



International Monetary Fund

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Lessons for Emerging and Developing Economies in the Current Economic Landscape

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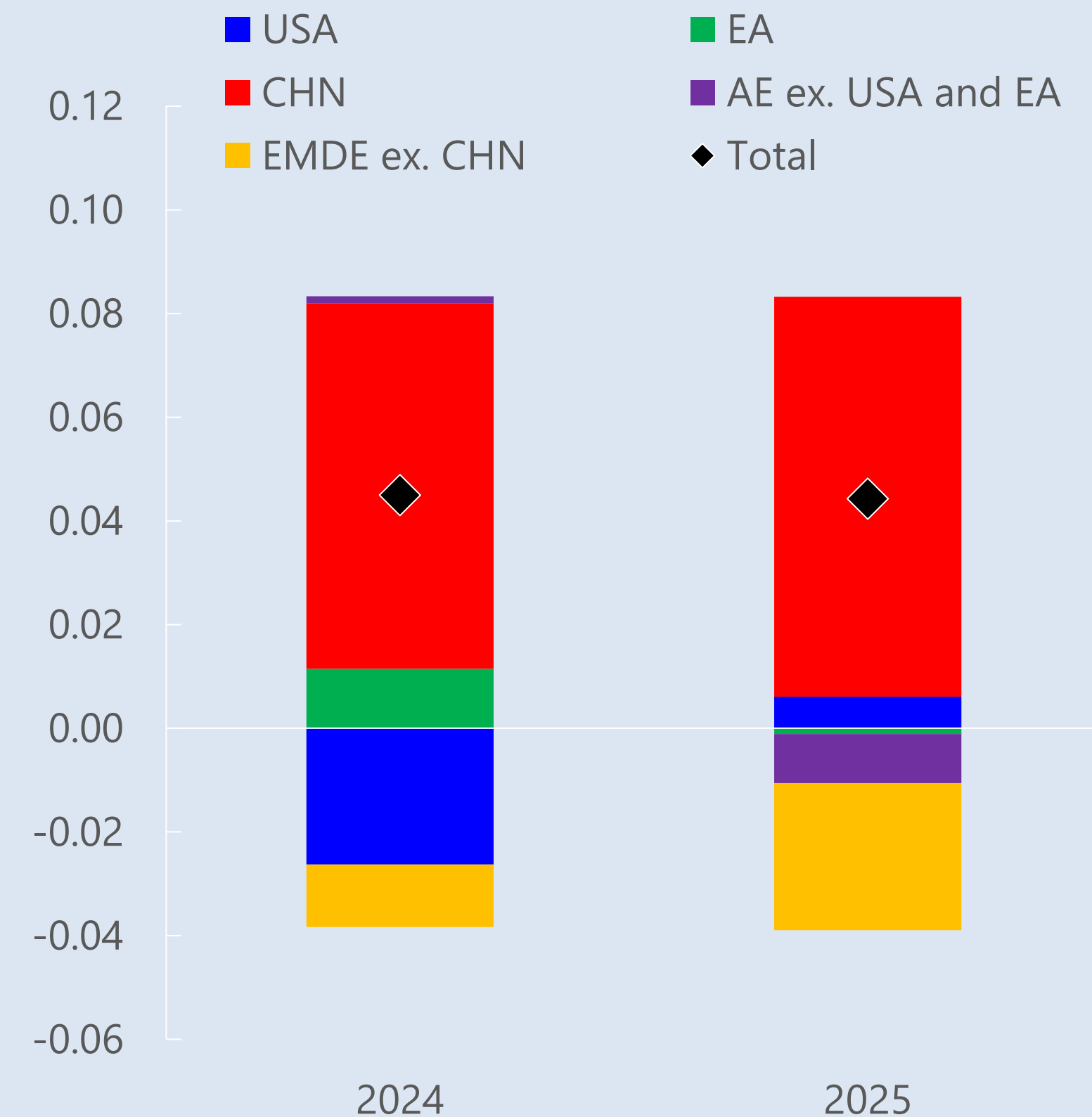
with contributions from Research and Western Hemisphere Department

Global Outlook, Risks, Policies

A Sticky Spot

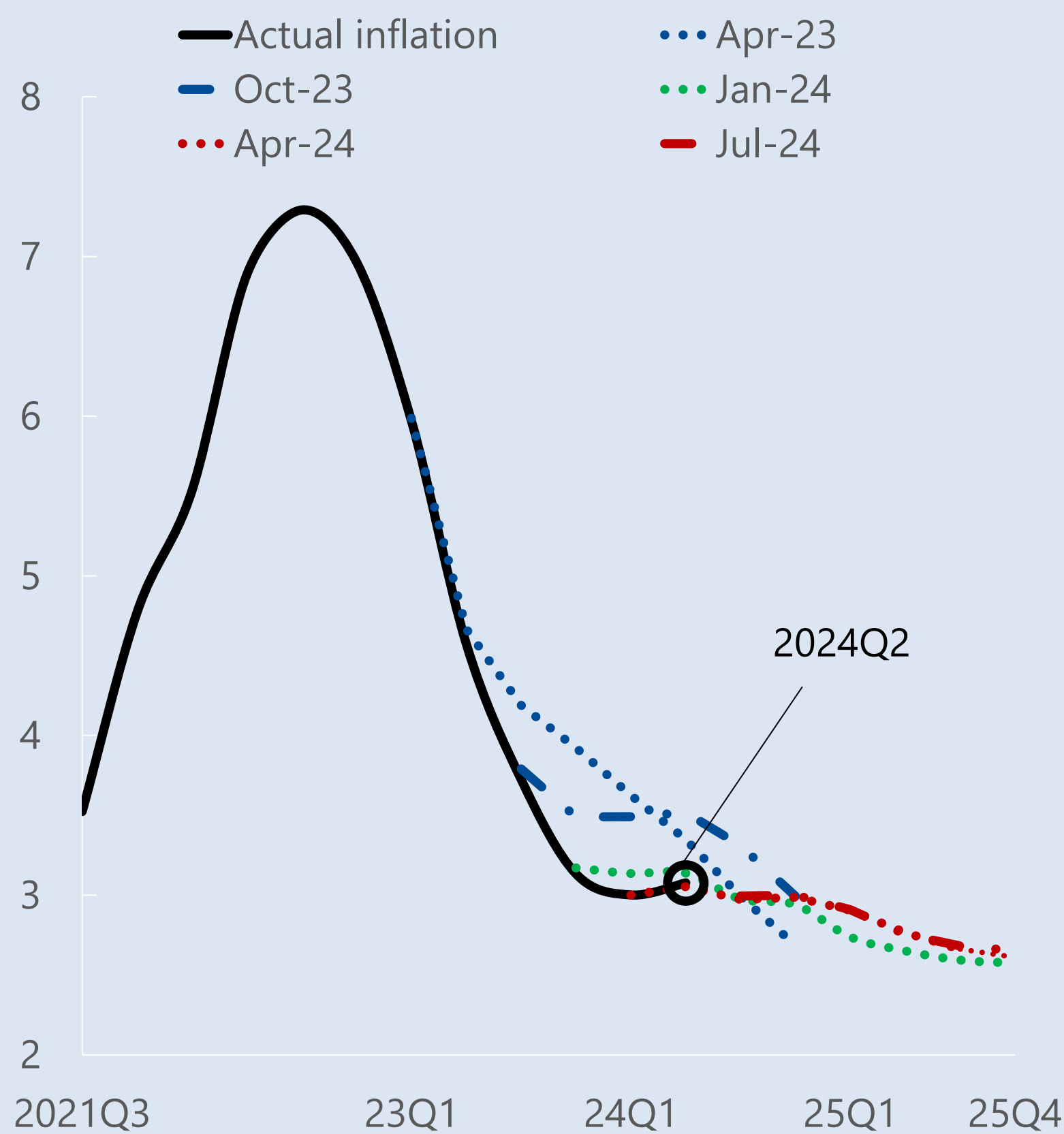
World growth revisions

(percentage points; relative to April 2024 WEO)



Projected inflation path ex. ARG, TUR

(world headline; percent; y/y)



Risks still balanced

Some near-term risks have risen:

- Upside risks to inflation (services, wages)
- Higher for *even* longer interest rates
- Economic policy uncertainty (fiscal and trade policy)

Policies

- Restoring price stability and replenishing buffers
- Managing currency and capital flows volatility in EMs
- Reviving growth prospects through productivity-enhancing reforms
- Strengthening the multilateral trading system

Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

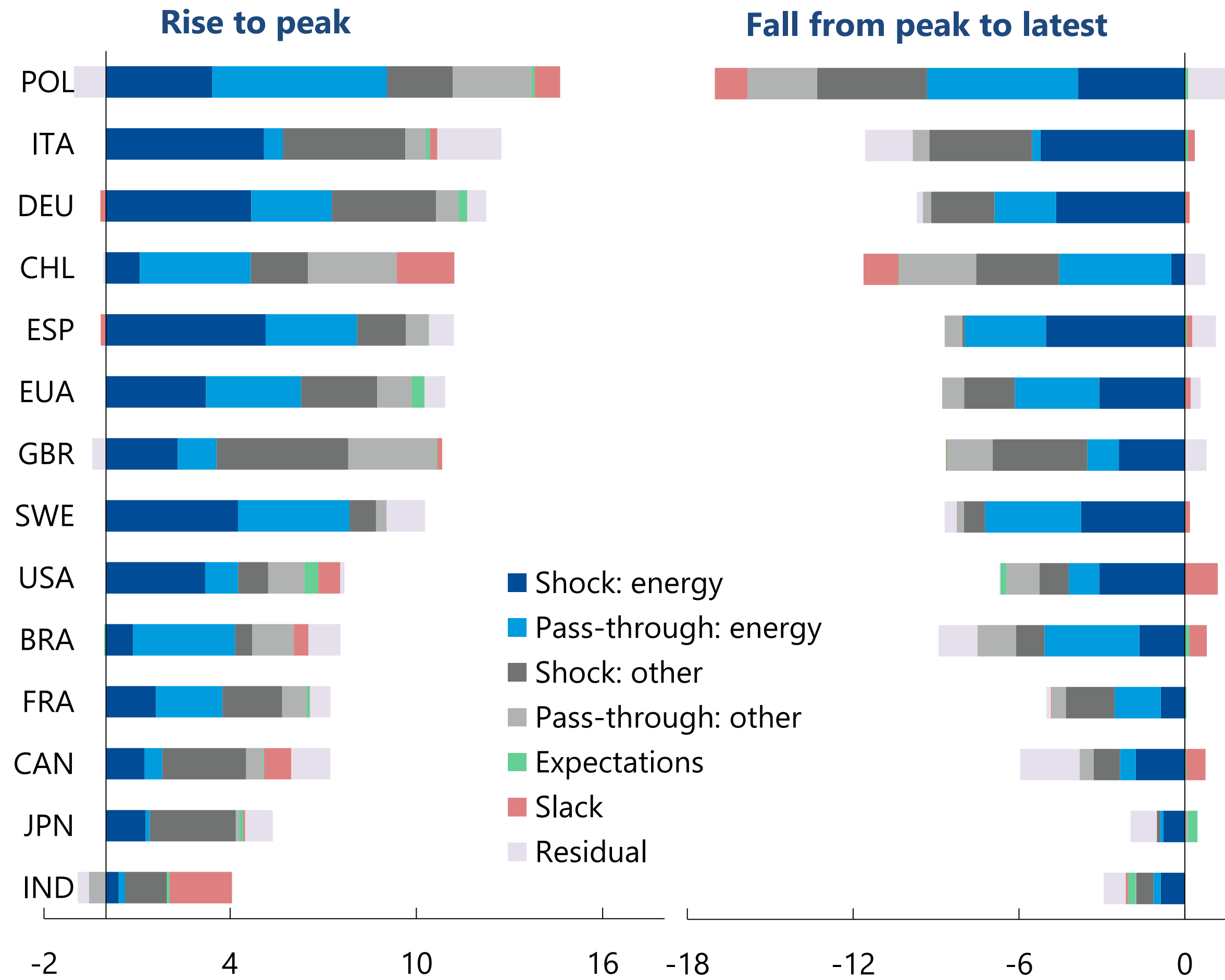
In the presentation, AEs: Advanced Economies, EMDEs: Emerging Markets (EMs) and Developing Economies, LIDCs: Low-Income Developing Economies.

#1 Setting the Stage: Current Economic Landscape

Easing of supply pressures helped disinflation, but services remain sticky

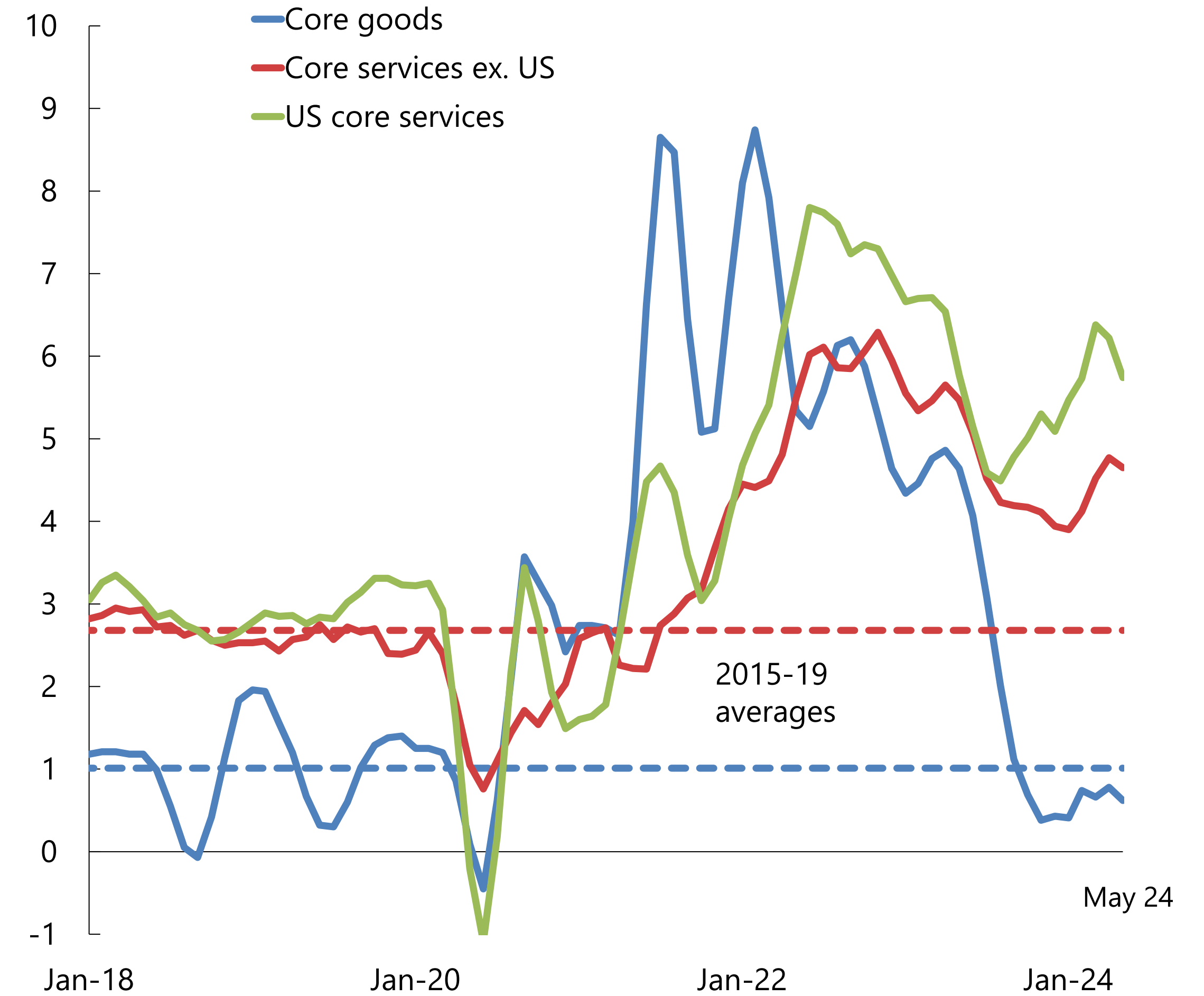
Energy shocks drove headline inflation

(percentage points)



Core inflation ex. ARG, TUR 1/

(percentage points)

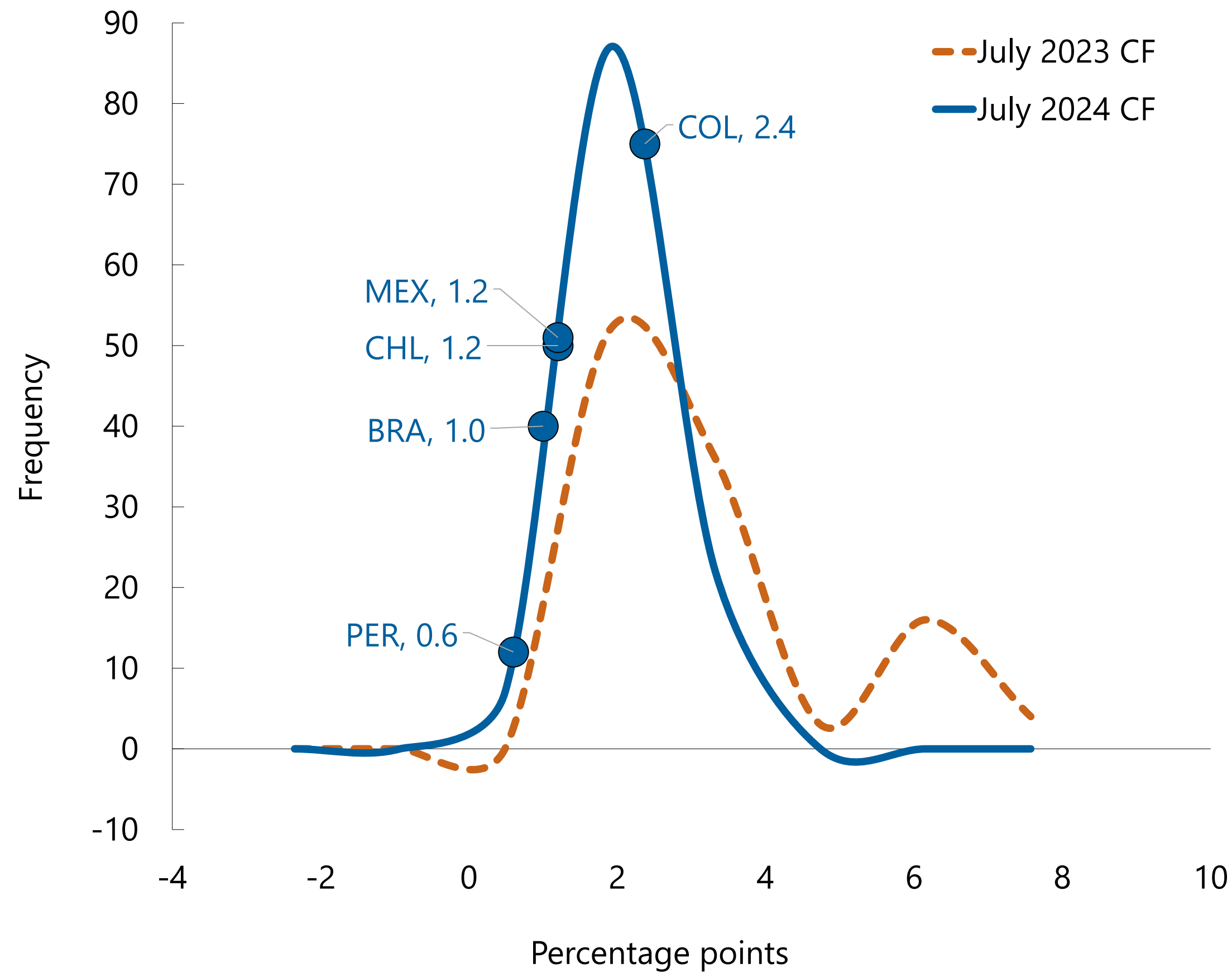


Sources: Dao, Gourinchas, Leigh, Mishra (2024); Haver Analytics; and IMF staff calculations.
1/ PPPGDP-weighted CPI series based on 34 economies.

