

Macroeconomic Policies That Work

Andrew Berg
Division Chief, African Department
IMF
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Overview

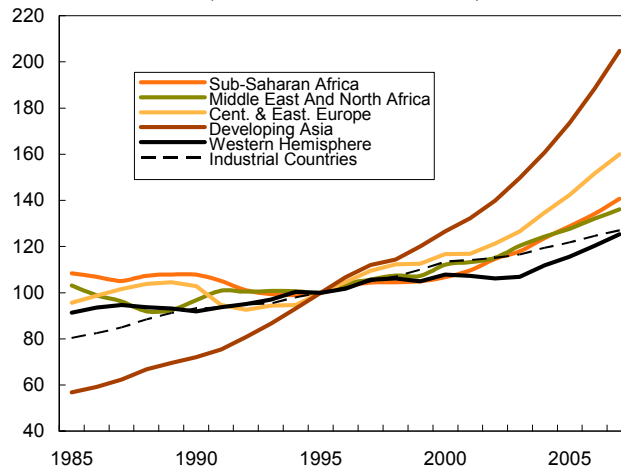
- Better performance in sub-Saharan Africa in recent years in terms of growth and poverty reduction.
- This is because, not despite, sound macroeconomic policies.
 - Inflation objectives: reasonable stability is a basis for progress on the MDGs
 - The Fund is supportive of the use of the fiscal space that has been created for growth and poverty reduction.
- Nonetheless, the IMF is constantly reevaluating its advice.
 - Example: management of aid inflows.
- Current global crisis: bump in or end of the road?

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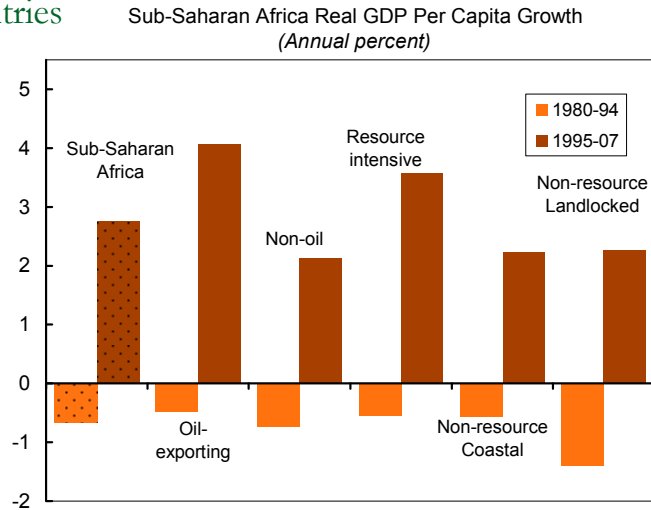
There has Been a Growth Take-off in Many Countries

International Comparisons: GDP Per Capita
(Index 1995=100, In real US dollar)



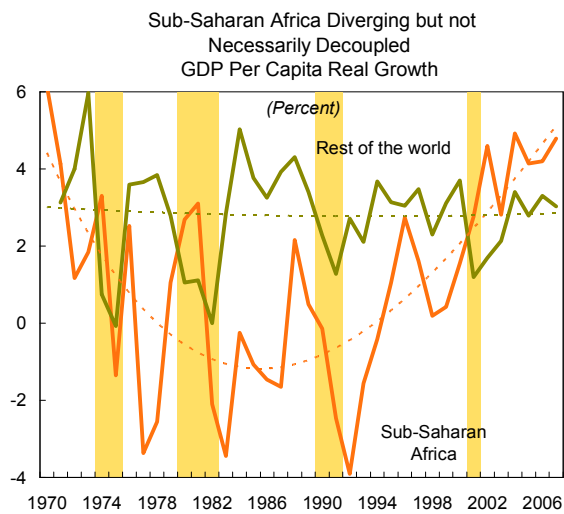
Source: IMF, *World Economic Outlook*.

