



It's Mostly Fiscal?

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IMF = ?



- I M Fired
- It's Mostly Fiscal



Outline



- **Bretton Woods**
- IMF in operation
- Link to economic development
- Conclusion/Some lessons from IMF practice

Why was the Bretton Woods System, comprising IMF and World Bank, created?

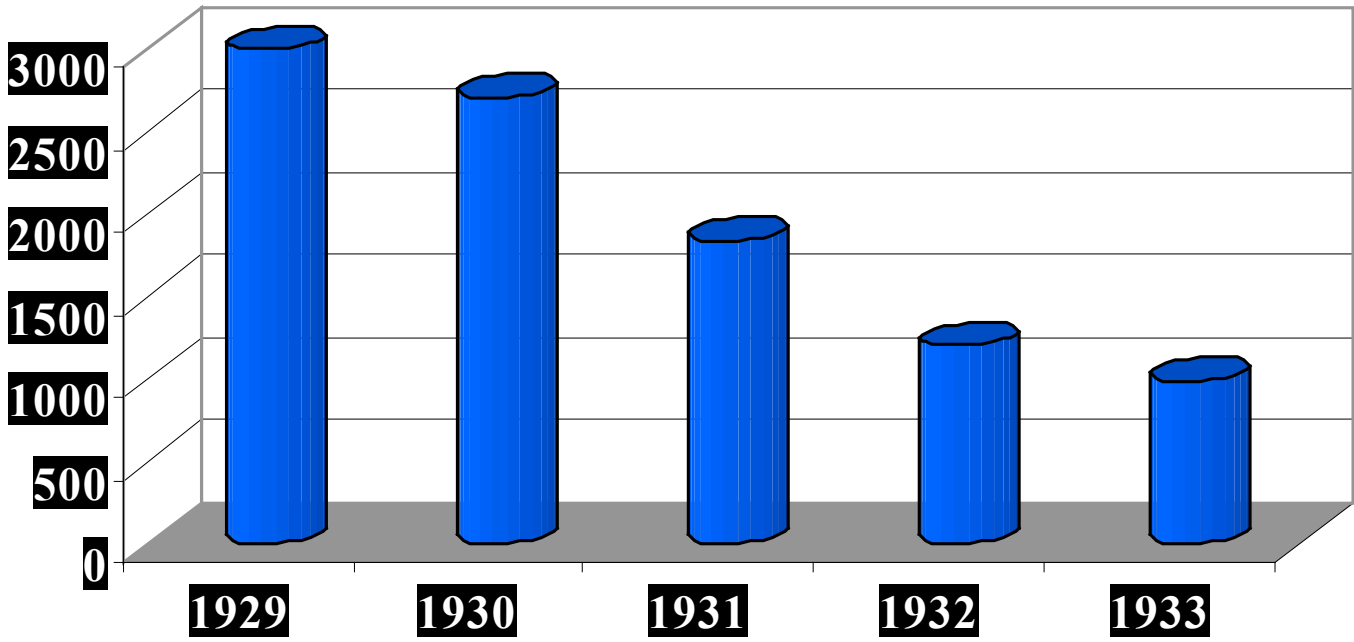


- Avoid past mistakes: disastrous economic policies that contributed to Great Depression of the 1930s and WW II
 - “Beggar-thy-neighbor-policies”
 - Protectionism and tariff wars
- Rebuild confidence in international cooperation and international financial system after failure of League of Nations and two World Wars

The Breakdown of World Trade during the Great Depression



World trade, 1929-1933
(in millions of U.S. dollars)



Kindleberger, C., "The World in Depression 1929-1939."