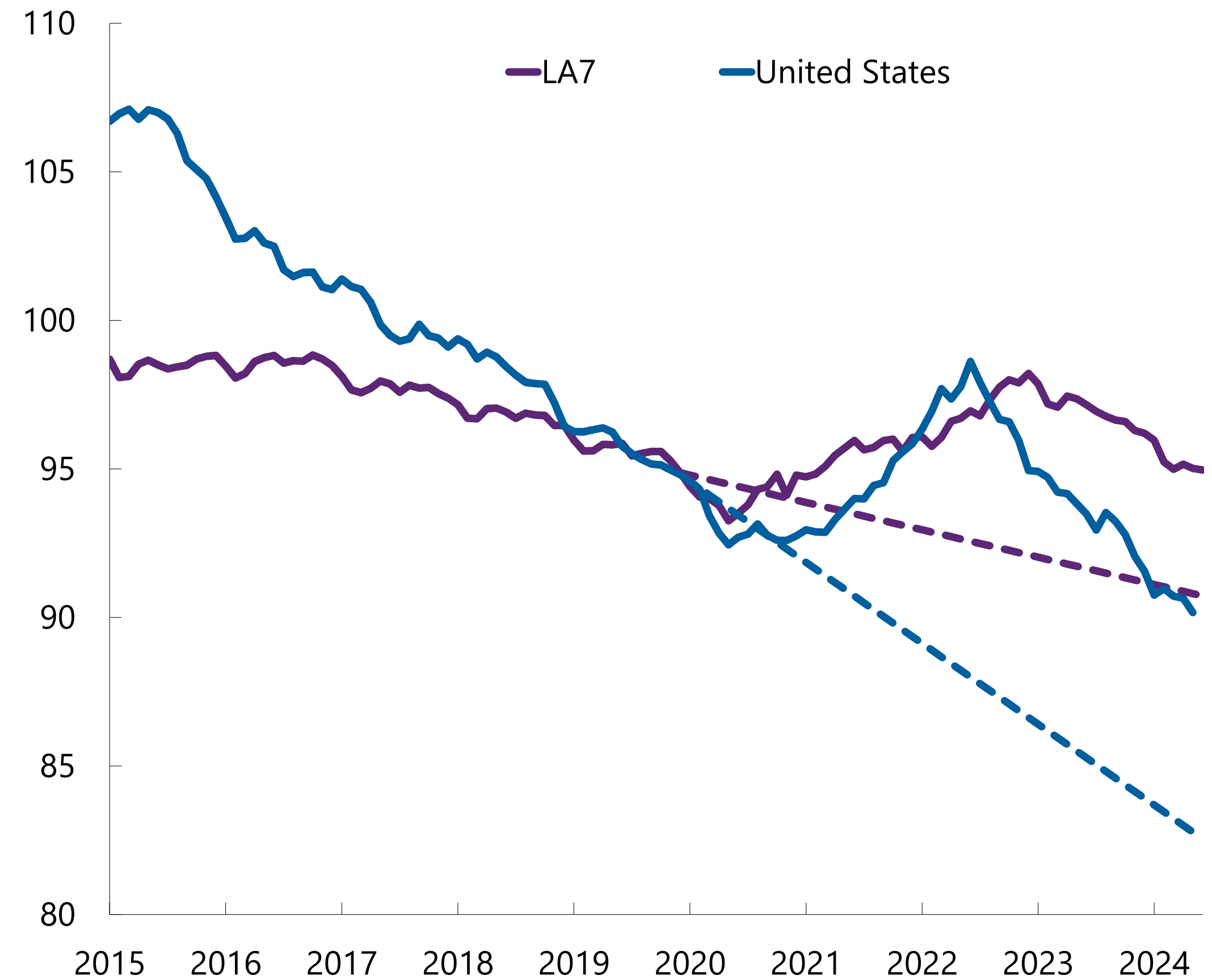
In LAC, this is amid re-anchoring expectations and reverting goods relative prices

LA5: Distribution of Inflation Expectations by Forecasters 1/

(End of same-year expectations, deviation from inflation target)



Relative Price of Core Goods versus Core Services 2/ (Ratio)



Sources: Consensus Economics; Haver Analytics; National authorities; and IMF staff calculations.

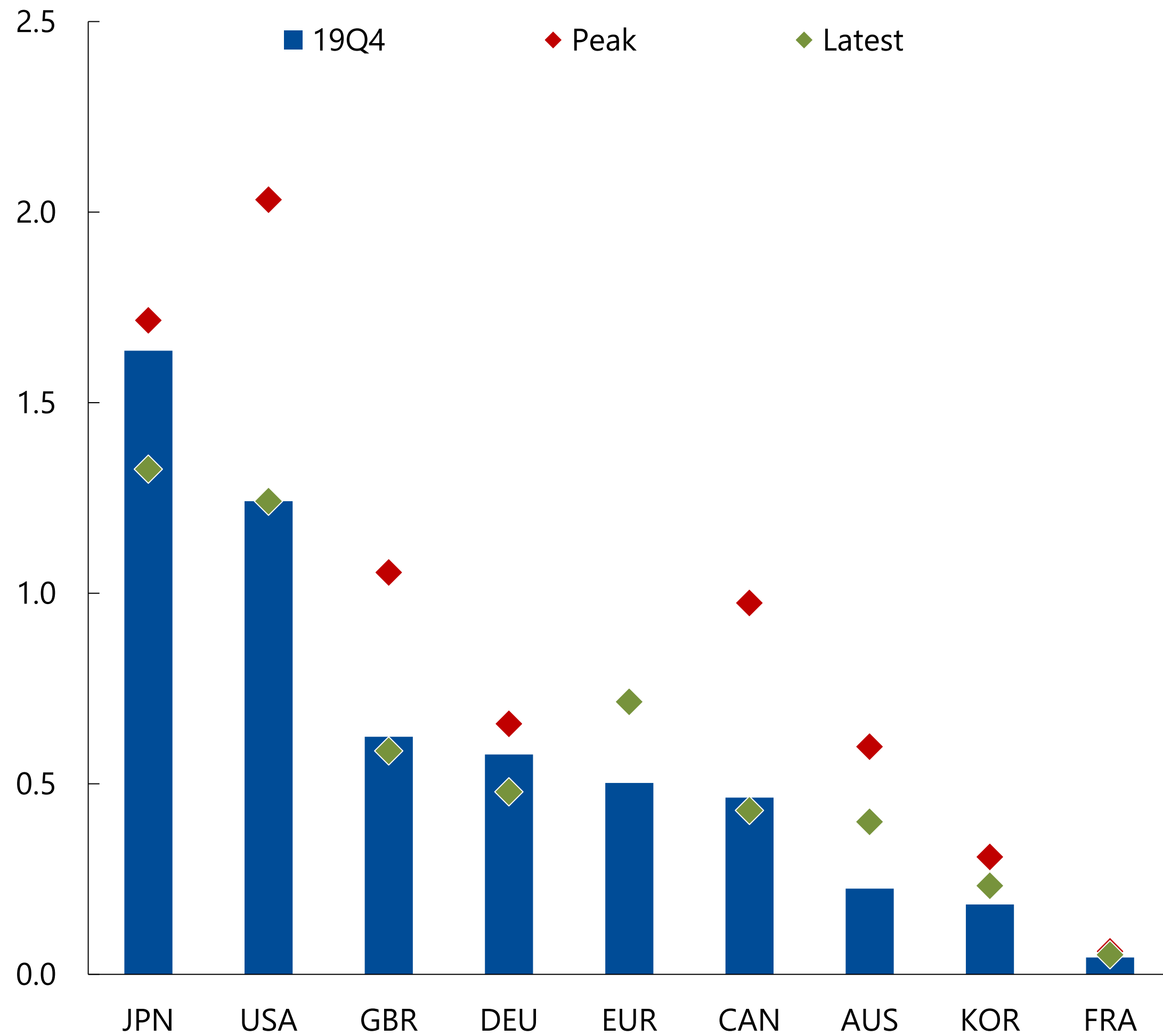
1/ Country points are medians of CF forecasters. Data for Paraguay and Uruguay are not available. CF = consensus forecasts; LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru).

2/ LA4 is purchasing-power-parity GDP-weighted average. LA4 = Latin America 4 (Brazil, Chile, Colombia, Mexico).

Labor markets cooling, but unemployment still below pre-covid levels

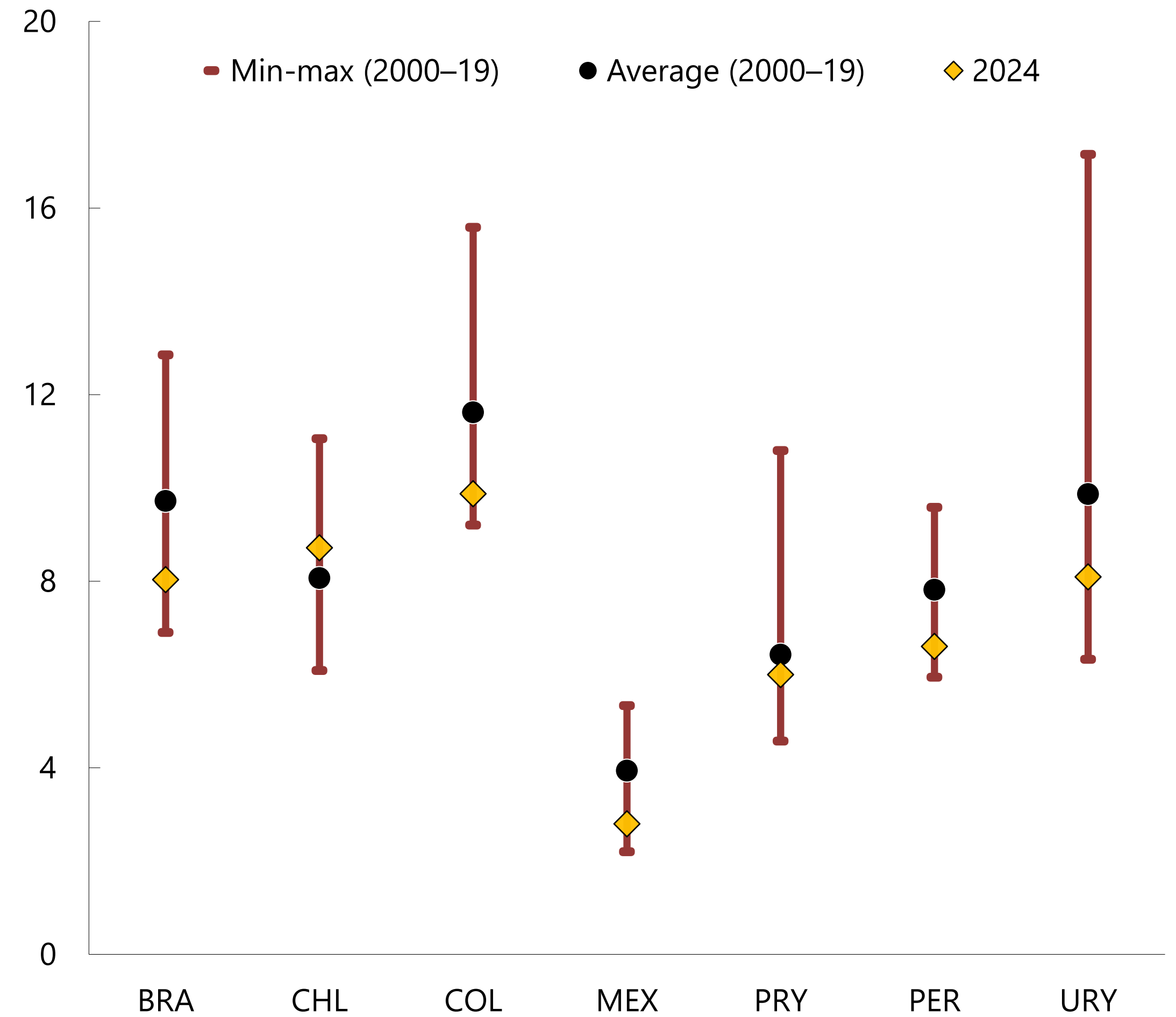
Vacancy-to-unemployment ratio

(ratio)



LA7: Unemployment Rate 1/

(Percent)

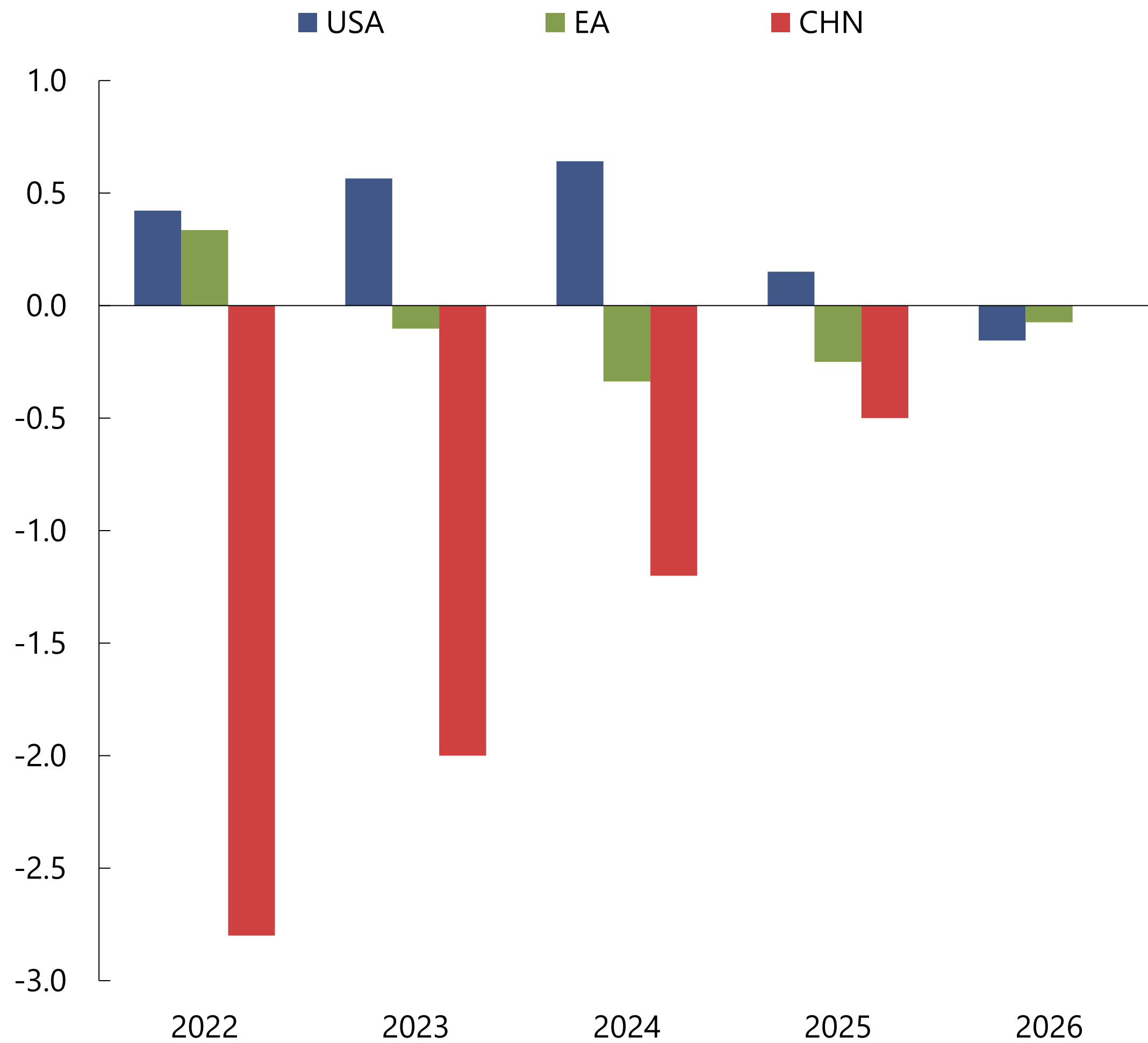


Sources: Haver Analytics; *World Economic Outlook*, IMF; and IMF staff calculations.
 1/ LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Cyclical factors waning, economic activity in LAC moderating

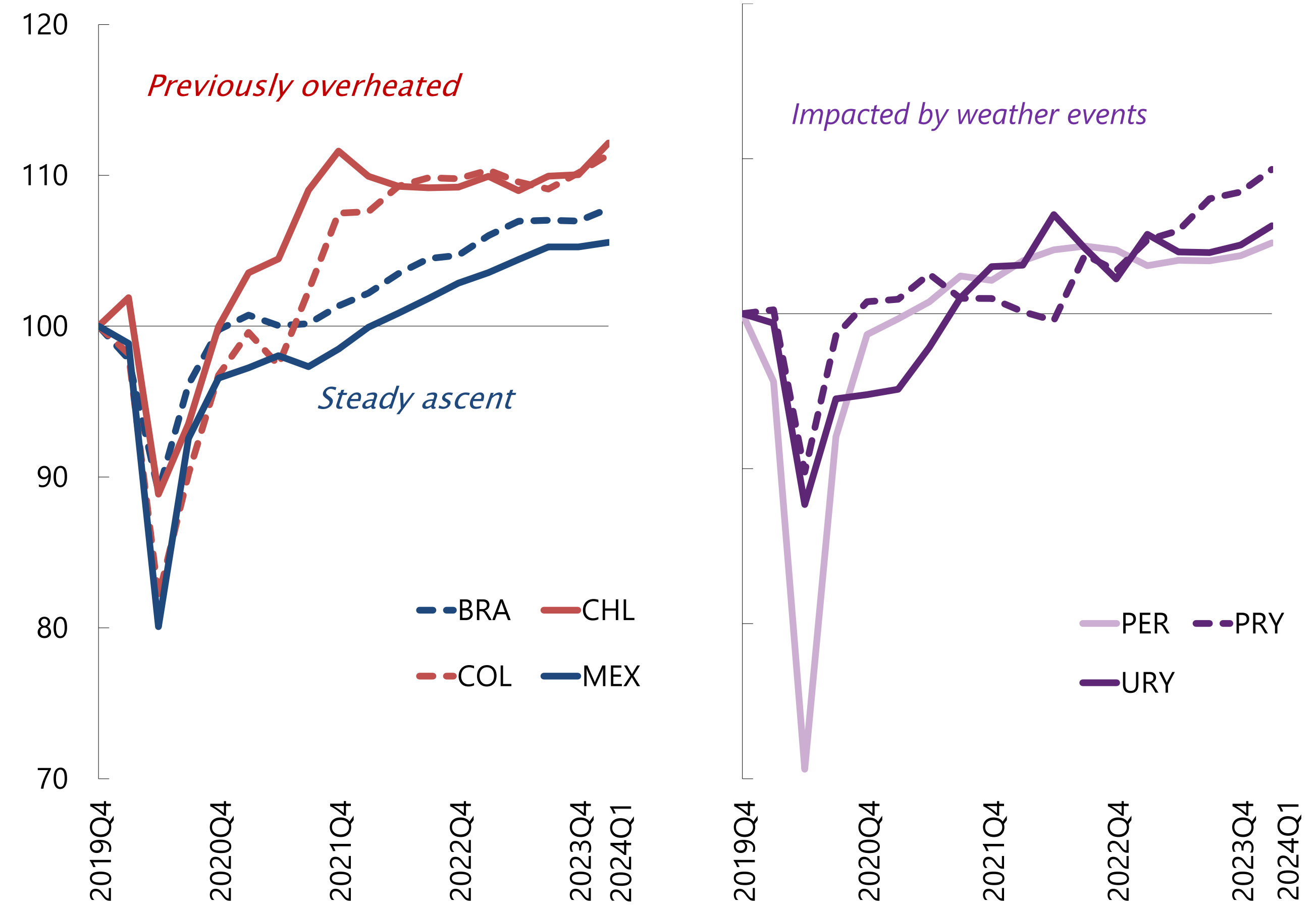
Output gaps closing

(output gap; percent of potential GDP)



Real GDP in LAC

(Index: 2019Q4 = 100)

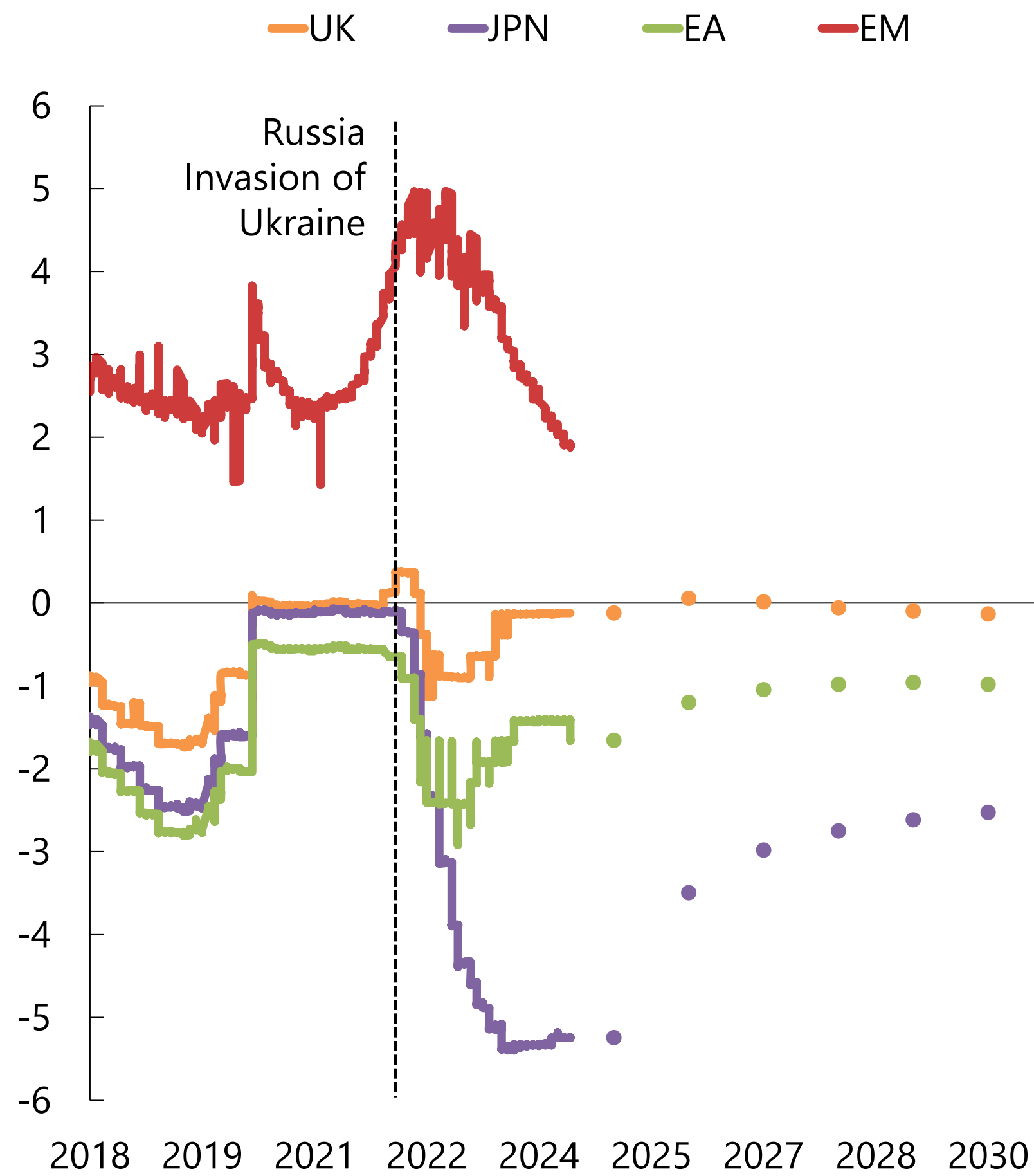


Sources: Haver Analytics; National authorities; IMF, *World Economic Outlook* database; and IMF staff calculations.

