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Commentary

THE BUFFIN FOUNDATION SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

International Monetary Fund Update

The International Monetary Fund (IMF) held its Joint Annual Spring Meeting with the World Bank in Washington over the period April 17-19. These annual meetings provide opportunities for the world's leading economists, finance ministers and central bankers to discuss current global economic and financial conditions and the key challenges to be addressed for managing global financial stability. IMF Managing Director Christine Lagarde delivered an address to the International Monetary and Financial Committee on the IMF's Global Policy Agenda to "Confront Global Challenges Together". Against a backdrop of declining oil prices, sharp variations in exchange rates, and market volatility, global growth remains uneven. Promoting balanced and sustained growth requires an integrated policy package that bolsters today's actual and tomorrow's potential output, diminishes risks, and confronts emerging global challenges. Boosting growth and jobs requires continued monetary accommodation and supportive fiscal policies. Improving policy effectiveness and securing financial stability is crucial; policies to achieve these objectives include tackling debt overhangs, encouraging productive investment, and avoiding excessive financial risk-taking. The anticipated increase in the level of the key U.S. interest rate and the effect of large currency variations are two of the important factors that call for proactive policies to manage risks, particularly by emerging market firms. Stronger fiscal frameworks can make revenue and spending more growth-friendly and lessen the incidence of fiscal risks. Structural reforms are lagging in terms of progress as compared to other areas of the global policy agenda. Targeted structural reforms can boost investment and productivity; priorities include advancing energy subsidy reforms to take advantage of lower oil prices, upgrading infrastructure, increasing employment, removing distortions in product markets, and improving the business environment. Trade reforms in traditional and emerging areas of economic activity, such as services, can complement and augment other structural reforms. The impact of recent asynchronous monetary policies on currencies and capital flows underscores the need to make the International Monetary System more resilient, promote the continuing integration of dynamic emerging economies, and ensure an adequate and cohesive global safety net. The year 2015 presents an unprecedented opportunity for the world to chart the course for sustainable development for the next decade.

A sustained recovery is projected for the United States, supported by lower energy prices, reduced fiscal drag, and strengthened balance sheets. A gradual strengthening is envisaged for the euro area and Japan, sustained by monetary stimulus, weaker currencies, and lower oil prices. The growth outlook for emerging market economies and low-income developing countries is somewhat uneven. Unwinding of past excess investment and continued demand rebalancing should further slow the rate of growth in China. Geopolitical tensions, regional spillovers, and lower commodity prices will have an effect on the economies of some countries, notably Russia, Venezuela and Nigeria, as well as some countries in the Middle East and North Africa. India's growth is projected to benefit from major economic policy reforms and a pick-up in investment. Many low-income developing countries are expected to grow steadily despite headwinds from lower commodity prices. Lower oil prices present a two-sided risk. On the upside, the decline in oil prices could provide a boost to global growth, depending on the future path of oil prices, exchange rate movements, and whether the windfall is used to rebuild policy buffers and support growth. On the downside, oil prices could rebound faster than expected with correspondingly negative consequences. A lasting dollar appreciation against the backdrop of asynchronous monetary policy stances in major economies could lead to an unbalanced global recovery. Dollar strength along with sagging commodity prices creates the risk of balance sheet and funding strains for dollar debtors. It could also potentially offset trade benefits from real depreciation in some countries. Emerging market economies are more exposed to a sharp dollar appreciation and associated capital flow reversals. The process of achieving monetary normalization in the United States could also trigger financial market turbulence. Declining market liquidity resulting from changing market structures and regulation could amplify the impact of volatility and produce broader systemic risk. Protracted low inflation or outright deflation could set off a downdraft in medium-term inflation expectations and push up real interest rates in some advanced economies; this could adversely affect economic recovery, particularly in the euro area. Geopolitical tensions could generate regional and global spillovers through disruptions in trade and financial transactions. Disruptions in energy and other commodity markets remain a concern as further escalation in tensions could take a toll on confidence in global financial stability and increase the risk of financial turbulence. Decisive policies are needed to boost demand, enhance future growth targets and build resilience against existing and emerging economic and financial challenges around the world. Infrastructure investment is a priority for many countries. Advanced economies will need to calibrate fiscal adjustment policies and establish credible fiscal frameworks, increasing tax revenues and improving compliance.

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