Endowment and Geography: Fast Growth also in Landlocked Non-Resource Intensive Countries



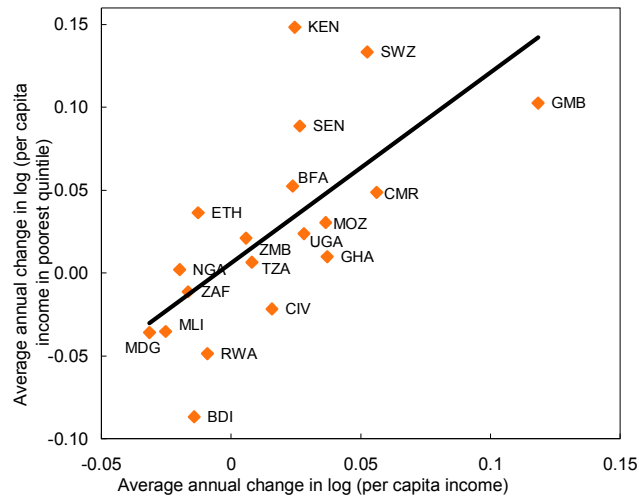
Source: IMF, *World Economic Outlook*.

Sub-Saharan Africa Diverging but not Necessarily Decoupled



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Growth has Helped Reduce Poverty



Sources: Chen and Ravallion (2007), and IMF, staff calculations.

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Inflation: reasonable stability is a basis for progress

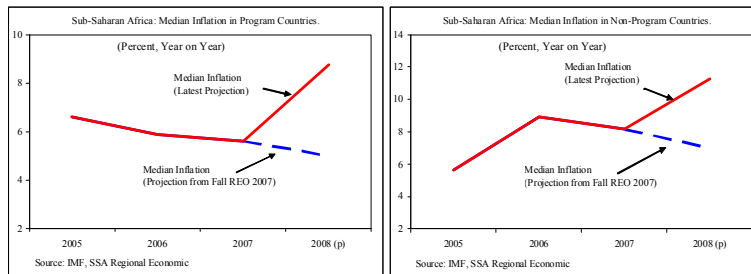
- Inflation does not create resources: it taxes holders of cash.
- It is a lousy tax:
 - It can't raise serious money
 - It is probably regressive as the poor are the most cash-dependent and have least access to banks
 - It obscures price signals, depresses investment, and can hurt sustained growth.
 - Once high, it is very costly to lower inflation. When you flirt with inflation, you may end up married before you know it.

Inflation objectives in IMF programs

- Key issue is how to get there, not the long-run, on which there is consensus.
- IMF programs do not take a rigid approach
- If it is very high, programs target a gradual reduction
- If it is low, programs may target a modest increase
- Programs recognize that inflation is affected by temporary factors (e.g. food price rises)

Inflation and the food-and-fuel shock (1)

- Inflationary pressures built up in the first half of 2008, mostly as a result of the large increase in global food and fuel prices.



- Flexibility with inflation objectives: targets were adjusted in both program and non-program countries.

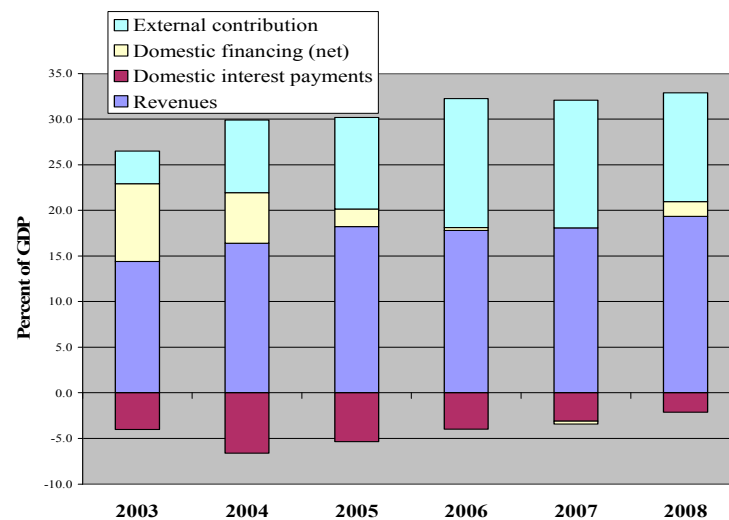
Policy Responses to the Food-and-Fuel Shock