Monetary policy divergence, strong USD, but contained EM exchange rate pressures

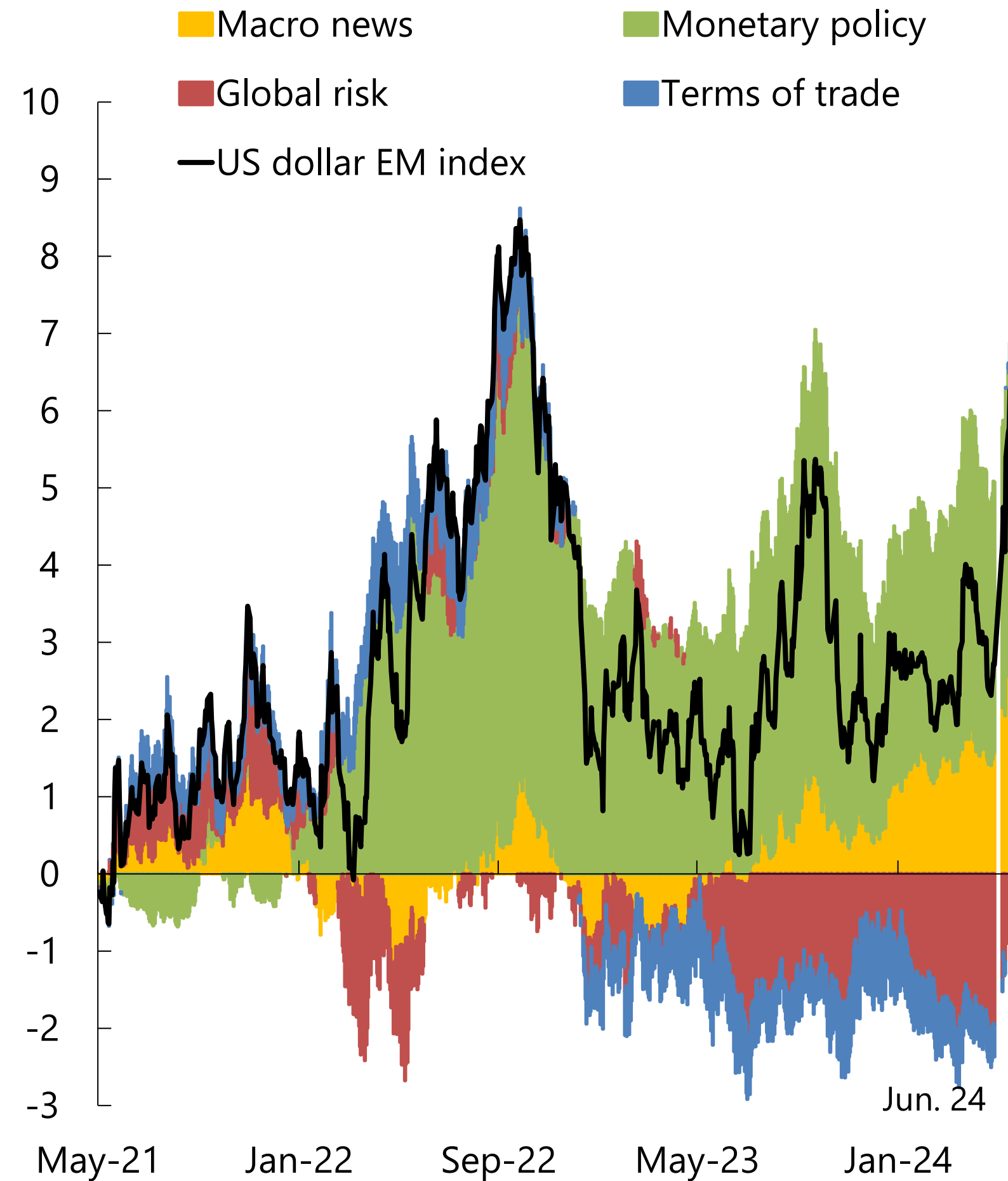
Interest rate differentials with US 1/

(percentage points)



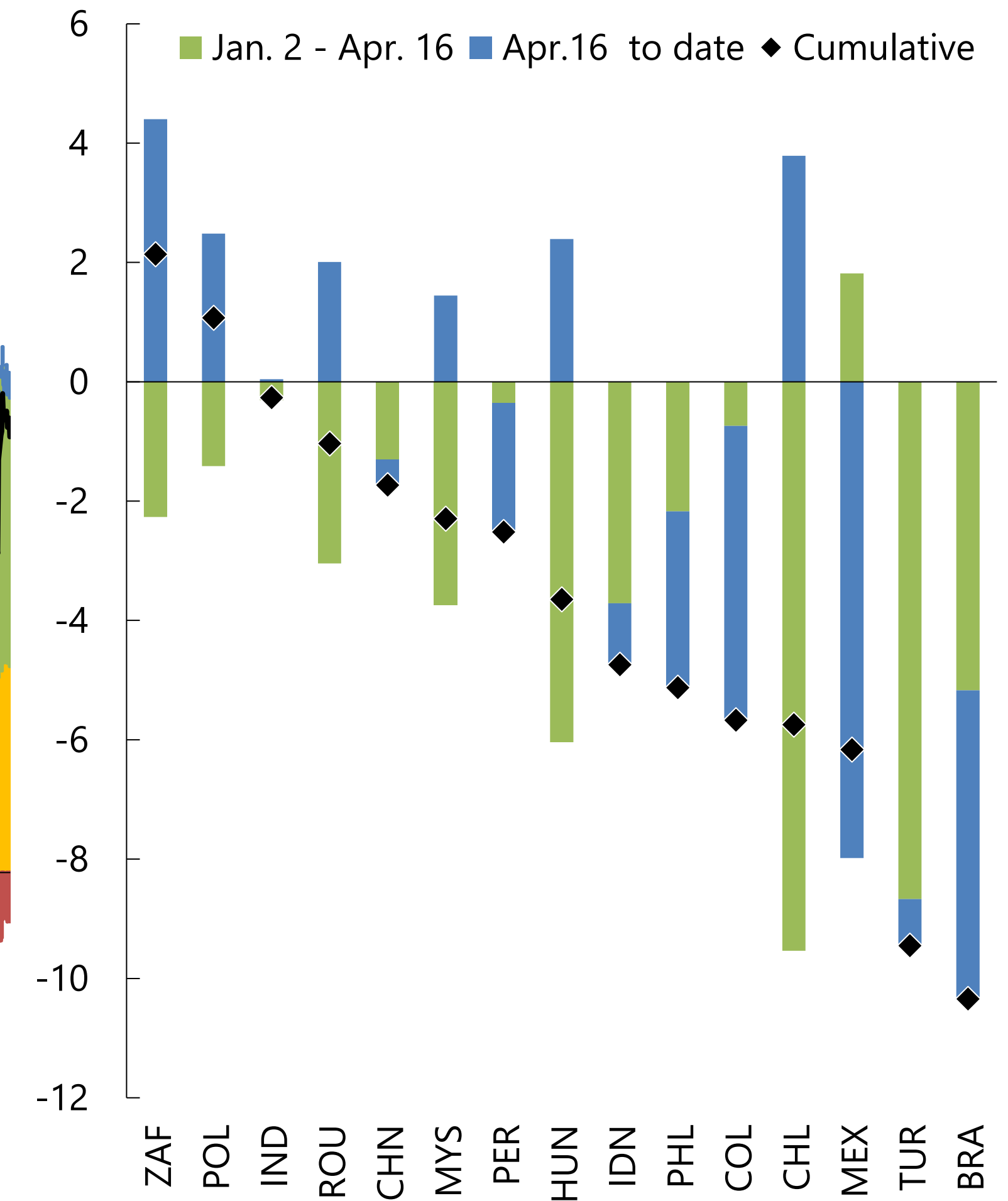
US dollar EM index

(index)



Exchange rates vis-à-vis US dollar

(percentage appreciation from Jan to July 5, 2024)



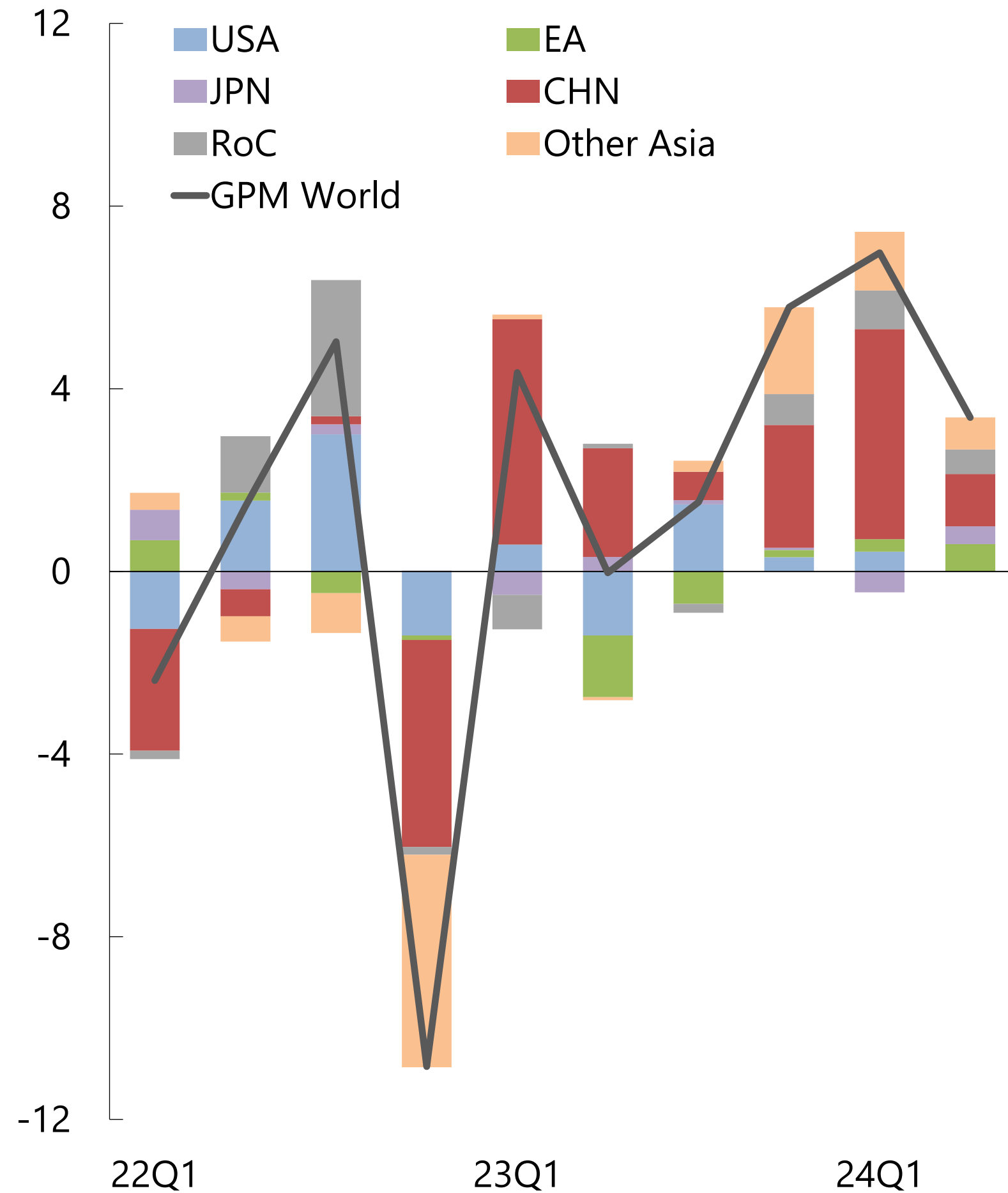
Sources: Bloomberg; European Central Bank; Federal Reserve Board; Haver Analytics; and IMF staff calculations.

1/ The differential is calculated as foreign interbank rate minus US overnight bank funding rate. The dots plot the forward path for nominal interest rates. EM rates are simple averages of: Brazil, South Africa, India, Malaysia, Chile, Colombia, Indonesia, Mexico, Hungary, Poland, Philippines, Romania, Thailand, and Russia.

Trade Growth Rebound but Fragmentation Binds with some Diversion

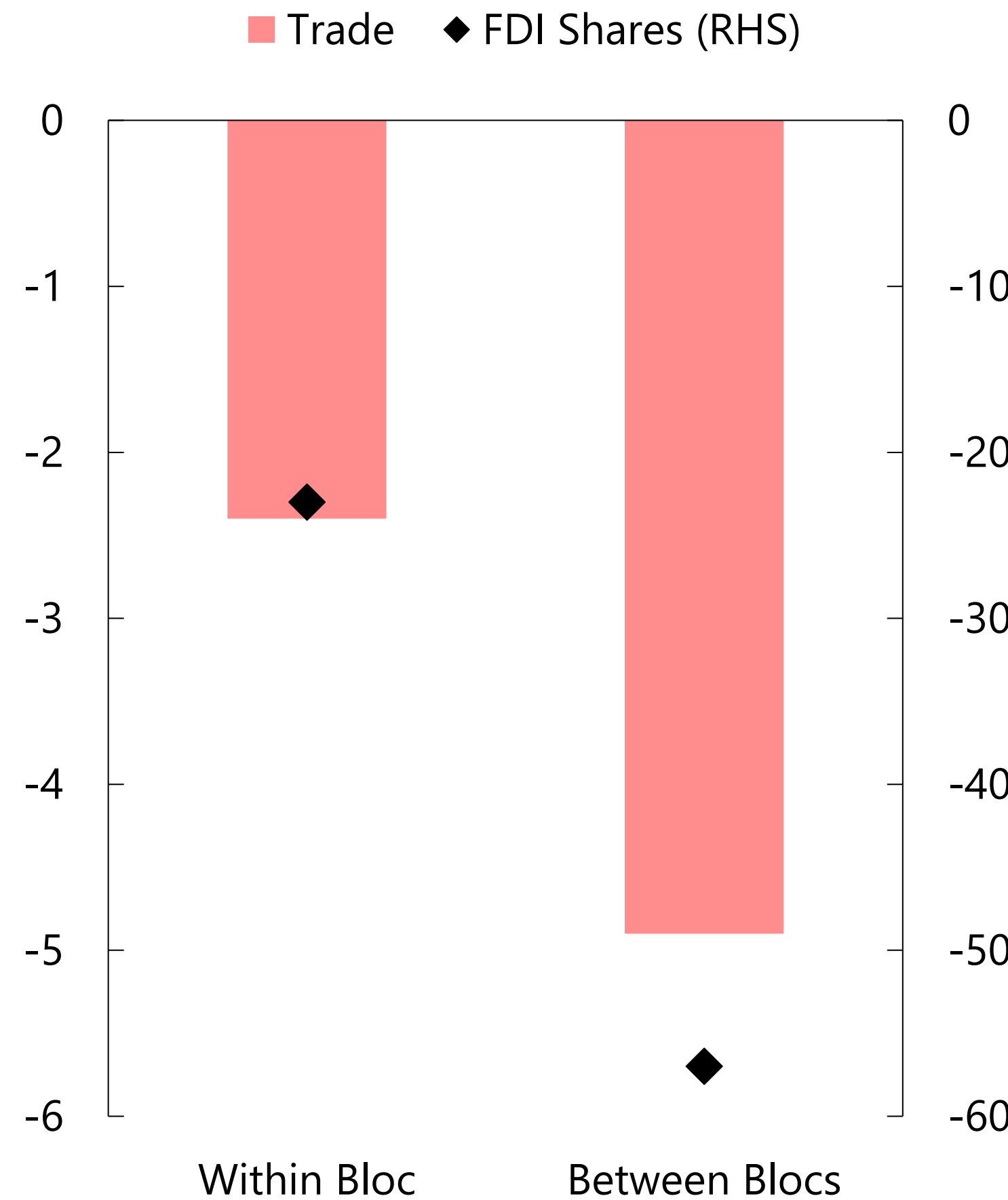
Global export volume growth 1/ *(percent; SA qoq ar)*

(percent; SA qoq ar)



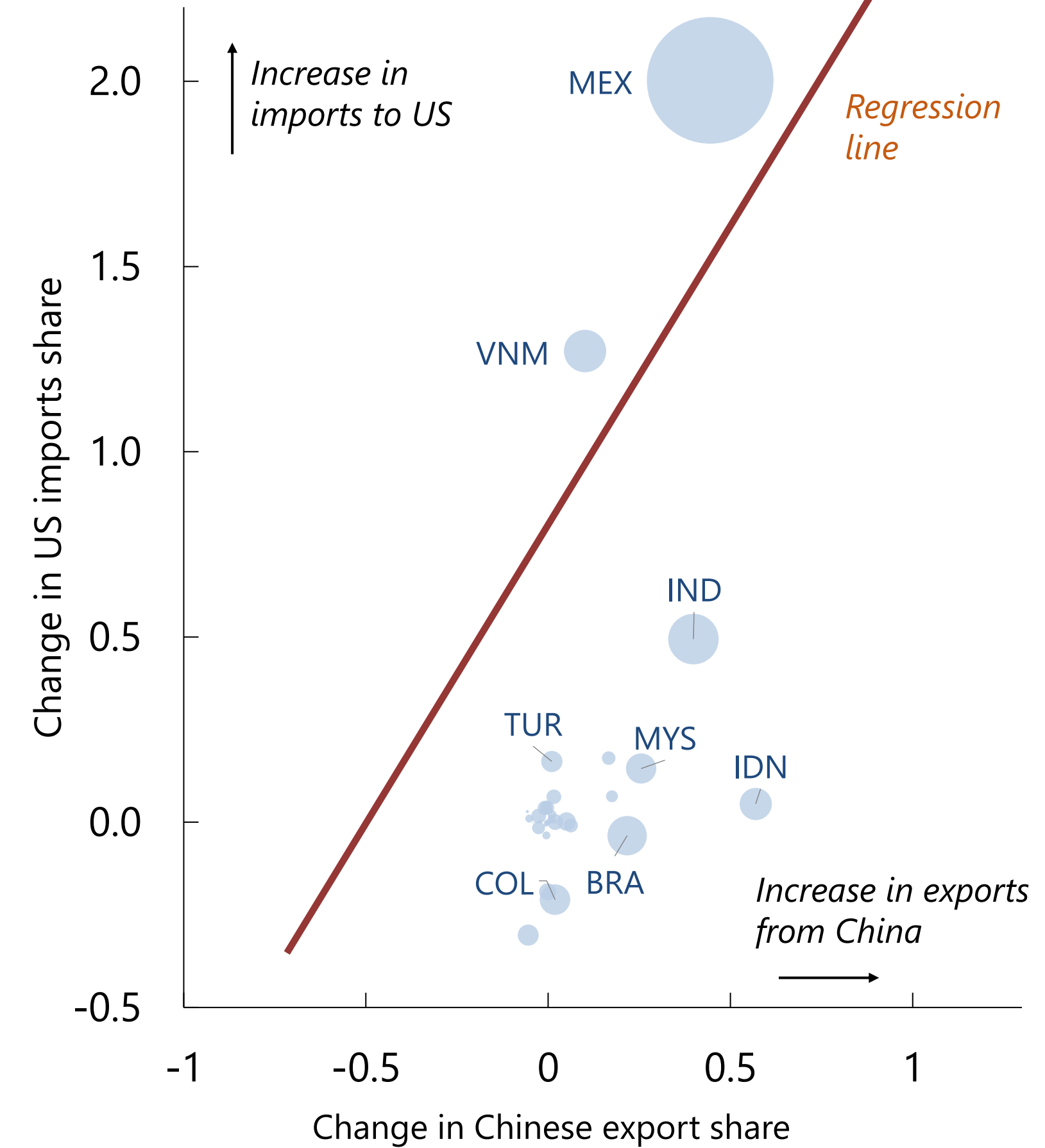
Change in Trade and FDI post war 2/ *(percentage points, FDI share change on RHS)*

(percentage points, FDI share change on RHS)



Shifting trade patterns: Rise of connectors 3/ *(percent change in trade share; 2013-17 vs. 2018-23)*

(percent change in trade share; 2013-17 vs. 2018-23)



Sources: CPB; Global Trade Alert; Haver Analytics; Institute for Supply Management; IMF, *World Economic Outlook*; WTO; Gopinath et. al (2024), and IMF staff calculations.