Roles of the Bretton Woods organizations

IMF

- Promotes international monetary cooperation, expansion of international trade, and “orderly” exchange rates
- Financial assistance to its members experiencing balance of payments (BOP) difficulties
- Macroeconomic
- Short-term

World Bank

- Reconstruction and economic development
- Project financing
- Microeconomic
- Long-term

Outline



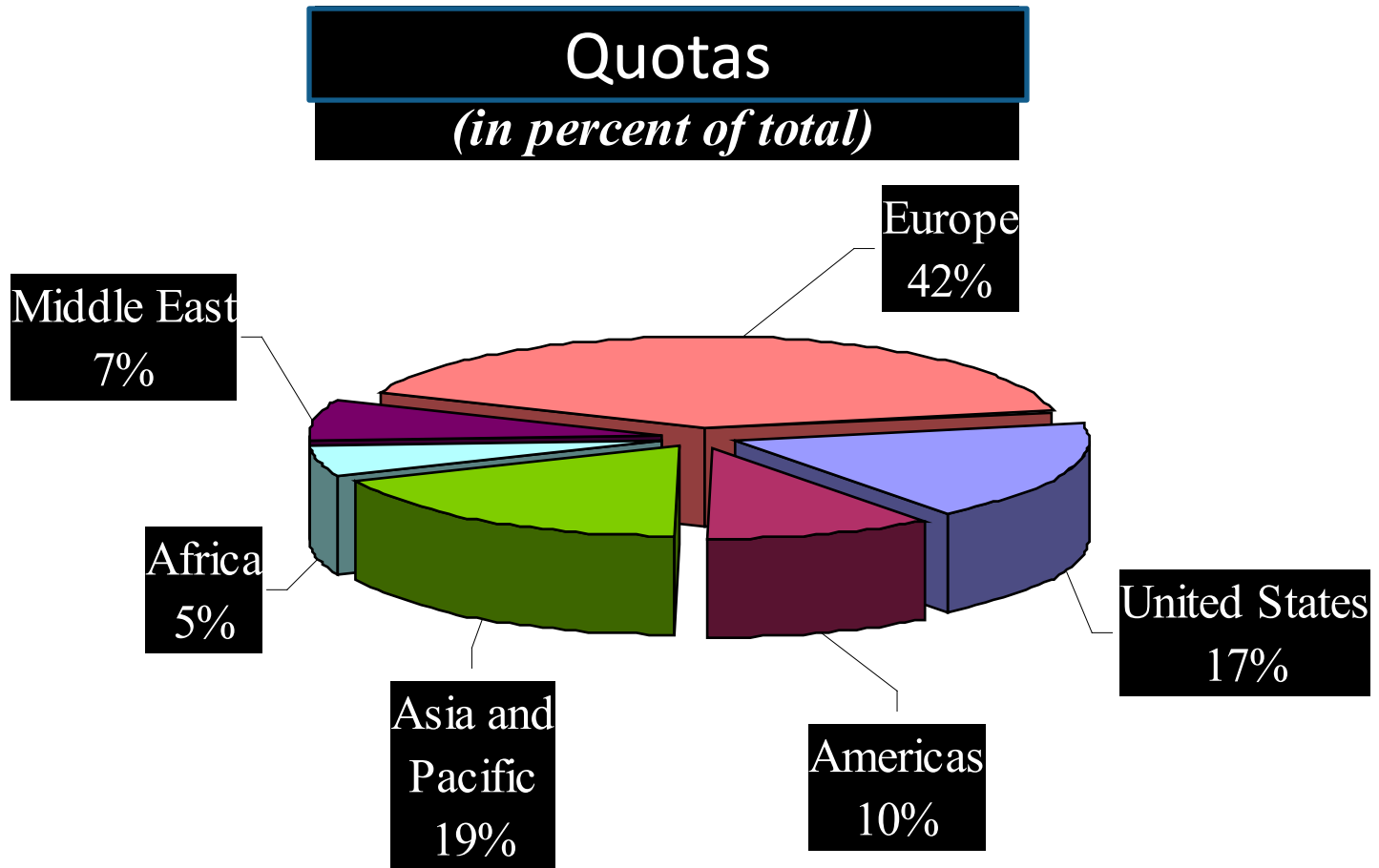
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What is the IMF?



- 184 member countries
- Governance Structure
 - Board of Governors
 - Executive Board
 - Management
 - Staff
- Working capital provided by member country's subscriptions or "quotas" in IMF speak (currently about US\$350 billion), determining voting power and access to financing... Doubling of quotas with redistribution in the making...

