial regulatory reform agenda, while collaboration on international tax rules is needed to protect tax bases in both advanced and developing economies.
- Cooperation is needed to contain climate change, manage migration flows, and address conflicts and humanitarian crises.

IMF SUPPORT

The IMF will continue to provide customized policy advice, technical assistance, and financing, while working to promote global cooperation.

Provide customized advice on macroeconomic policies and growth-critical reforms.

The Fund will:

- Assist members in assessing macroeconomic and financial conditions and identifying obstacles to inclusive growth, and in designing appropriate policy measures to boost growth and contain stability risks.
- Implement its newly-adopted framework for engagement with members on issues relating to governance and corruption.
- Deploy the upgraded IMF/World Bank debt sustainability framework for low-income countries to sharpen awareness of emerging debt vulnerabilities, with an expanded training program for country officials on how to use this tool.
- Work with countries to strengthen debt management capacity, tackle important public debt data gaps, and improve debt transparency.
- Increase engagement on equity and gender issues in operational work, drawing on in-house experience and expertise from other institutions, such as the World Bank.

- Deepen engagement with countries vulnerable to natural disasters, particularly small states, with a focus on actions to prepare for and manage disasters.
- Analyze the fiscal implications of health, education, and infrastructure measures to support SDG objectives in five developing countries.

Support national capacity building to help countries implement the 2030 development agenda

To support country efforts towards achieving the SDGs, the IMF—which now allocates 28 percent of its budget to support capacity-building in some 140 countries—will:

- Continue its scaling-up of technical support for developing countries seeking to strengthen national tax systems, as called for in the Addis Ababa Action Agenda.
- Support efforts to address infrastructure gaps in a financially-sustainable manner, including through its Infrastructure Policy Support Initiative and active engagement in the G20 Compact with Africa and other major investment promotion initiatives.
- Enhance the effectiveness of IMF support for fragile states through the Capacity Building Framework, now being deployed in five fragile states.
- Help countries take the regulatory actions needed to maintain or rebuild correspondent banking relations, while addressing AML/CFT concerns.
- Continue work on climate change and environmental sustainability, including advising on carbon mitigation policies and on energy pricing reform.

Provide financing to support countries implementing adjustment programs

For countries tackling difficult adjustment challenges, the IMF will:

- Provide financial support through its array of lending facilities. Since October 2017, new financing has been approved for Burkina Faso, Guinea, and Mauritania, along with a successor arrangement under the Flexible Credit Line facility for Mexico.
- Complete a review and reassessment of its concessional lending facilities for low-income countries, which is currently underway.

Promoting global economic cooperation: our “raison d’être”

The IMF will continue to highlight the benefits from rules-based multilateralism, while fostering cooperation with regional financial arrangements and analyzing the impact of new financial technology on the international monetary system. It will engage fully in the international tax debate, including through the Platform for Collaboration on Tax initiative, with a focus on ensuring that the interests of developing countries are fully addressed. It will also work to facilitate debt work-outs in developing countries by promoting information-sharing and coordination among official bilateral creditors.

Quota and governance reforms.

The IMF is working to complete the 15th General Review of Quotas by the Spring Meetings, and no later than the Annual Meetings of 2019, to maintain a strong, quota-based, and adequately resourced IMF at the center of the GFSN, while realigning quota shares with members’ relative positions in the world economy and protecting the voice and representation of the poorest members.