1/ World quarterly growth for 2023 Q3-Q4 and 2000-10 approximated with G20 growth from the WEO. Net trade interventions is 'harmful' interventions minus 'liberalizing' interventions. Predicted trade based on dynamic forecast from an ECM estimated over 2000-2019: $\Delta trade_t = \beta \Delta GDP_t - \alpha (trade_{t-1} - \gamma GDP_{t-1} + c)$.

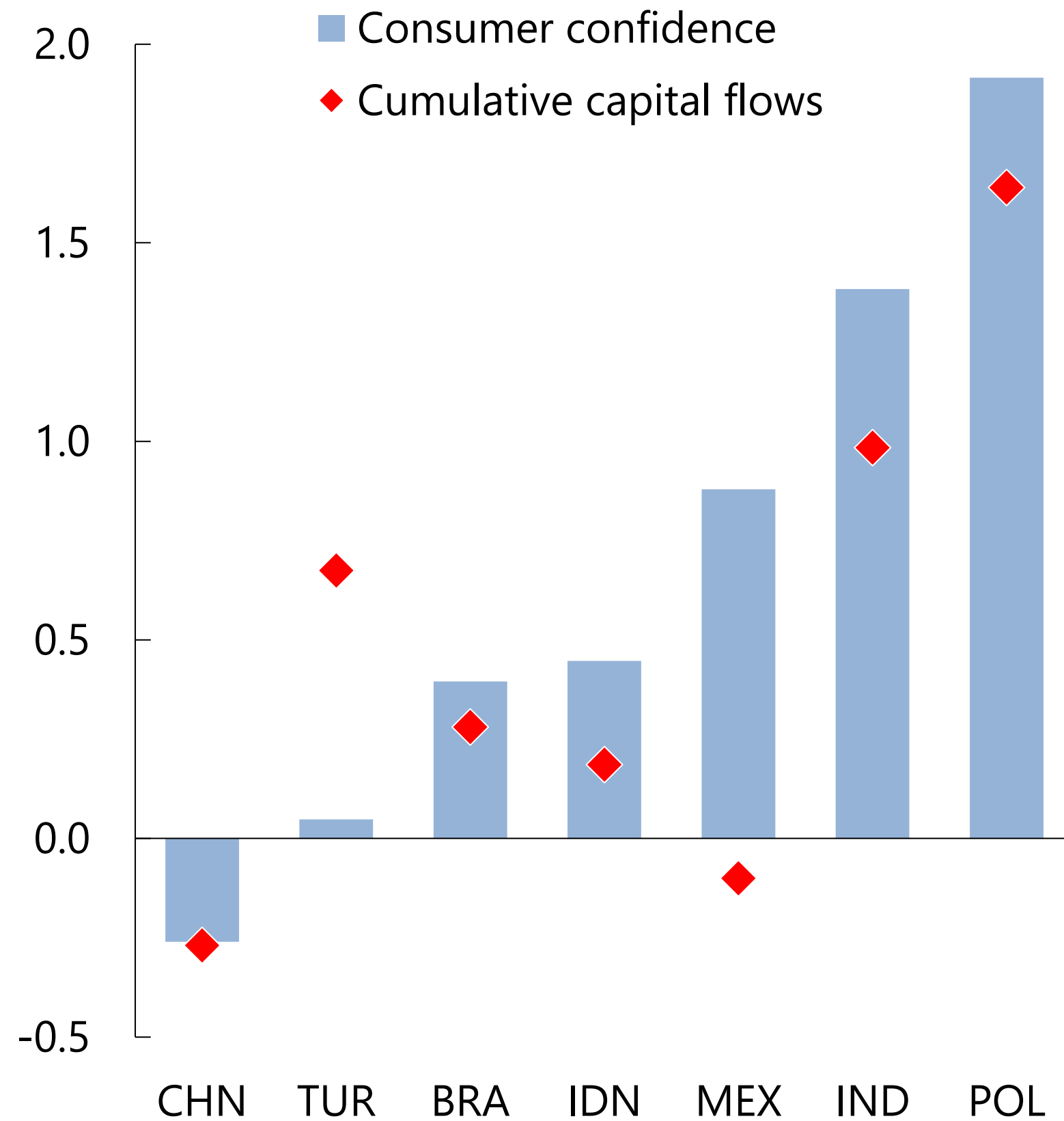
2/ China export intensity is exports/GDP measured using four-quarter moving sum of staff's internal estimate of quarterly exports and GDP. US import intensity is measured by goods import as percent of domestic demand.

3/ The regression line is weighted by U.S. imports in the pre-period as weights. Bubble size is scaled based on the country's imports to the US.

As China Fundamentals Weaken, Emerging Markets are Trading Places

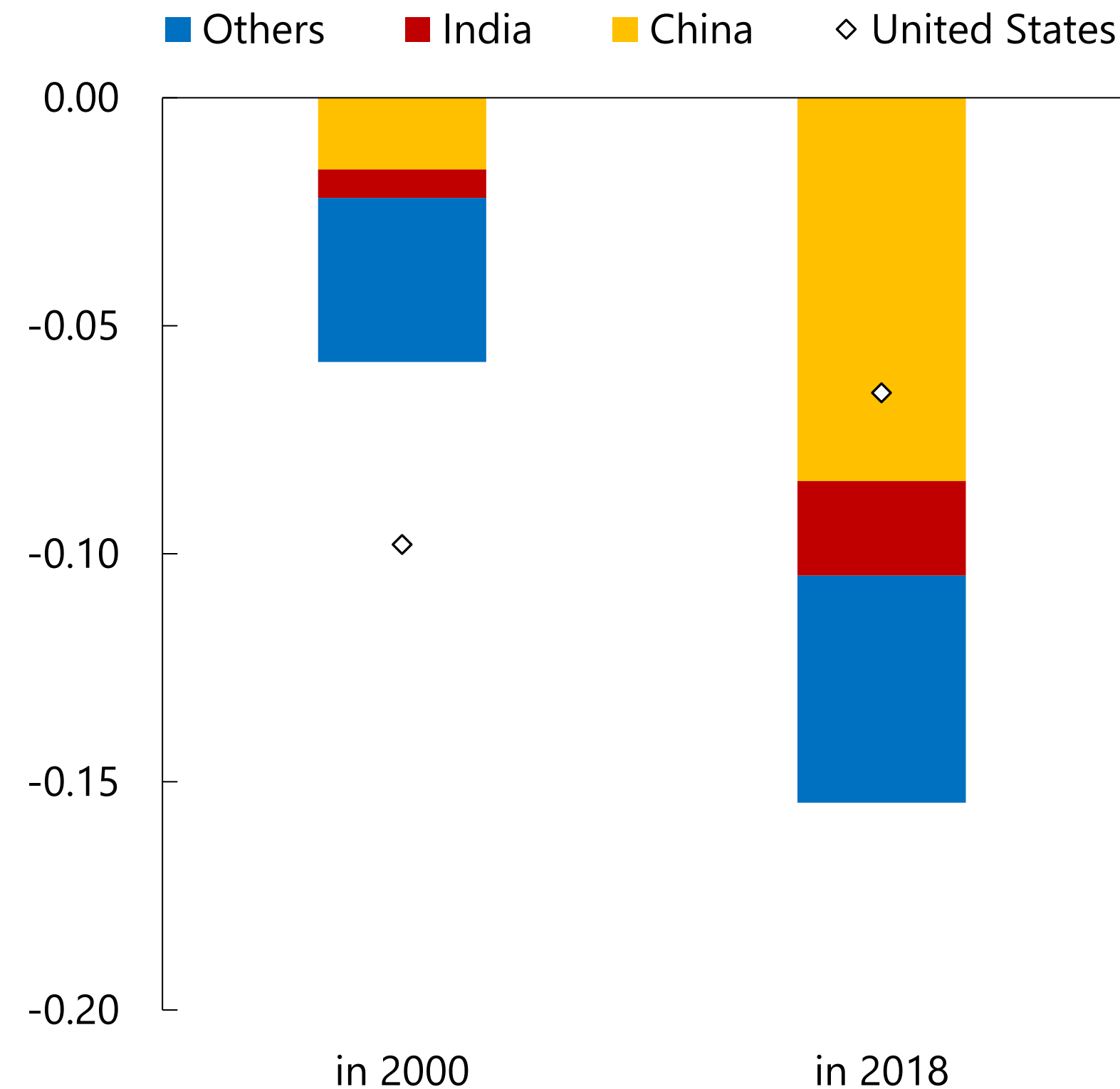
Consumer confidence and capital flows 1/

(current vs Jan 2023)



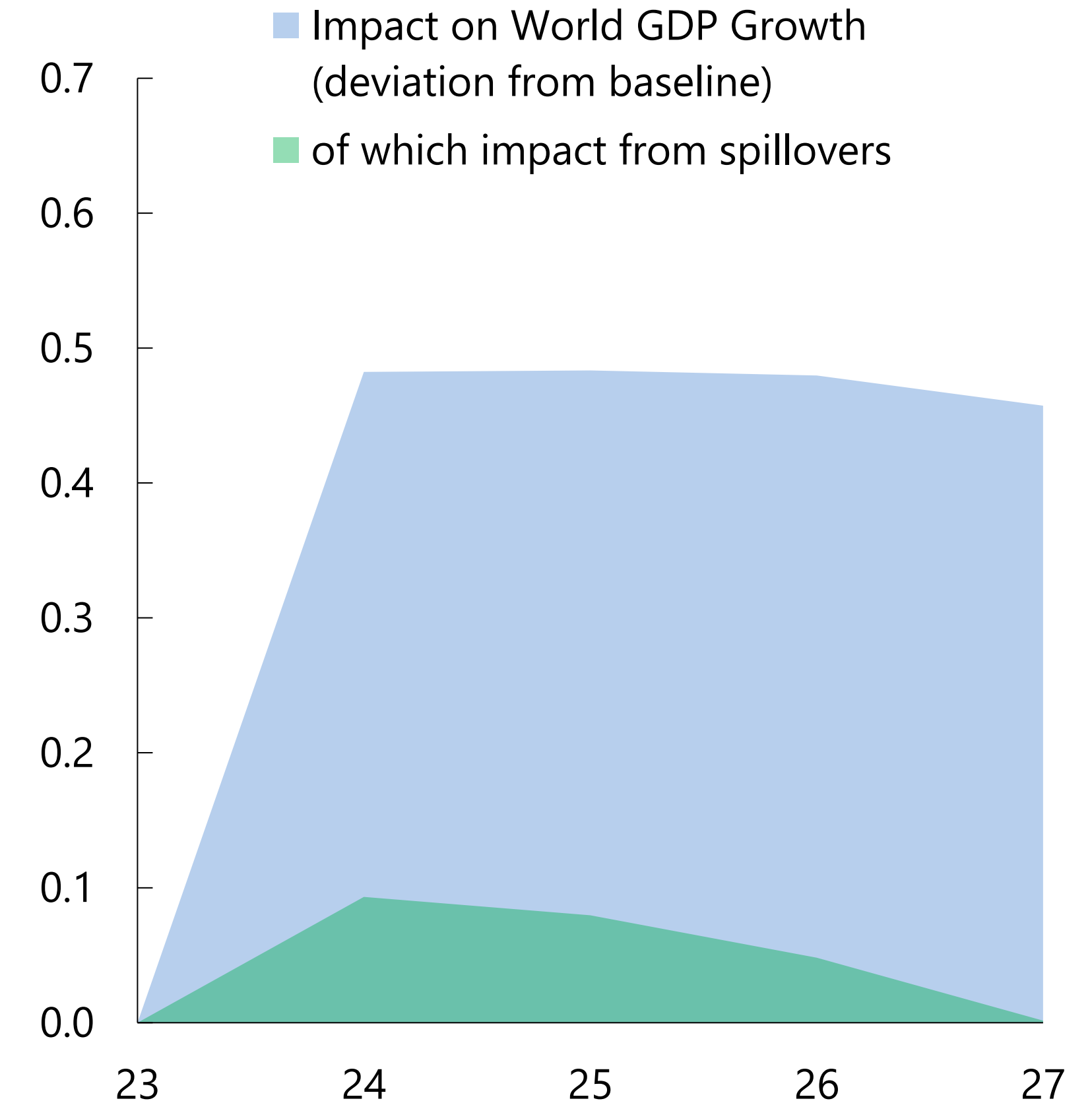
Spillover effect on world output by source-country 2/

(percent, Baseline scenario)



Global impact from upside to G-20 EMs excl. China 3/

(p.p. impact to world growth from a 0.7 p.p. positive shock to G-20 EMs)



Sources: Haver Analytics; IIF; IMF, *World Economic Outlook*; and IMF staff calculations.

1/ Latest data: December 2023 – February 2024. Consumer confidence is standard deviation change between latest and Jan 2023; capital flows is the cumulative net capital flows in percent of \$GDP since Jan 23.

2/ The impact on GDP excludes countries shocked in each scenario.

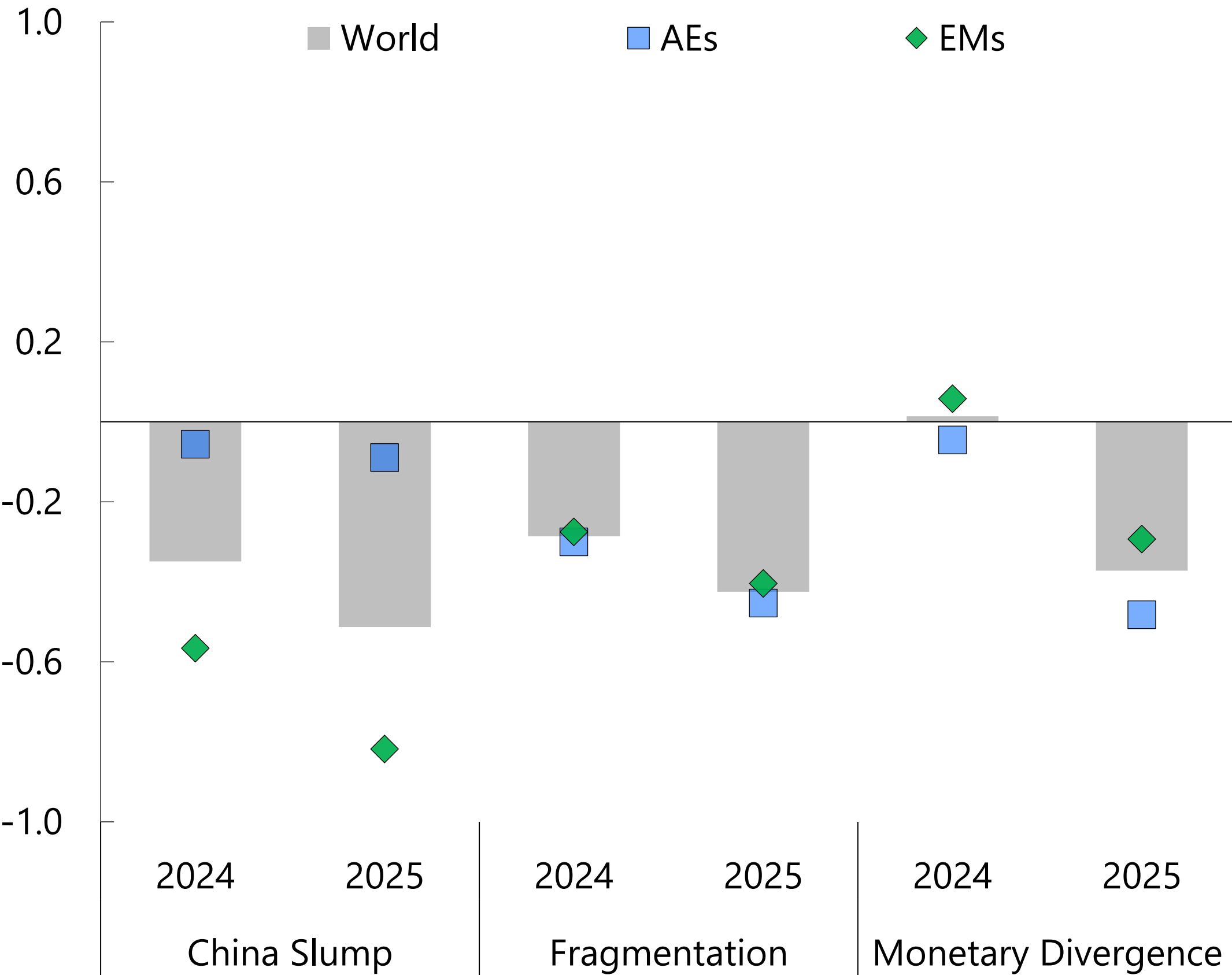
3/ The positive shock is a 30 percent probability that growth in each G20 EM simultaneously could be higher than in the baseline. See WEO, Chapter 4 for further details on the scenario.