Quotas determine votes



Operationalization of the IMF



Safeguard international trade and macroeconomic and financial stability through

- Lending: To support reforms to adjust to BOP problems, and reduce external vulnerability
 - Financing provided as part of IMF “program”
 - Financing is collateralized by program “conditionality” (quantitative and structural)
- Technical assistance: Building institutional capacity
- Surveillance: Monitoring and policy advice

In the areas of

- Macroeconomic policies
- Financial sector policies
- Advise on other reforms that have a macroeconomic impact

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What does this have to do with economic development?

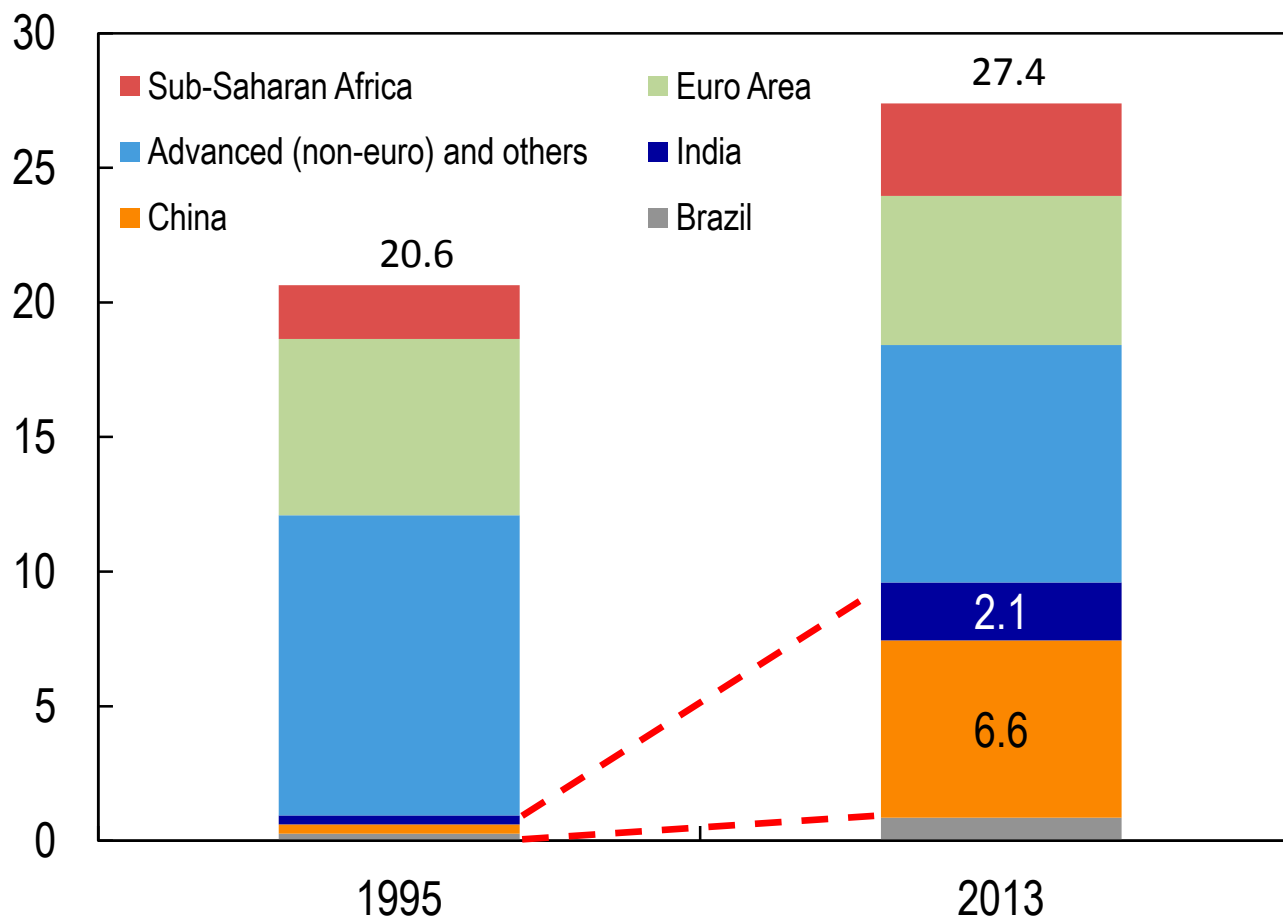


- International trade and stable international financial system also important for Low-Income Countries (LICs)