- We did not argue for automatic monetary and fiscal tightening.
- Fiscal policy recommendation: to cushion the impact of these shocks on the poor.
- Monetary policy advice: to accommodate first round effects but respond to second-round effects.
 - In the case of money targeters, we recommended flexibility vis-à-vis money targets in the short run.
 - Response should depend on policy credibility and inflationary pressures prior to the shock.
- Now that there is a risk of a downturn, our policy considerations have shifted...

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Malawi: Fiscal Space Through Stabilization



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IMF Work on Assessing Gleneagles Scaling Up Scenarios

- **Joint process:** Scaling-up scenarios based on sector-by-sector analyses and spending plans by country authorities, the UNDP, World Bank, and AfDB.
- **Macroeconomic analysis:** IMF staff use a modern framework to assess effects of potential aid increase on key variables: growth, inflation, exchange rates.
- Considerable effort goes into adjusting the analysis to the key features of each country.
- Assessments have been carried out for **six countries:** Benin, Central African Republic, Niger Rwanda, Sierra Leone and Togo.

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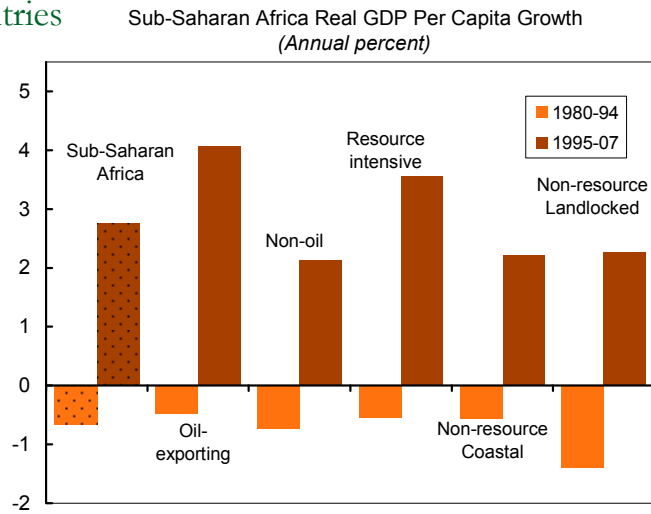
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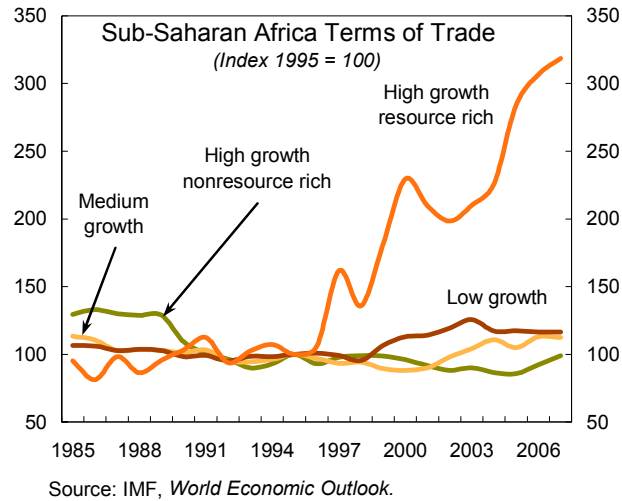
Extra slides

Endowment and Geography: Fast Growth also in Landlocked Non-Resource Intensive Countries