#2 Risks

Risks to growth from Spillovers and Fragmentation; Upsides from Faster Healing

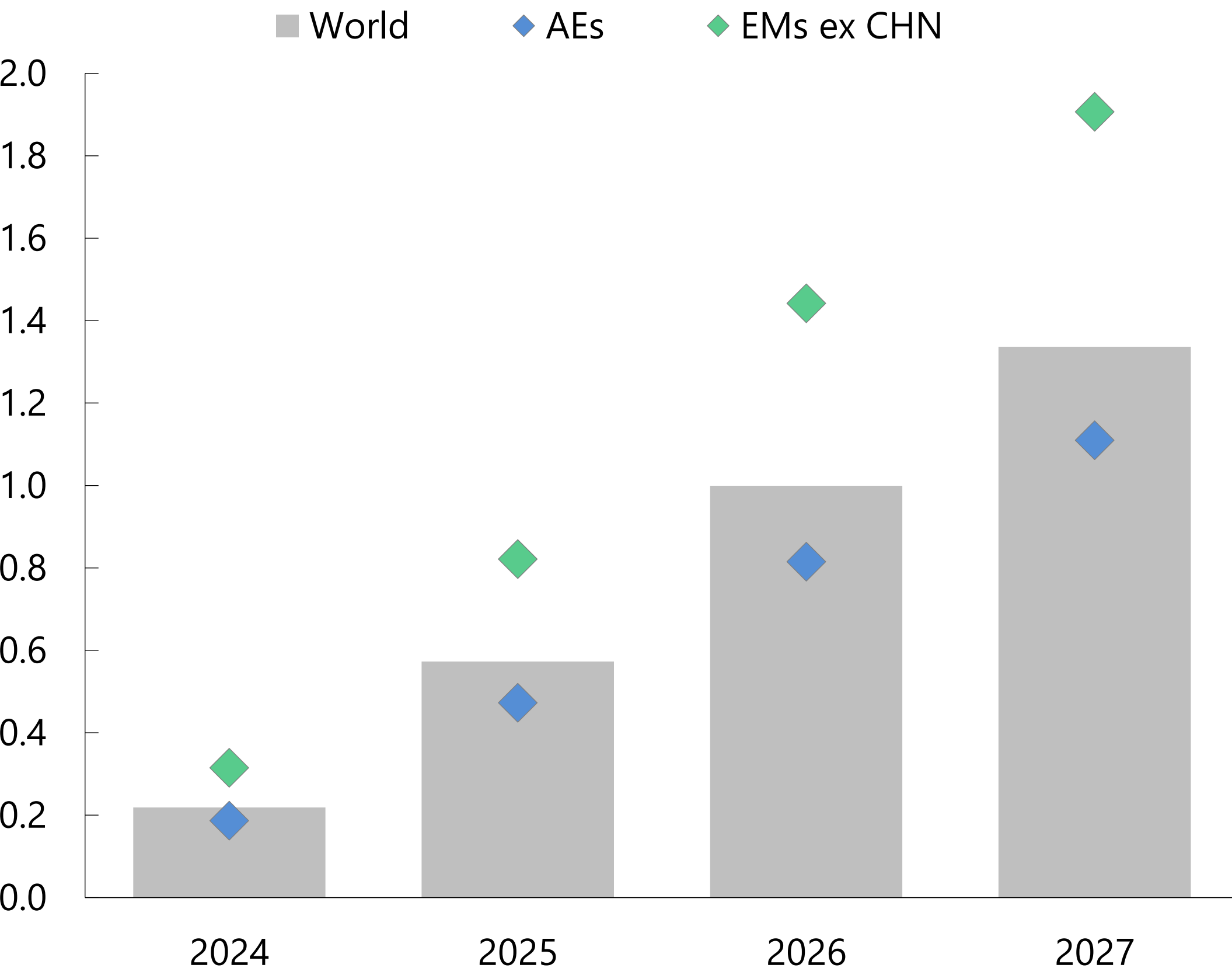
Downside Scenarios 1/

(percent difference in baseline GDP level)



Upside scenario: Faster healing 2/

(percent difference in baseline GDP level)



Sources: Haver Analytics; IMF, *World Economic Outlook*; and IMF staff calculations.

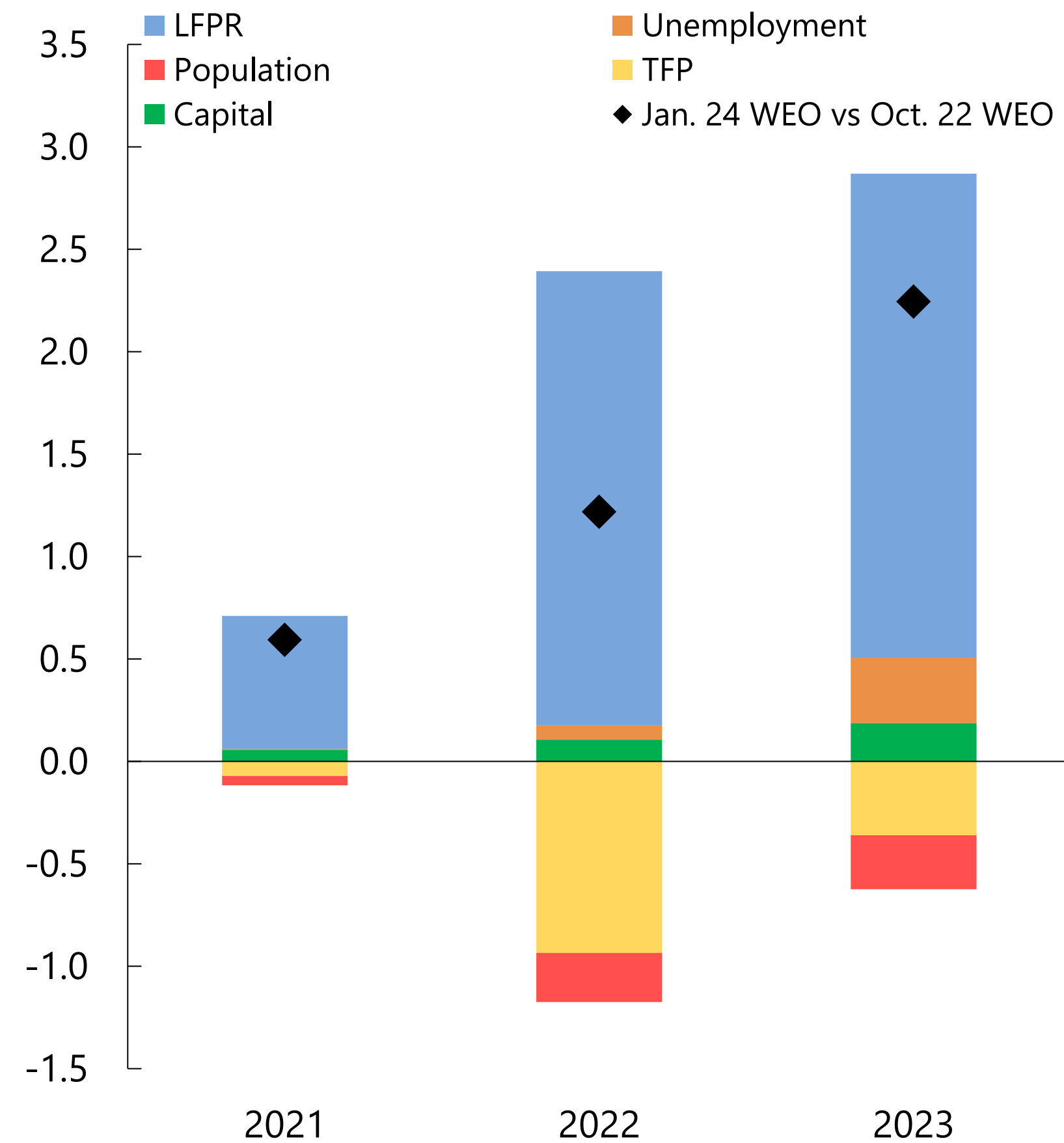
1/ Divergence scenario assumes US domestic demand increasing by 1.5 percent in 2024 relative to baseline, while domestic demand decreases by 0.5 percent in Japan and 1 percent in the euro area in 2024. This leads to tighter monetary policy in the US and looser in the euro area—while monetary policy in Japan is unchanged. With US policy rates 70 basis points higher than baseline in 2024, global financial conditions tighten unexpectedly. Sovereign premiums in emerging markets and developing countries excluding China increase by 150 basis points in 2024–25; corporate premiums increase by 75 basis points.

2/ Scenario and results pertain to emerging market and developing economies excluding China. The scenario assumes country-specific improvements in total factor productivity help close the labor productivity gap by half relative to pre-pandemic forecasts: For the median G20 country, total factor productivity increases by about 2 percent over this period. Labor force participation also improves over the same period, fully closing the gap that opened through COVID-19, back to the pre-pandemic trend—and implying a 0.7 percentage point increase in labor force participation for the median G20 country.

Faster Healing in Train: EMs Resilient Amid Changing Global Tide

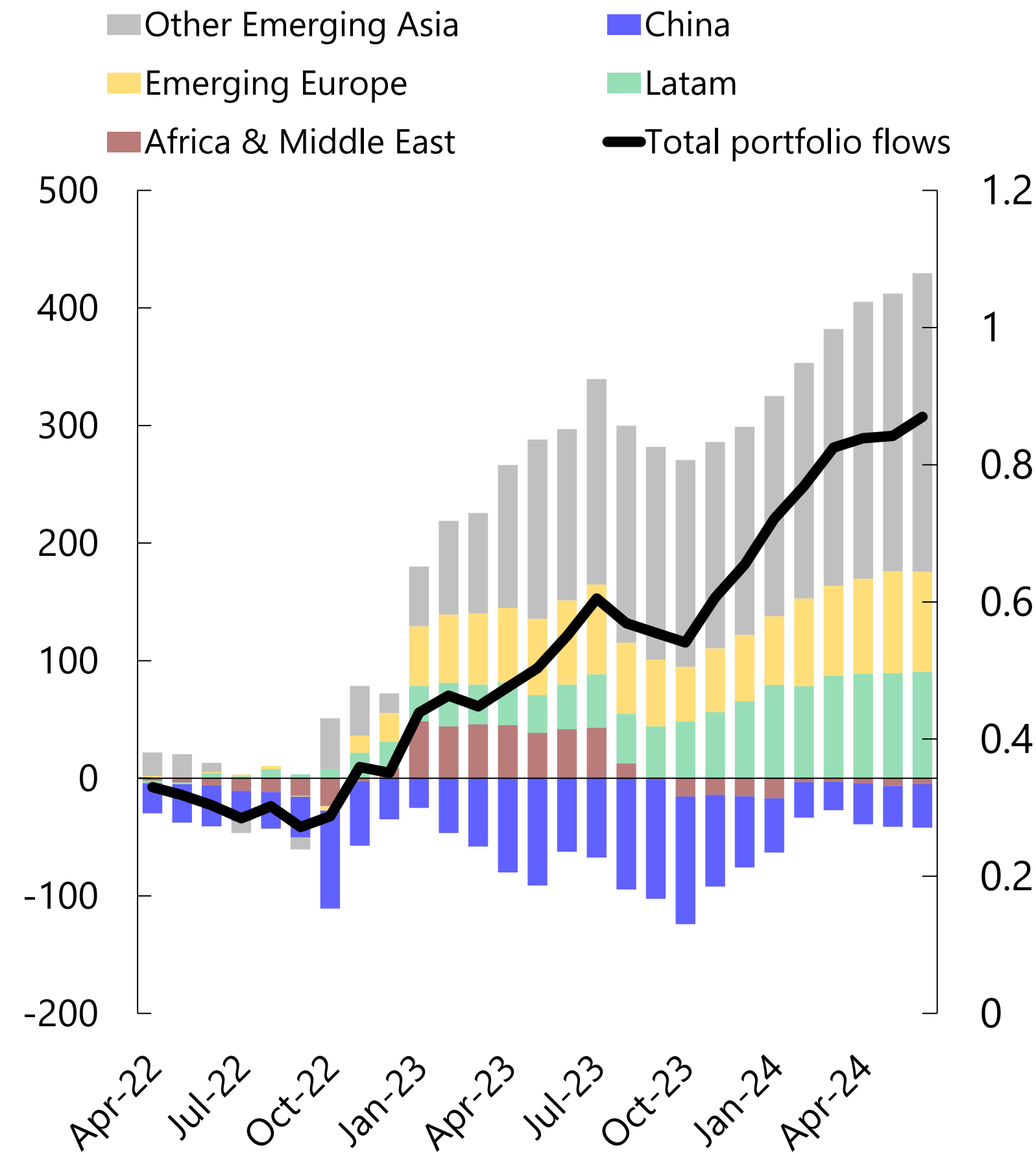
EM (ex. China) GDP level

surprises 1/ (percentage points; Jan. 24 WEO vs Oct. 22 WEO)

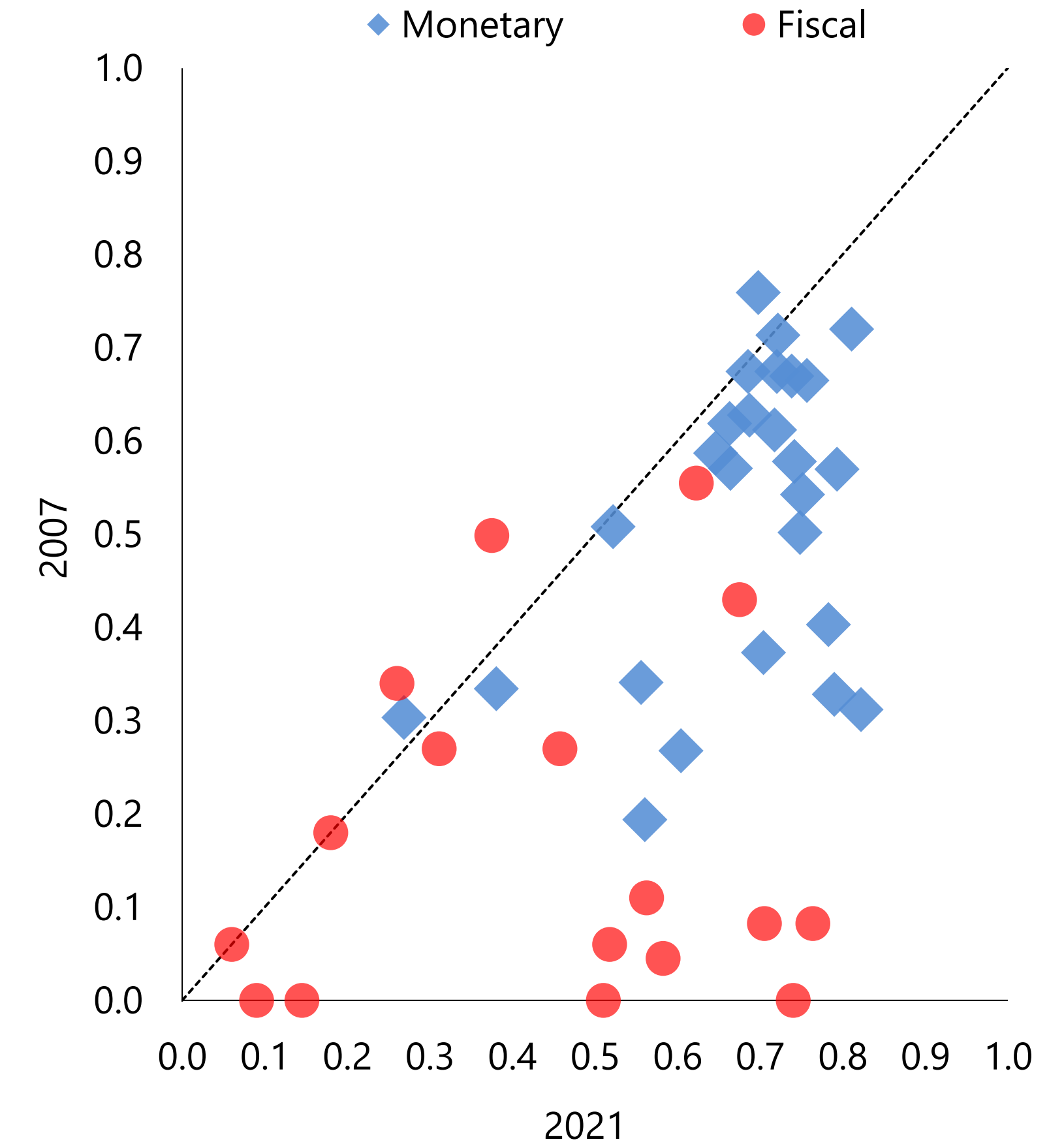


MP tightening: EMs net capital flows

(USD billion; cumulative; March 2022 = 0)



EM fundamentals: Monetary and fiscal policy frameworks 2/



Sources: Bloomberg Finance, L.P.; CEIC; Davoodi and others (2022); Haver Analytics; IIF; IMF, *Balance of Payments and World Economic Outlook*; Penn World Table (PWT) 10.0, *Unsal, D.F., and others. (2022)*; and IMF staff calculations.

1/ Cobb-Douglas production function decomposition of EM output surprises. Capital stock estimated using 2019 capital stock and depreciation rate from PWT and WEO investment projections. Labor contribution based on WEO employment forecasts, decomposed into population size, unemployment rate, and participation rate. 2021 decomposition reflects historic data revisions.

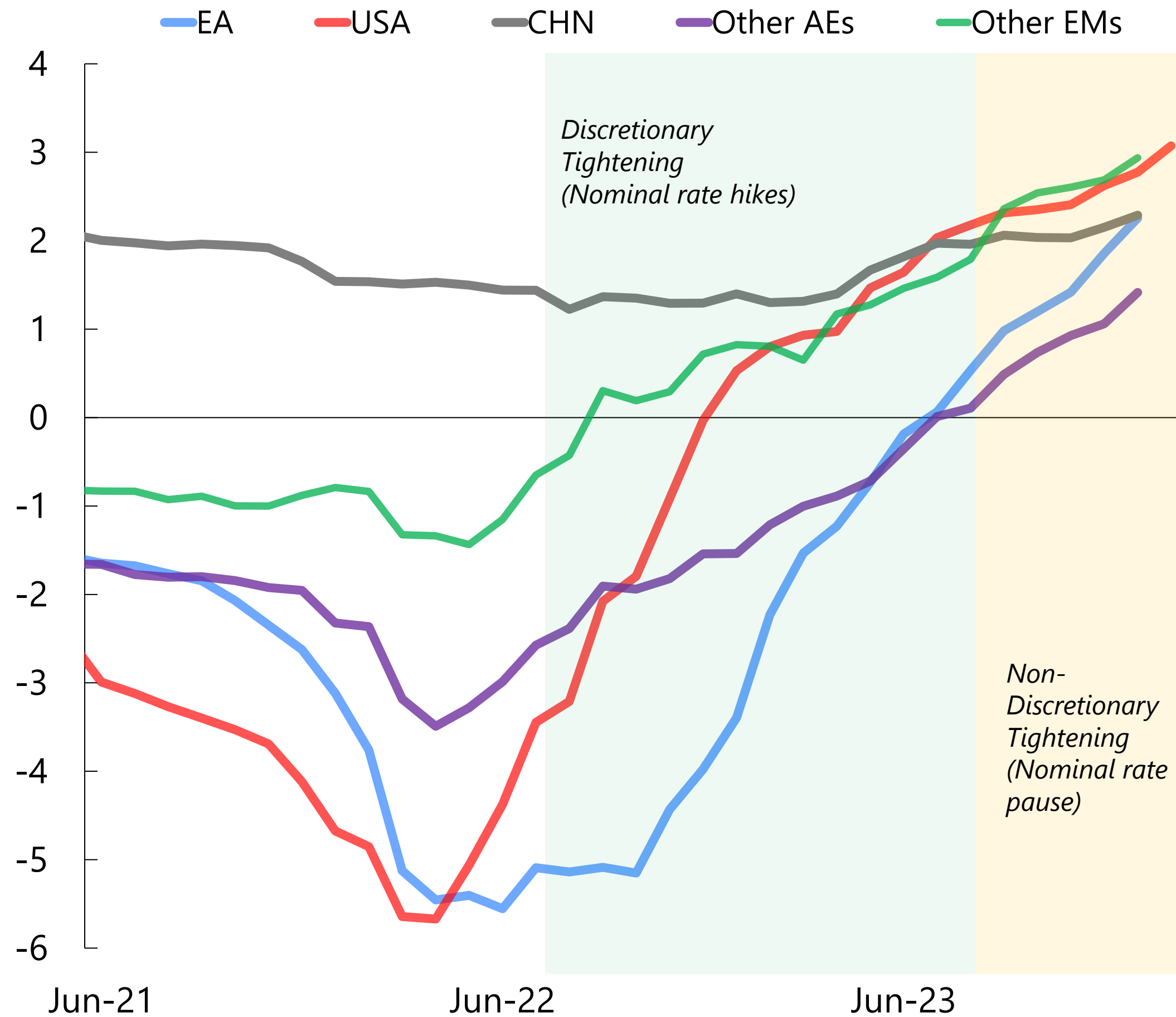
2/ Sample of 26 EMs. A higher score on the monetary policy and fiscal policy framework indicates improvement. Fiscal frameworks are defined using the strength of fiscal rules, based on four institutional criteria: i) legal basis, ii) presence of a monitoring mechanism, iii) enforcement and correction mechanism in place, and iv) flexibility and resilience against shocks. Monetary policy framework based on the IAPOC index (Independence and Accountability, Policy and Operational Strategy, and Communications). A zero value for fiscal in the x-axis line means the country had no fiscal rule in place in 2007.