- Macroeconomic stability is a prerequisite for sustained growth and poverty reduction
- So is sufficient/efficient tax capacity, and effective spending, to be able to build strong institutions and infrastructure
- LICs' (potential) BOP problems are structural
- Political economy – Reforms will not be sustained if they are not (perceived as) broadly equitable
- LICs are members of the Fund with the right to its lending, TA, and surveillance
- Growth for poverty reduction is at the center of LIC's own policy agenda

Sub-Saharan Africa's trade linkages have expanded substantially, mostly with China and India



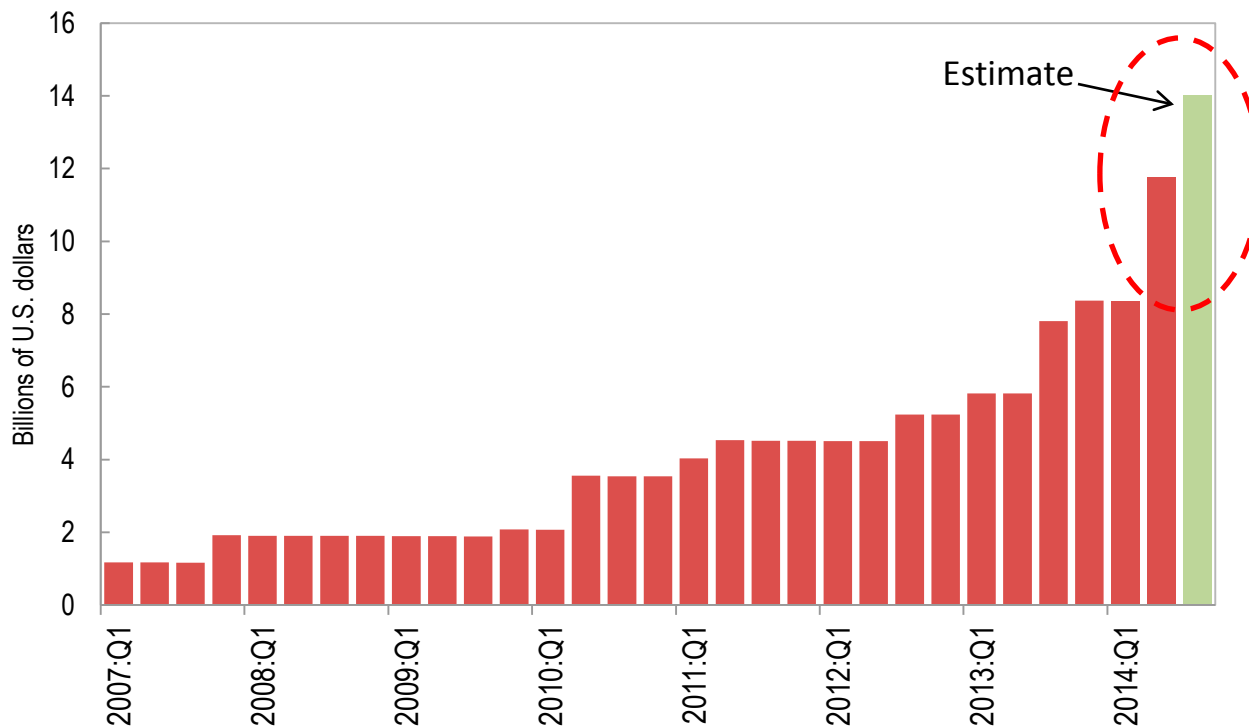
Sub-Saharan Africa: Exports by Partner 1995 and 2013, percent of GDP



Financial ties have expanded rapidly too, especially for market access economies



Sub-Saharan Africa: Market Access Economies, Outstanding International Sovereign Bonds