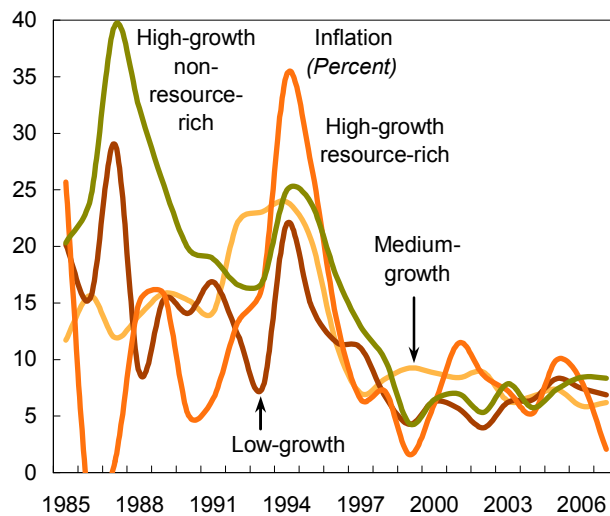


Source: IMF, *World Economic Outlook*.

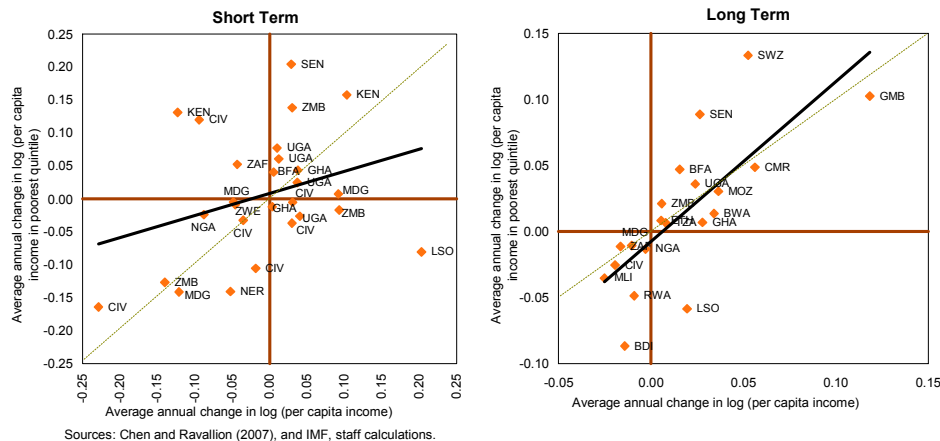
The External Environment Favorable Terms of Trade



Get The Basics Right (I): Stable Macro — Low Inflation



Growth and Poverty Reduction: Clearer Picture Over Longer Periods



To Recap: What has been driving performance in recent years?

- Direct access to the sea, being resource-rich, or high levels of economic institutions, not required for fast growth.
- Need to get the basics right: no conflicts and a stable macro.
- Fast growth has generally followed structural adjustment that reduced state controls and liberalized trade and markets.
- A clear set of sufficient conditions for rapid growth does not emerge. But fast growers have done better in building reserves, sustaining public investment, and avoiding overvaluation of the real exchange rate, and on some measures of broad policy reform.
- Aid helps governments invest and provide services, and it may help sustain growth.

Sources of Fiscal Space: The Money Must Come From Somewhere

- Can be (i) domestic taxes, (ii) external grants, (iii) external loans, (iv) domestic borrowing and (v) seigniorage (inflation tax).
- Domestic taxes and external grants are generally best.
- Concessional external borrowing generally a good source of revenue, provided it does not imply a debt crisis down the road.
- Domestic borrowing is problematic in excess. Can use up scarce private savings.
- Inflation not an important or good source of government financing.

What is the role of the IMF in Aid Management?

- Advise member countries on appropriate policies to manage aid inflows;
- Support **full spending** of aid while ensuring macroeconomic stability;
- Help countries project aid flows;
- Prepare and assess alternative scaling up scenarios; and
- Assist countries in strengthening public institutions.

Some Key Results from this Exercise

- Absorption of aid will typically require some real exchange rate appreciation.
 - Thus, some pressures on competitiveness may be inevitable—even desirable—in the short run.
- Impact in the medium term will depend on the impact of aid on productivity.
- There is a risk of “Dutch Disease” but it is far from inevitable.
- Debt sustainability must be taken into account when aid flows have a debt element. Governments need to build-up their debt management capacity.