#2 Policies

Divergent Outlooks Call for Differentiated Calibration of Monetary Policy

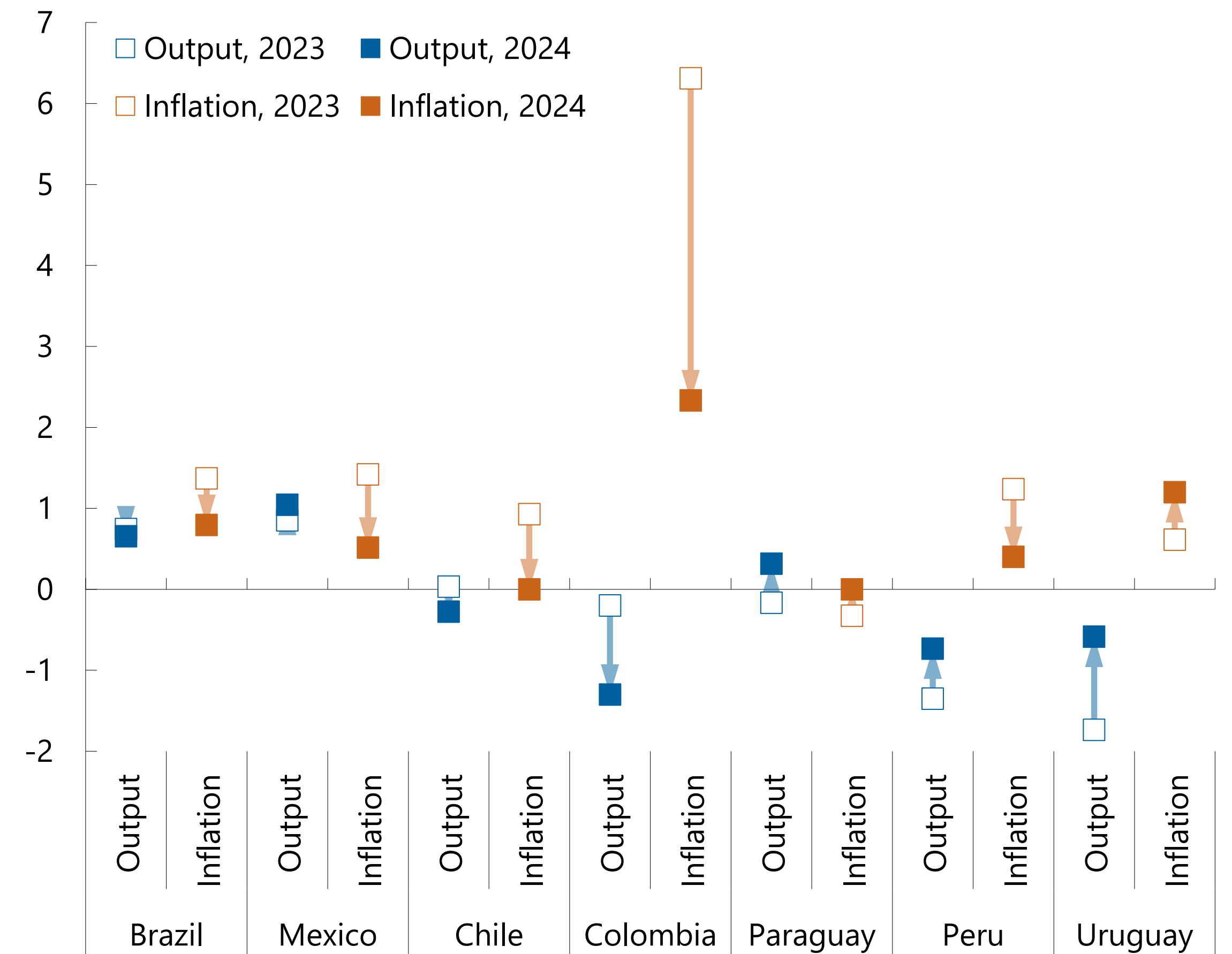
Real rates 1/ (percent)

(percent)



Output Gap and Inflation Gap 2/ (Percent)

(Percent)



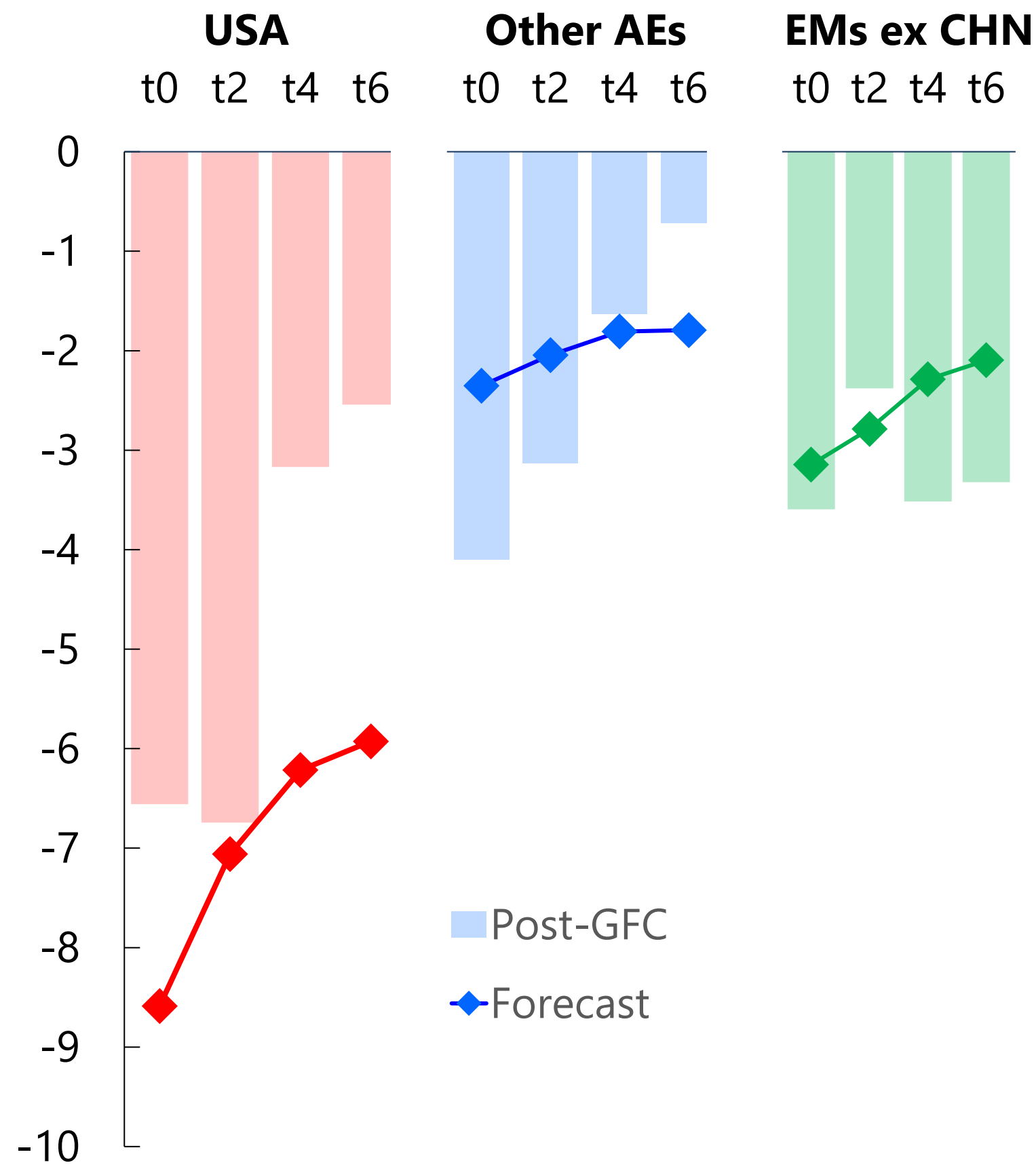
Sources: Haver Analytics; Bank of International Settlements; IMF, *World Economic Outlook*; and IMF staff calculations.

1/ Sample includes 16 AEs and 65 EMDEs. Aggregates are medians. Real rates are calculated by subtracting the 12 month-ahead consensus inflation expectations from nominal policy rates. Other AEs excludes USA, EA, and JPN.

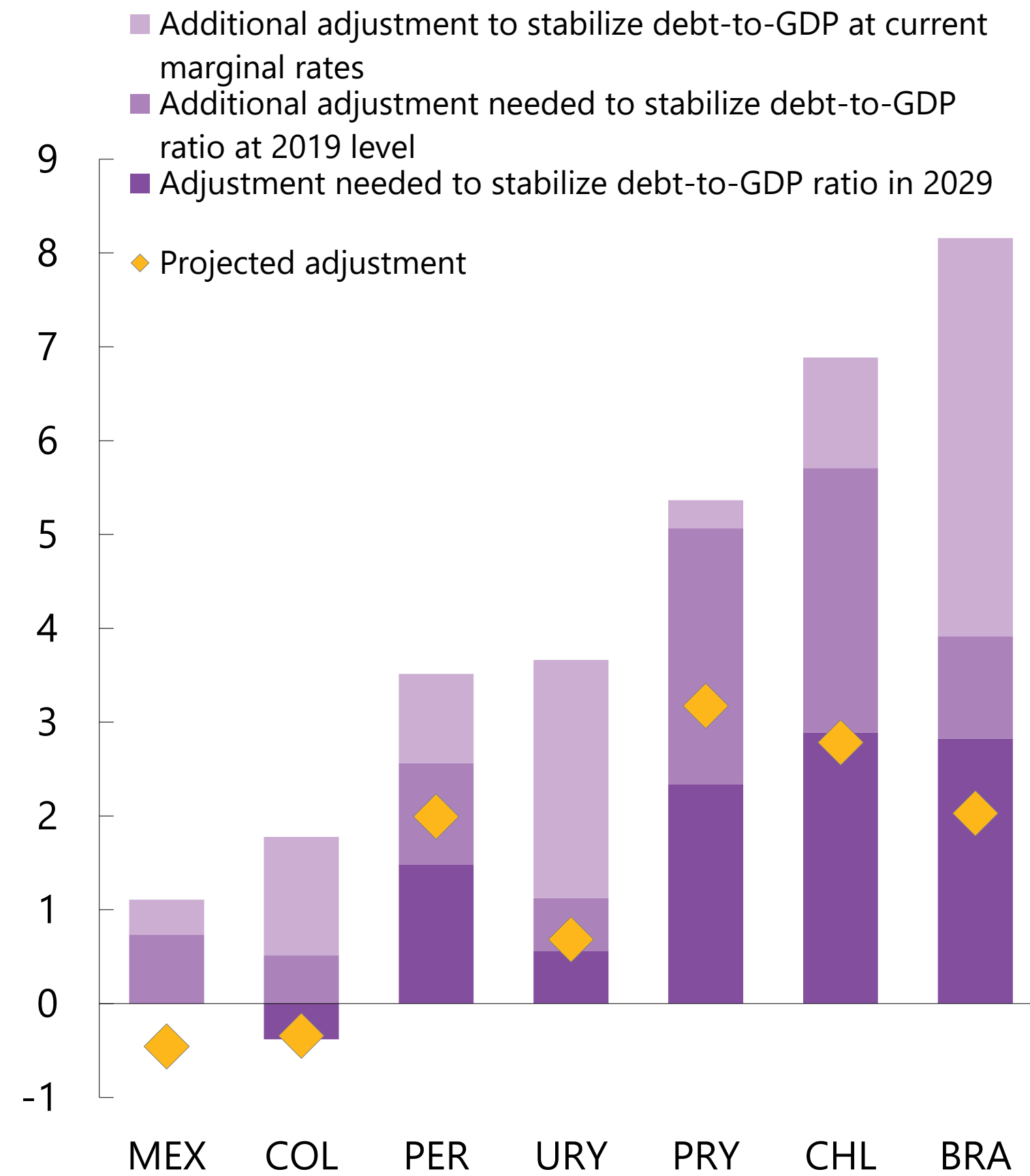
2 /Inflation gap is the deviation of end-of-period inflation from the inflation target.

Restocking the Fiscal Arsenal is the most Pressing Priority as Policy Mix Binds

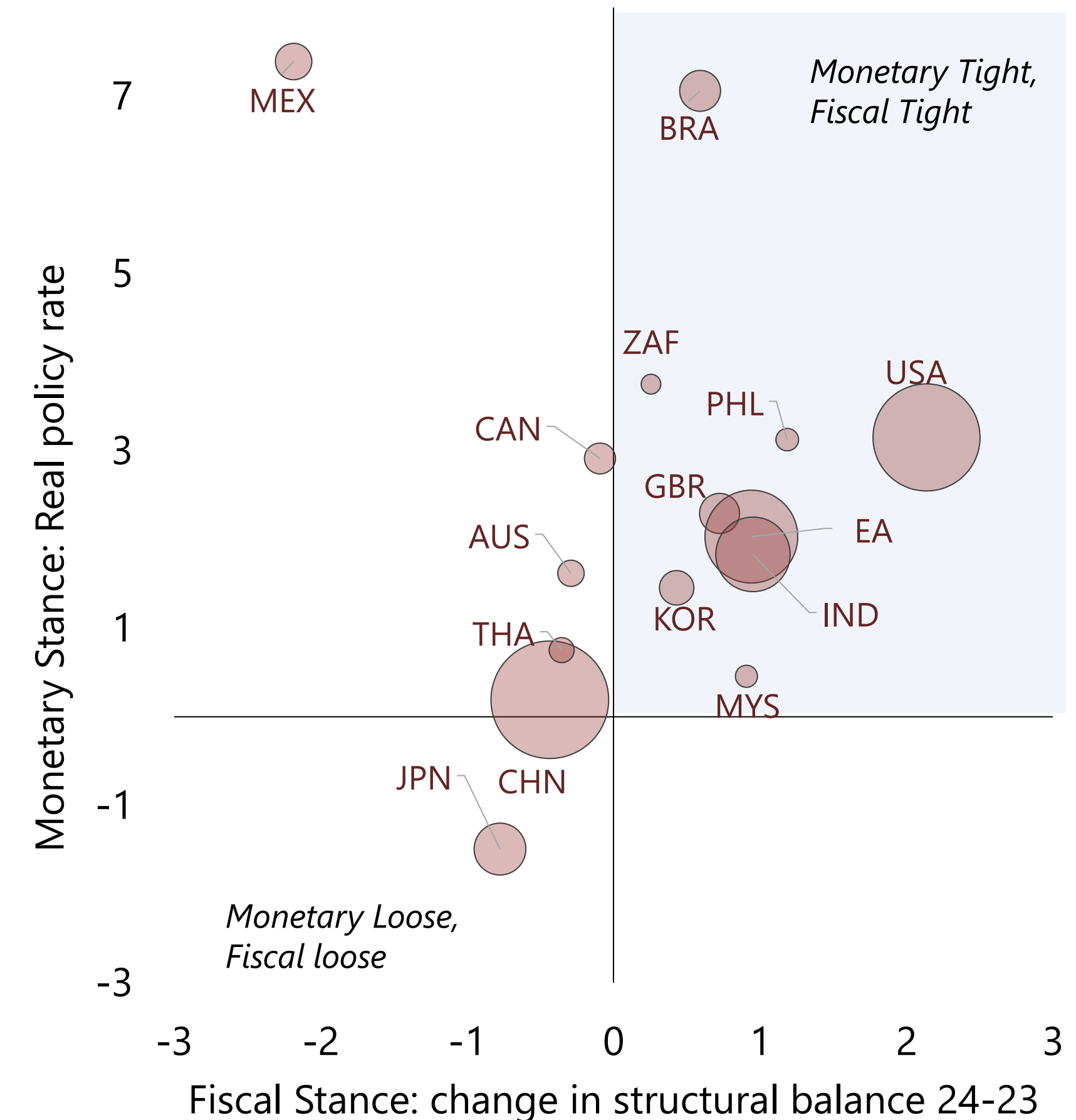
Structural adjustment path – Current vs post-GFC 1/ (percent of potential GDP; t0=2023 or 2009)



Medium-term Fiscal Adjustment 2/ (Cumulative rise in primary fiscal balance-to-GDP ratio between 2023 and 2029; percentage points)



Monetary and fiscal policy mix 3/ (real rate and change in structural balance 2024-23)



Sources: Haver Analytics; Bloomberg Finance L.P.; IMF, *World Economic Outlook*; and IMF staff calculations.

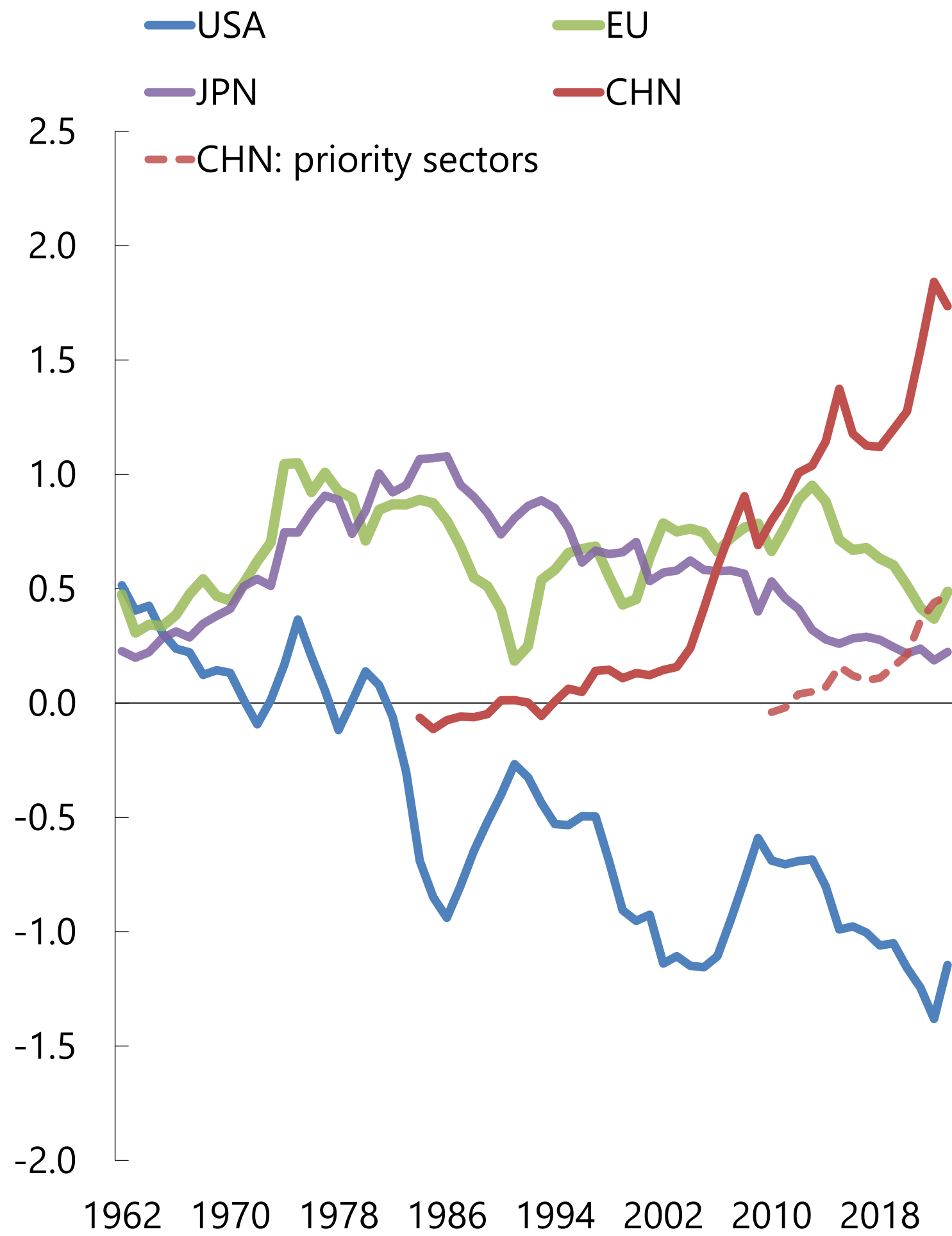
1/ Solid lines represent the realized structural balance over 2009-2015. Bars represent projected structural balances over 2023-2029, taken from April 2024 WEO projections. For each group, country group average shown.

2/ Projected adjustment is the difference in PB between 2029 and 2023. The adjustment needed to stabilize debt-to-GDP in 2029 is the debt-stabilizing PB in 2029 minus the PB in 2023. Additional adjustment required to stabilize debt-to-GDP in 2029 at the level of 2019 is the additional increase in the PB so that debt-to-GDP reaches the level of 2019 (starting in year 2029, 5-year horizon). Additional adjustment at current marginal rates is the further increase in PB in the case in which all debt in 2029 is subject to current marginal rates (i.e., interest rates on domestic and foreign currency-denominated debt as of April 2, 2024, applied to the corresponding debt instruments).