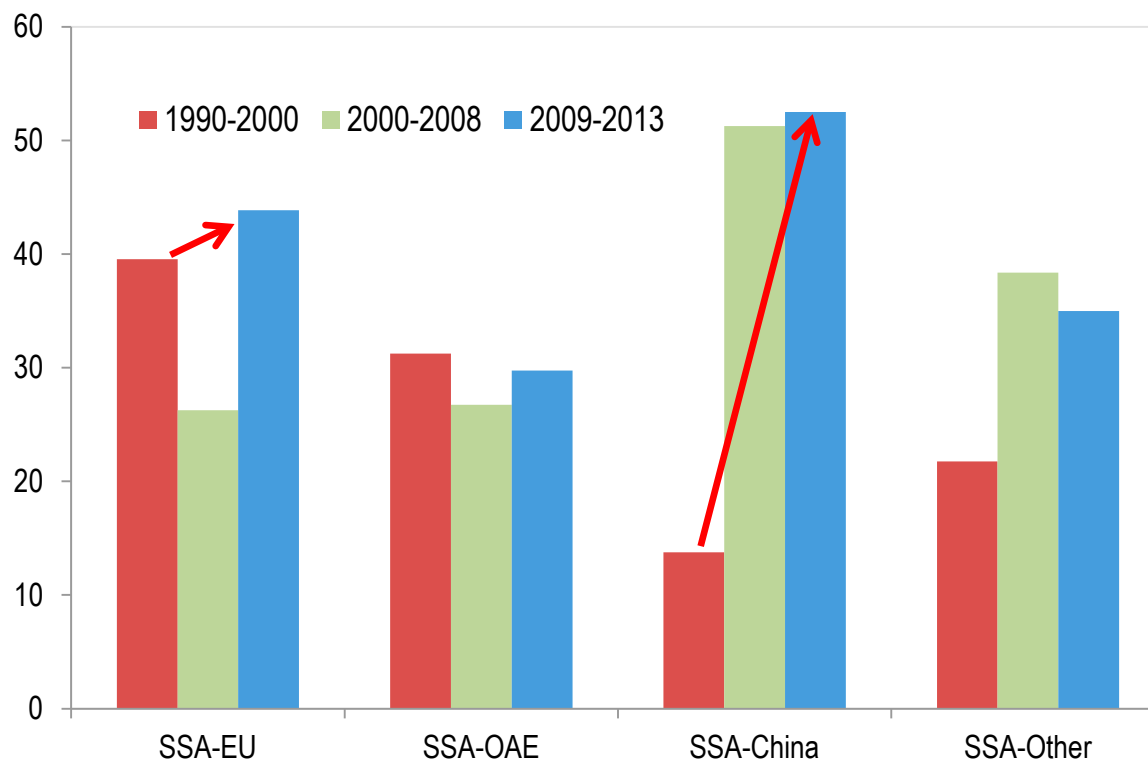


Note: Market access economies includes Angola, Côte d'Ivoire, Ghana, Kenya, Mauritius, Nigeria, Rwanda, Senegal, Tanzania, Uganda, and Zambia.

As a consequence, the region is more tightly connected with the rest of the world



Sub-Saharan Africa: Share of bilateral correlations of GDP growth that exceed 0.5, 1990-2013.