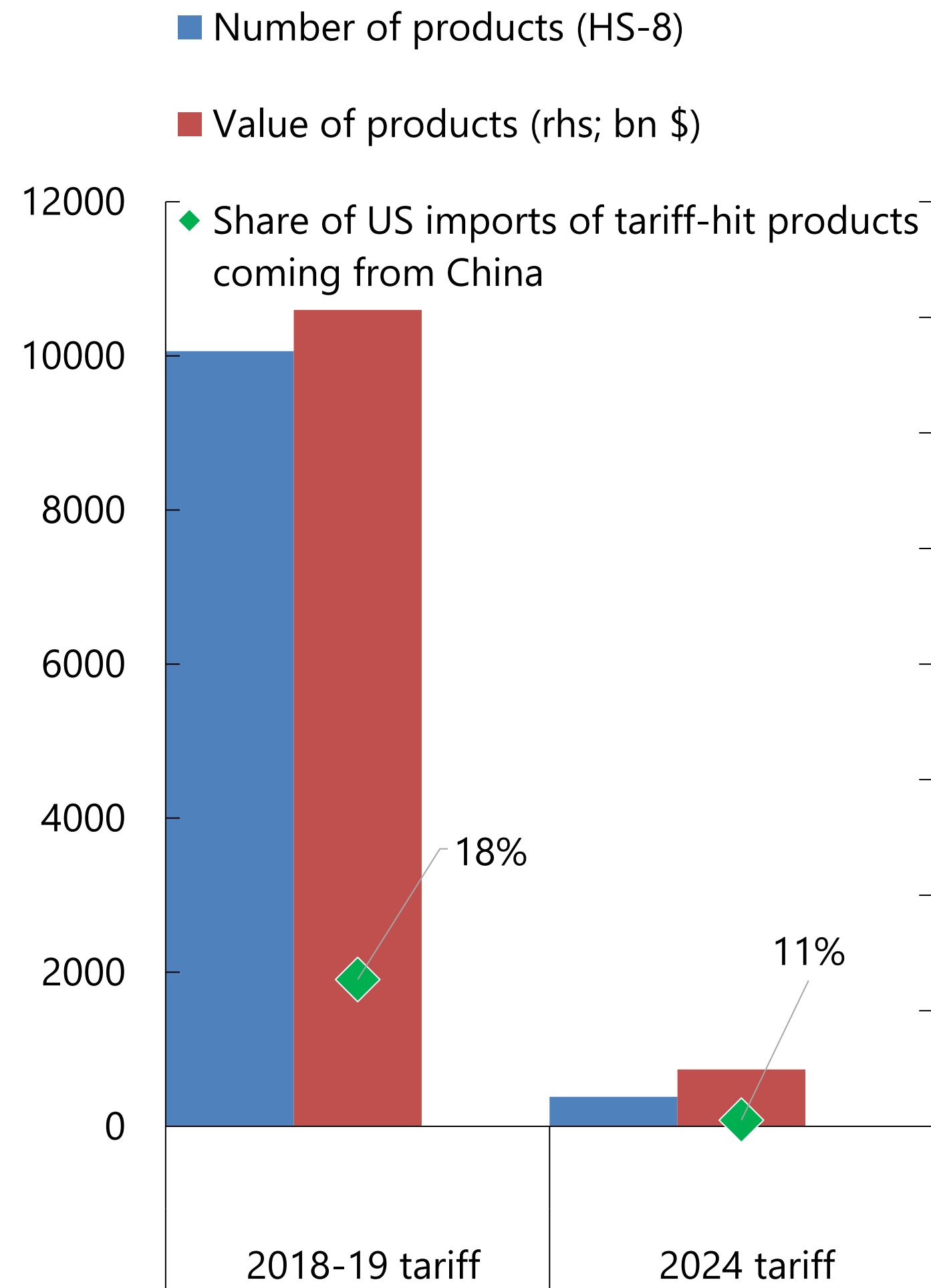
3/ Real rate is current policy rate deflated by 1-year ahead inflation expectations; structural primary balance is expressed as percent of potential GDP. Bubble size is scaled based on PPPGDP weights.

Costs from rising trade tensions need to be mitigated

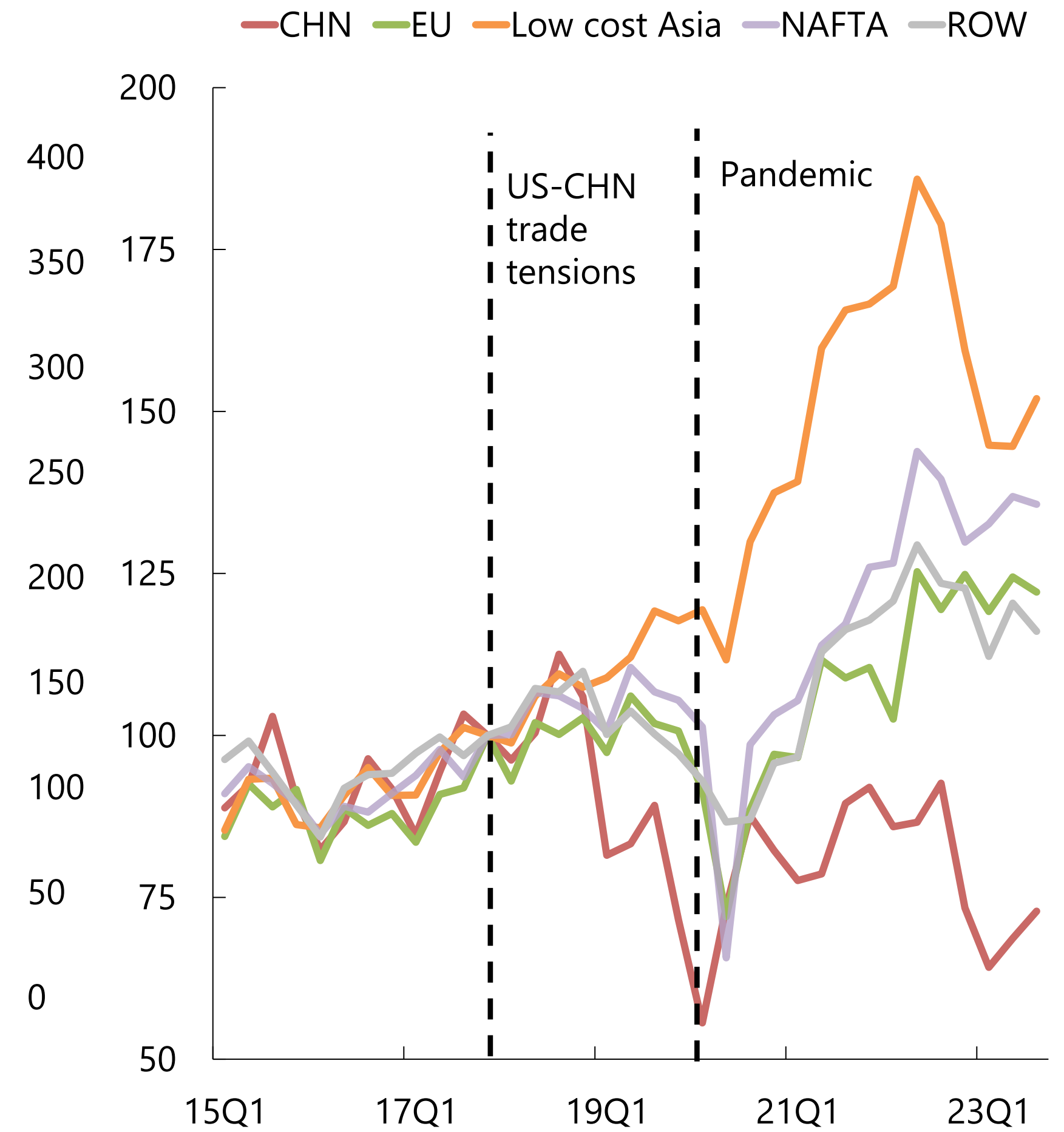
Manufactured goods surplus 1/
(percent of global GDP)



2018-19 tariffs vs 2024 tariffs
(number)



US imports of products hit by the 2018-19 tariffs 2/
(values; 2017:Q4=100)



Sources: UN Comtrade; Trade Data Monitor; and IMF staff calculations.

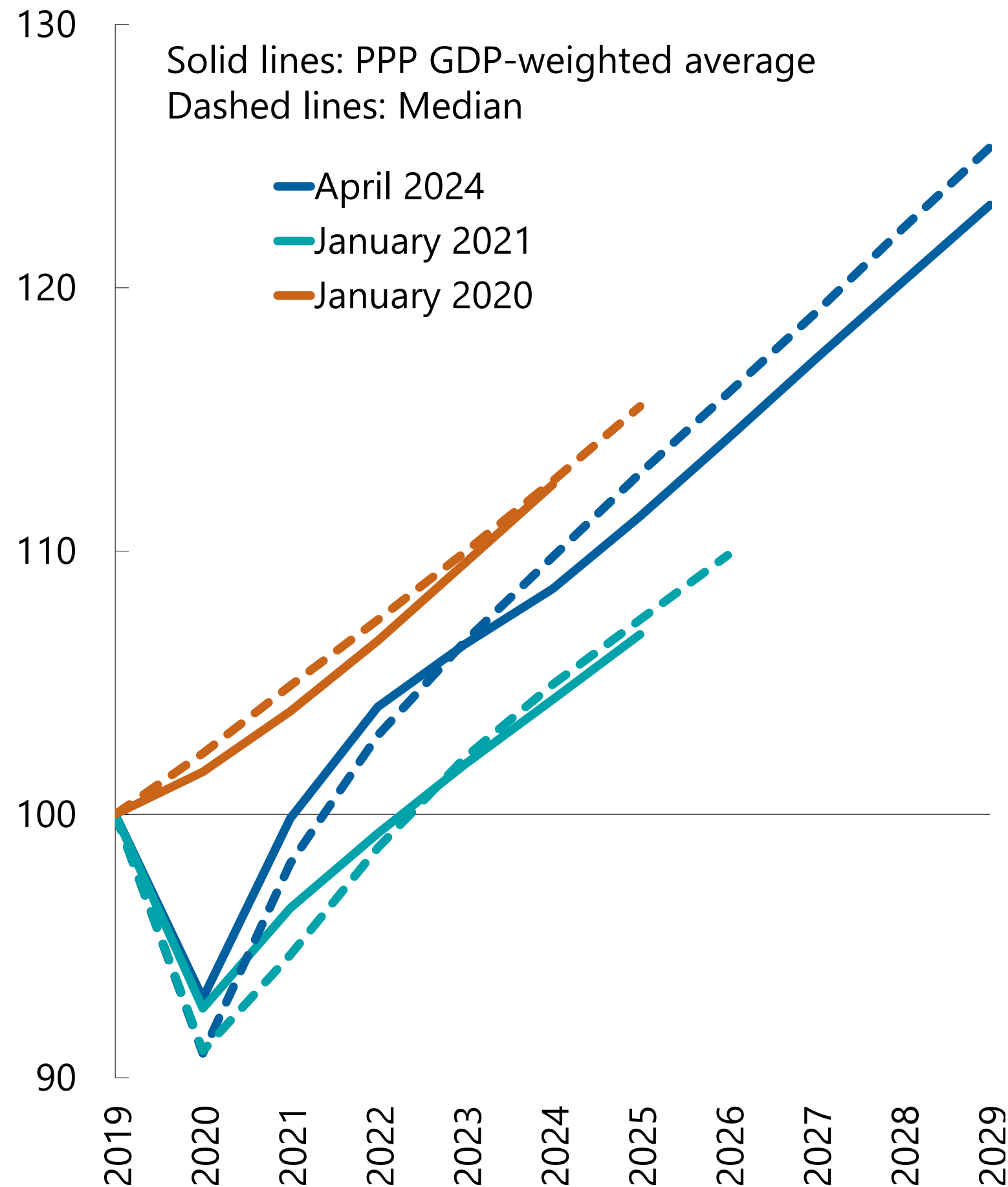
1/ Priority sectors based on 'Made-in-China 2025' strategy and comprise medical instruments, other machinery, other transport equipment, chemicals, electrical machinery and autos.

2/ Low-cost Asia includes Bangladesh, Cambodia, Hong Kong SAR, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan Province of China, Thailand, and Vietnam.

Uplifting growth potential: Despite resilience LAC MT growth looks bleak...

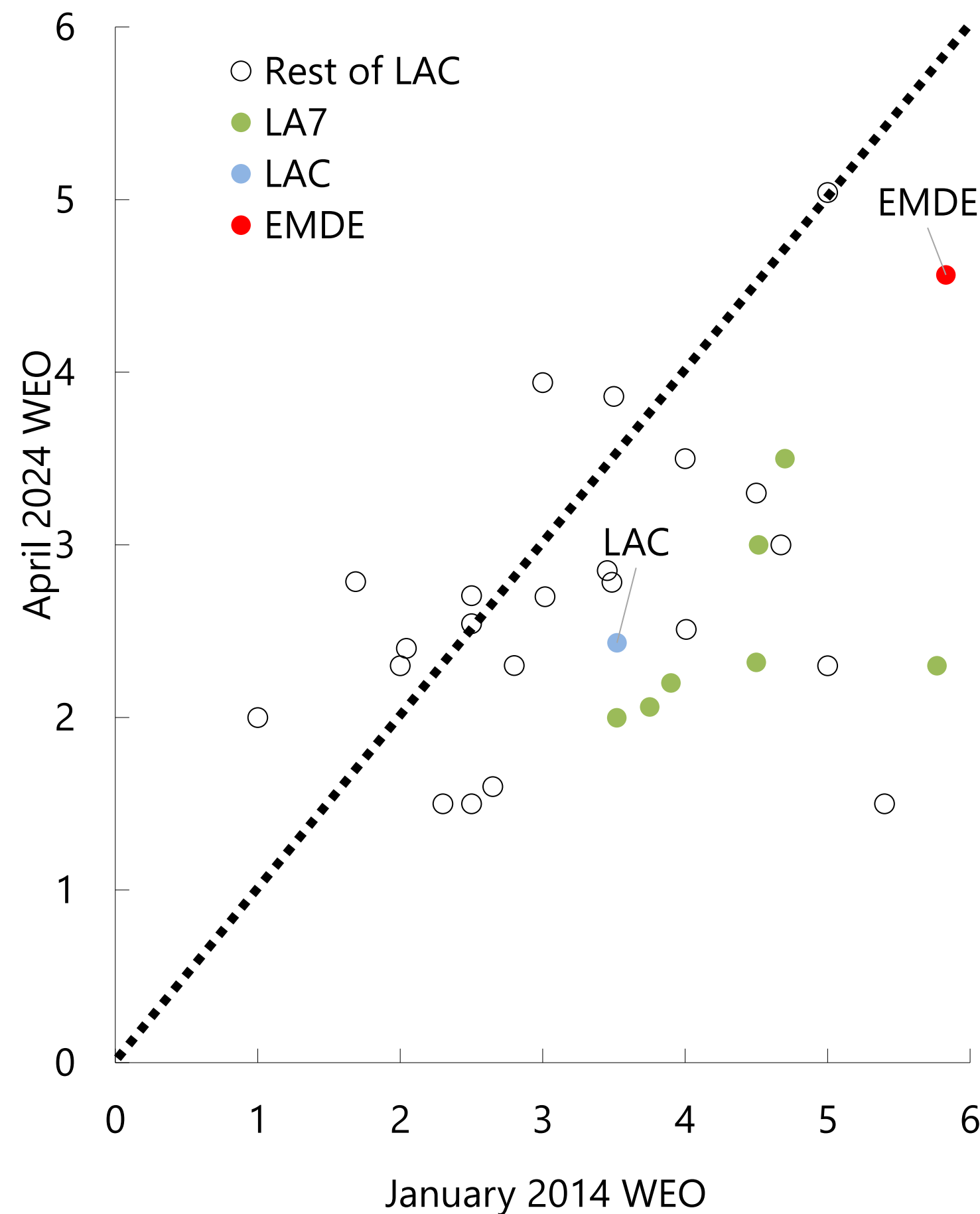
LAC: Real GDP by WEO Vintage 1/

(Index: 2019 = 100)



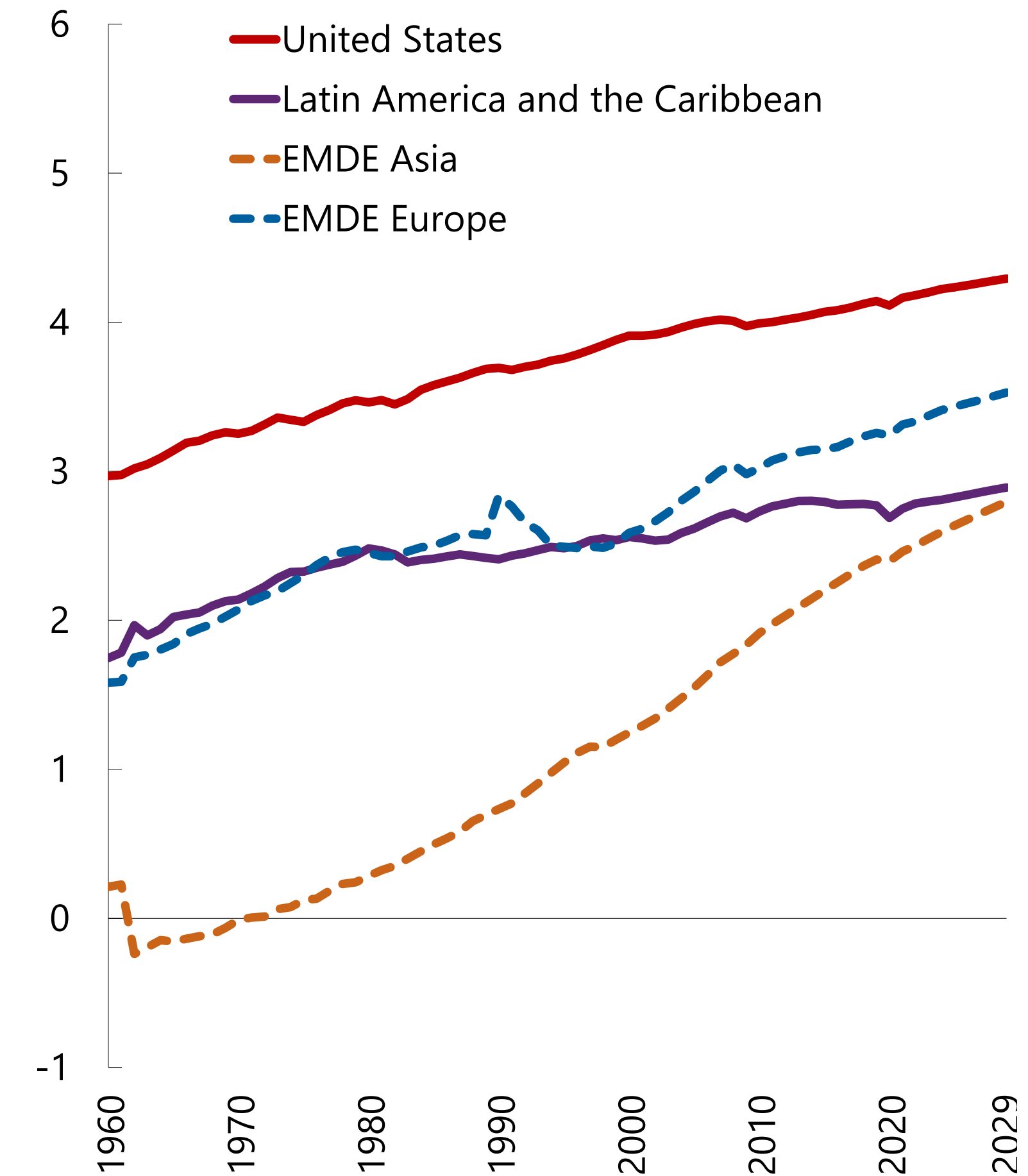
LAC: Medium-term Growth 2/

(percent change, yoy)



Real GDP per Capita 3/

(Logs; thousands of PPP 2017 international dollars)



Sources: Haver Analytics; IMF, *World Economic Outlook* database; and IMF staff calculations.

1/ LAC = Latin America and the Caribbean; PPP = purchasing-power-parity.

2/ April 2024 vintage refers to 2029; January 2014 vintage refers to 2019. Excludes Guyana (outlier); and Venezuela (data limitations). EMDE = emerging and developing economies (excludes LAC and China); LA7 = Latin America 7; LAC = Latin America and the Caribbean.

3/ Aggregates are purchasing-power-parity GDP-weighted averages. EMDE = emerging market and developing economies; PPP = purchasing power parity.