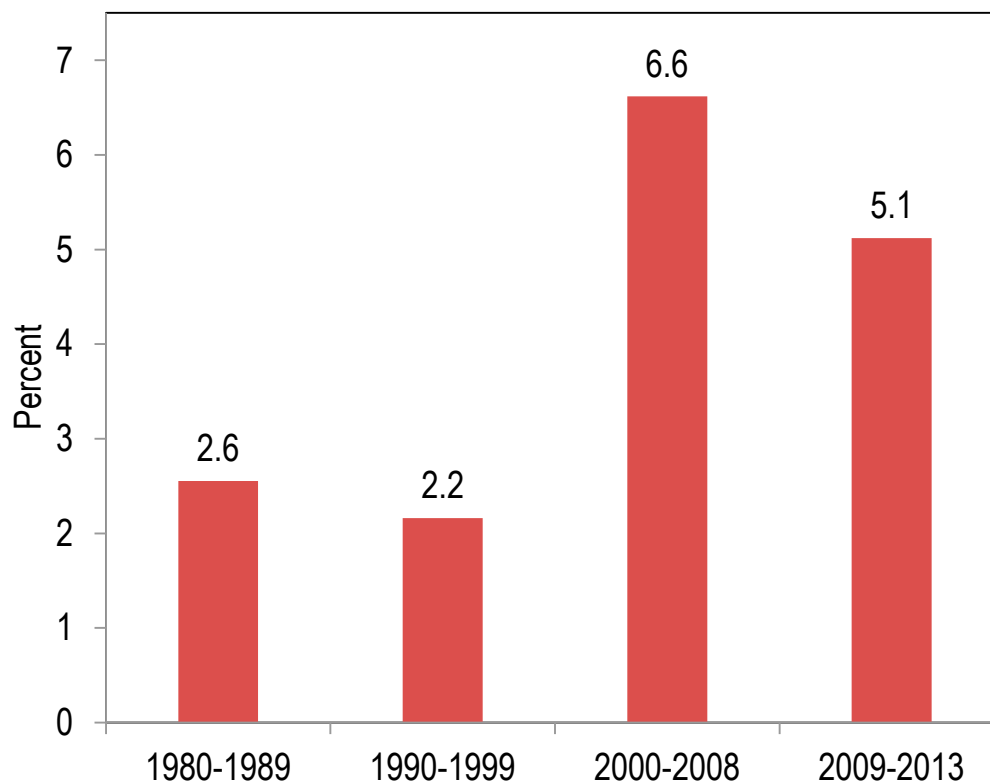


Note: EU signifies European Union, OAE signifies Other Advanced Economies.

Closer ties have boosted regional growth, even after the global crisis



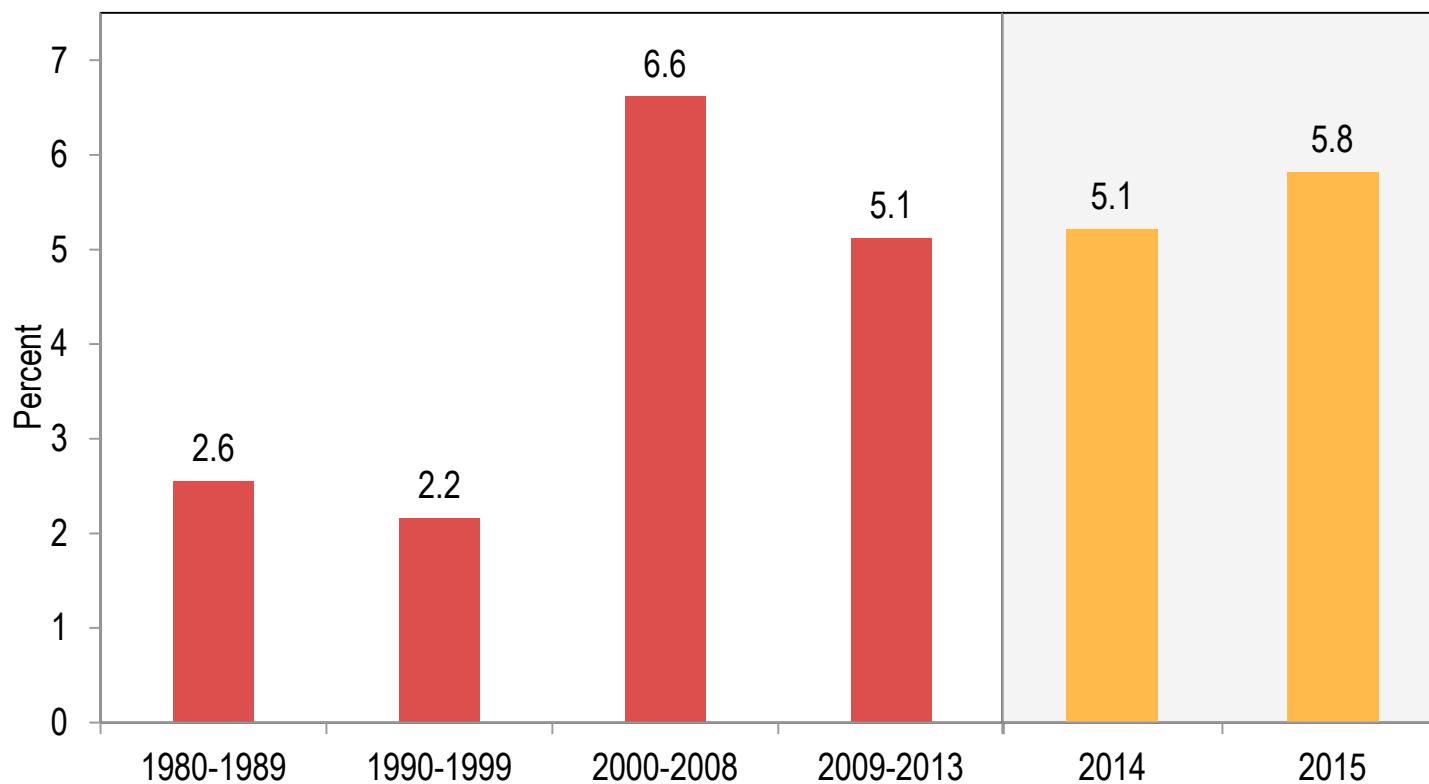
Sub-Saharan Africa: Average Real GDP Growth, 1980-2013



Sub-Saharan Africa is set to maintain robust growth...



Sub-Saharan Africa: Average Real GDP Growth, 1980-2015



But...



- The Fund is not a development institution
- Engendering sustained growth and poverty reduction is a medium- to long-term challenge, dependent on a wide range of policies, and actors...
- LICs do not pose a short-term threat to the international trade and/or financial system

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Conclusions



- It's Mostly Fiscal? More so for the IMF, given its mandate, than for development, but crucial for both...
- Yes, macroeconomic stability is a necessary condition for sustained growth and poverty reduction, though not a sufficient condition...
- Yes, sufficient/efficient tax capacity, and effective public spending are necessary too, to be able to build strong institutions and infrastructure
- But...

Some lessons from IMF practice: development



- If the critical structural (political...) is not fixed, it will come back to haunt you in the macro at some point
- Underdevelopment is predominantly not about lack of financing, but about lack of/wrong incentives - Political economy dominates, on all sides – push to get incentives right
- Sustained economic growth ultimately leads to poverty reduction, but its extent can vary immensely, and it could take “too long” - Case for more attention to “inclusive” growth, also in conditionality
- Development needs both top down and bottom up approach
- Ultimately, what is needed is (private sector) jobs and thus (private sector) investment

Some lessons from IMF practice: development



- Country ownership of policy reforms is of course crucial, but what to do if there is low ownership?
 - Try to empower the reformers; keep in mind the interests of both reformers and non-reformers
 - Try to have all donors speak with one voice
 - Focus more on TA
 - More generally, focus more on bottom-up than top-down, though both are needed (money is fungible)
 - Be prepared to take conditionality to its logical conclusions (tough love)
 - ...

Some lessons from IMF practice: students



- Choose the hardest courses...
- ... and the best teachers
- Languages are important too, English above all, though not exclusively
- Network is important, but nothing beats substance
- Internships can combine the two...
- Keep reading...

Further reading



- The Economist, in particular its section Free Exchange (Economics Focus)
- IMF Finance & Development, in particular its section Back to Basics
- World Bank Blog
<http://blogs.worldbank.org/africacan/>
- IMF World Economic Outlook, in particular its short boxes on special topics
- EdX IMF MOOCs publicly available, e.g. Financial Programming; DSA; Energy Subsidy Reform
<https://www.edx.org/school/imfx>



Thank You!

World Economic and Financial Surveys

Regional Economic Outlook

Sub-Saharan Africa
Staying the Course

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INTERNATIONAL MONETARY FUND

Questions/Discussion?

The online edition of the
Regional Economic Outlook
for sub-Saharan Africa
and **much more** is available at

www.imf.org

and

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