Labor growth will hinge on raising participation rates especially among women

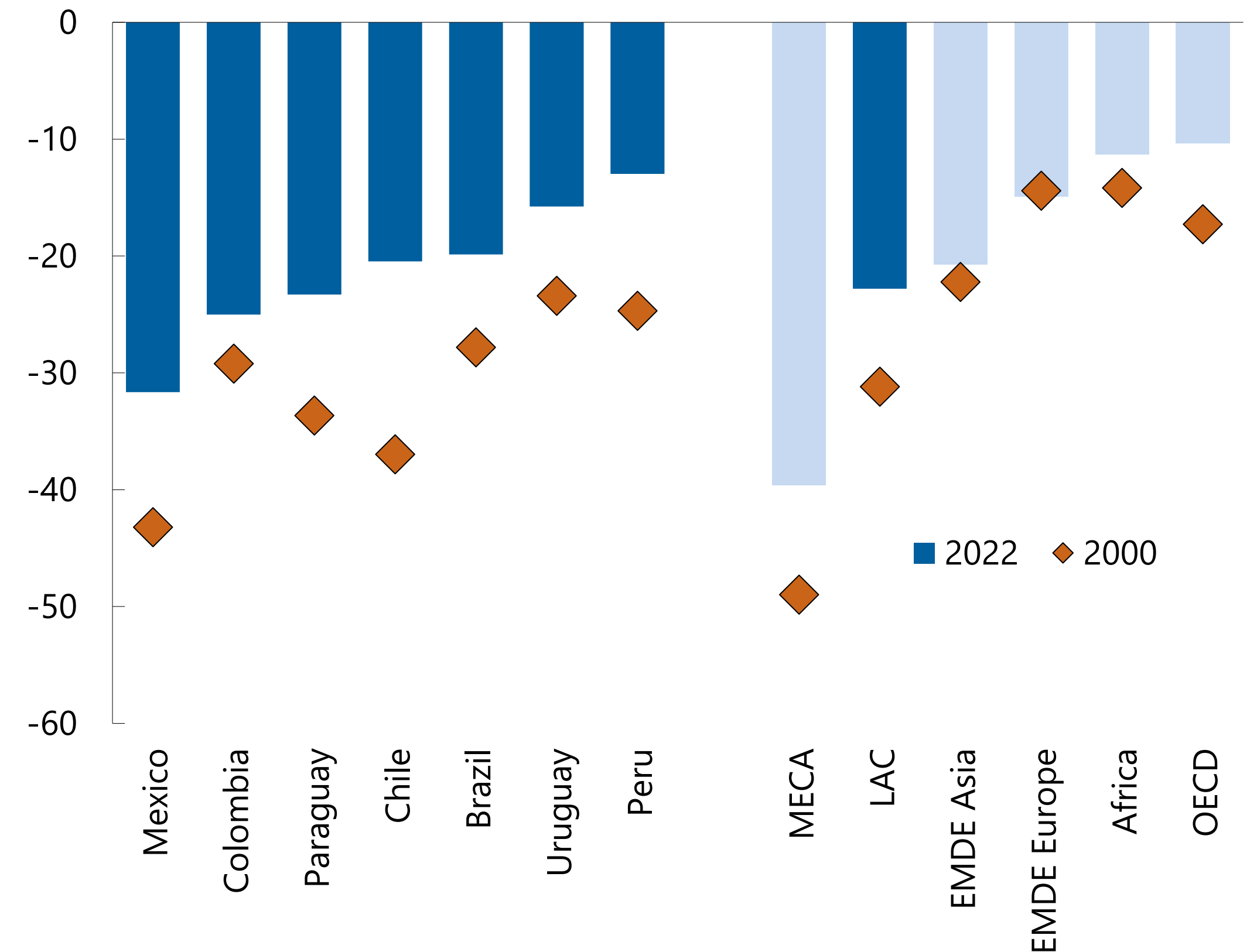
LA7: Contributions to Labor Growth 1/

(Percent change, yoy)



Labor Force Participation Rate Gap 2/

(Percentage points; gap = female minus male)



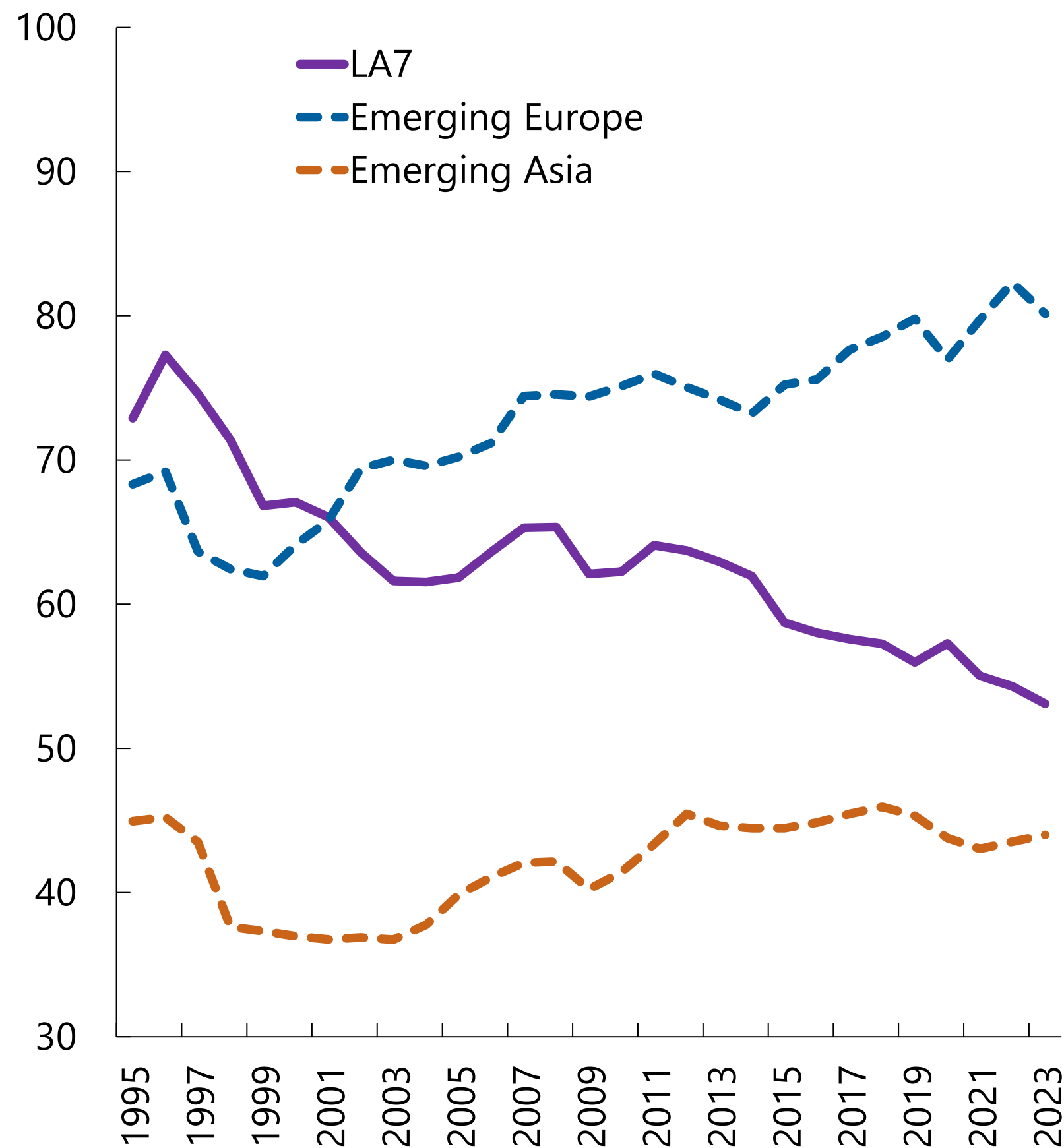
Sources: World Bank; Population Estimates and Projections database; IMF, *World Economic Outlook* database; IMF, Gender Data Hub; International Labour Organization and IMF staff calculations.

1/ Purchasing-power-parity GDP- weighted average. LA7 excludes Paraguay due data limitations. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

2/ Aggregates are medians. Data are based on 15+ years age group modeled ILO estimates. Africa = Sub-Saharan Africa; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean; MECA = Middle East and Central Asia; OECD = Organisation for Economic Co-operation and Development.

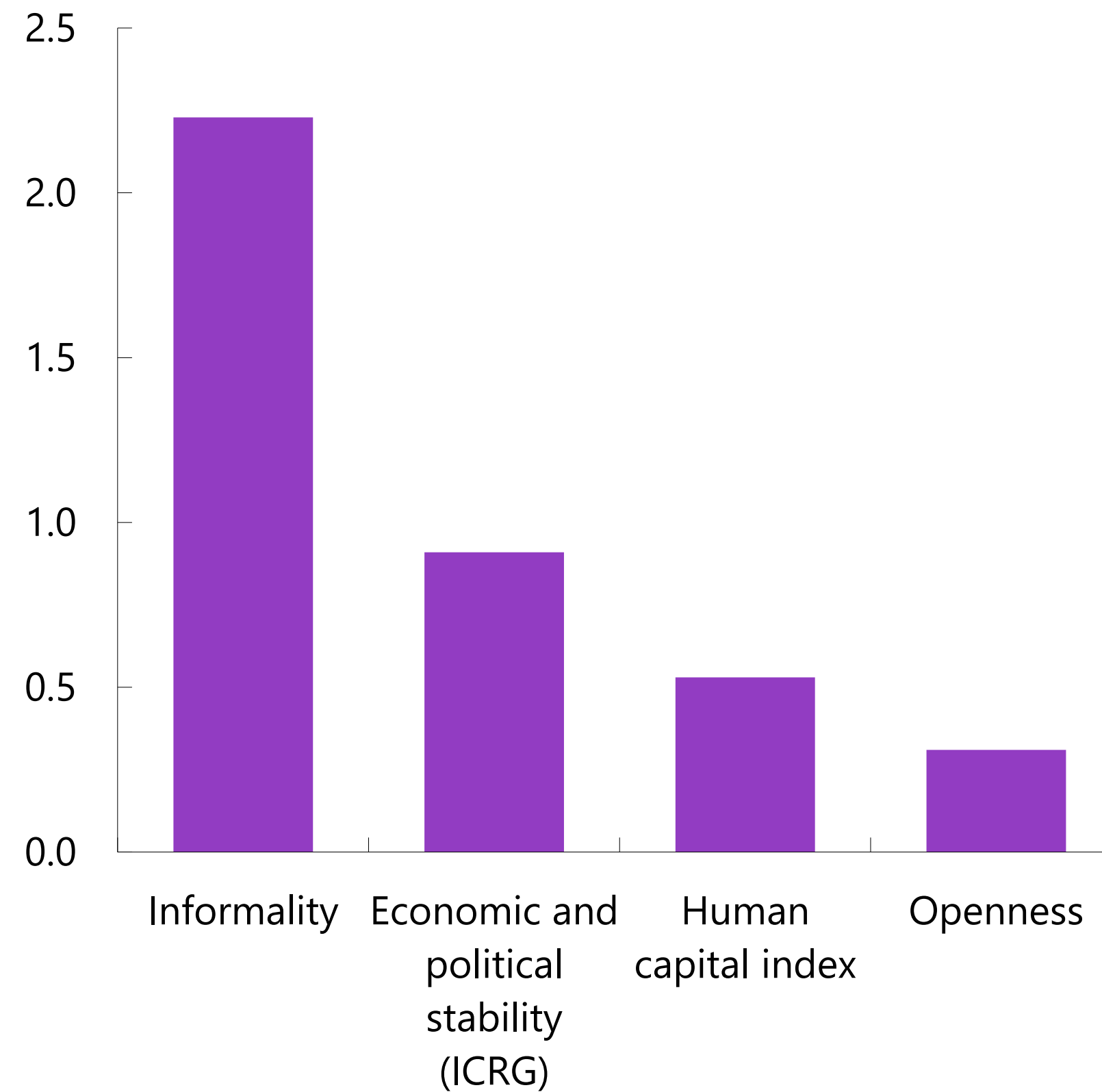
Total factor productivity growth continues to disappoint

Total Factor Productivity Relative to the US 1/ (Percent)

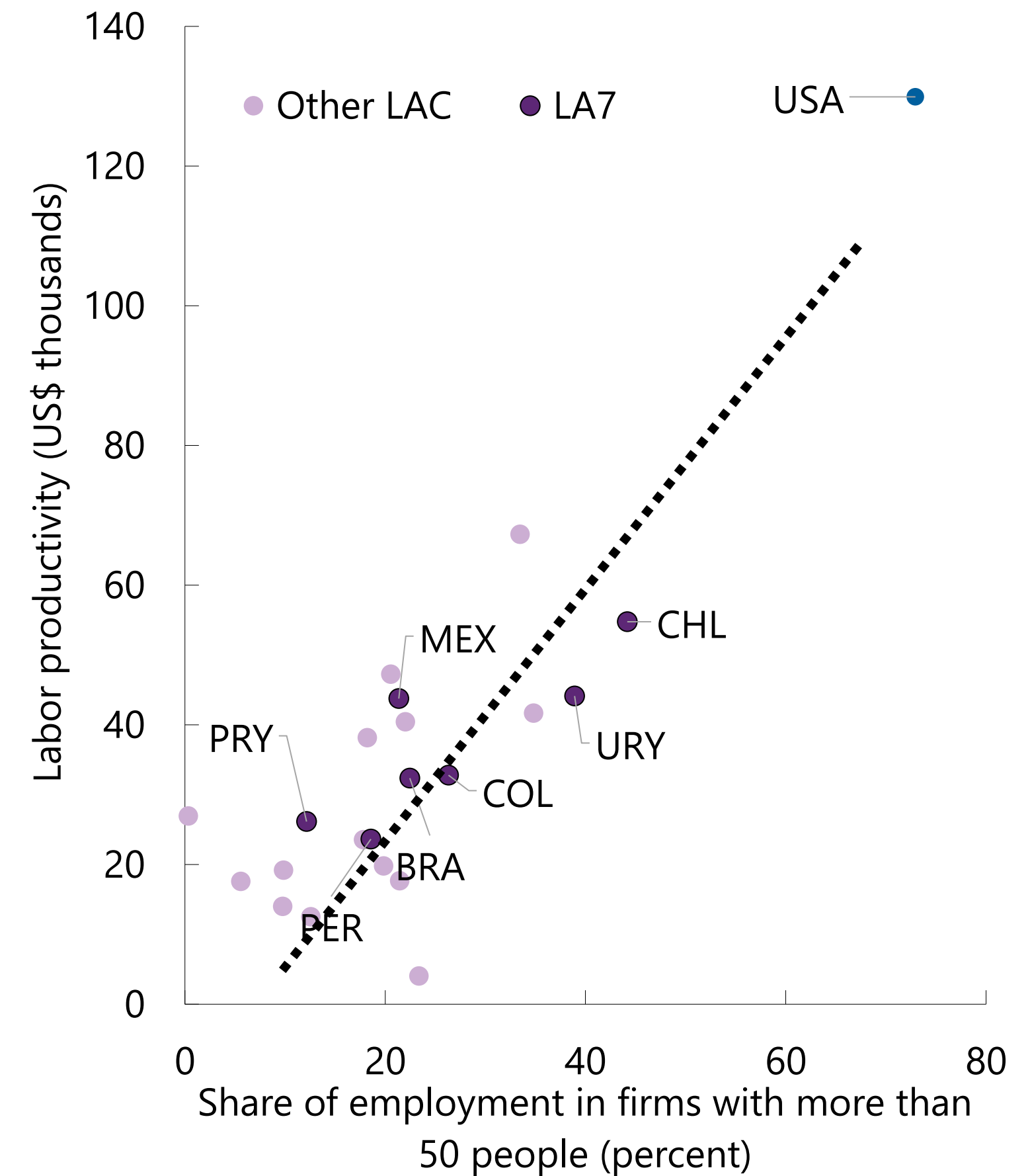


Potential Impact on LAC's TFP Growth from Improvements in Key Correlates 2/

(From LAC mean to 75th percentile of EMDE distribution)



Labor Productivity versus Firm Size 3/



Sources: Penn World Table 10.0 database; IMF, *World Economic Outlook* database; "Productivity in Latin America and the Caribbean: Recent Trends and the COVID-19 Shock," Background Paper 3, October 2022 Regional Economic Outlook: Western Hemisphere; International Labour Organization; US Bureau of Labor Statistics; and IMF staff calculations.

1/ Purchasing-power-parity GDP-weighted averages. LA7 excludes Paraguay due to data limitations. EM Asia = IND, IDN, MYS, PHL, THA; EM Europe = BGR, EST, HUN, POL, ROU, SRB; LA7 = Latin America 7 (BRA, CHL, COL, MEX, PRY, PER, URY).

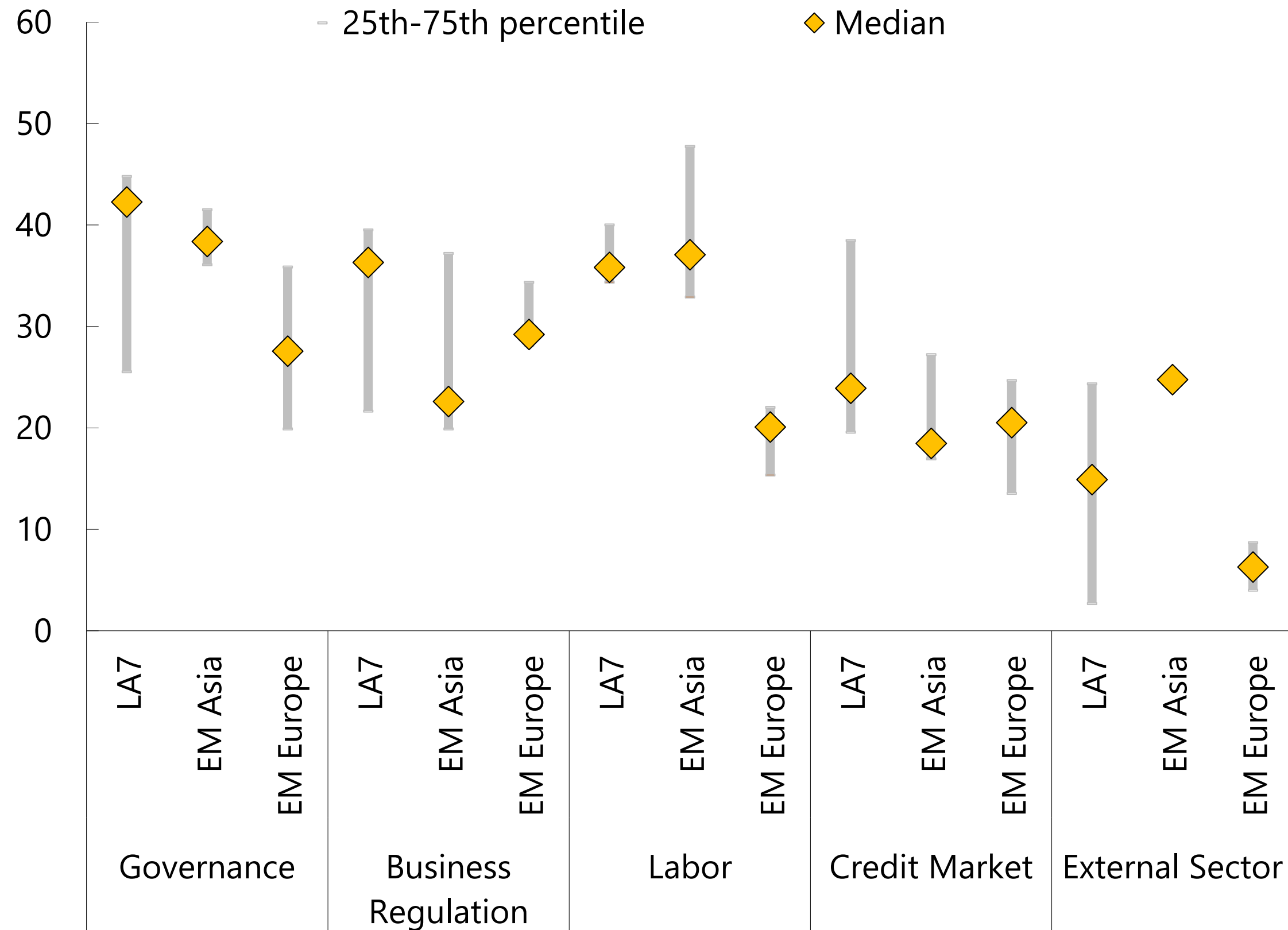
2/ LAC = Latin America and the Caribbean; TFP = total factor productivity.

3/ Labor productivity is calculated by dividing real GDP at constant 2017 national prices and employment from Penn World Tables; latest data is 2019. Firm size refers to latest available. LAC = Latin America and the Caribbean.

Structural reforms are needed to boost potential growth

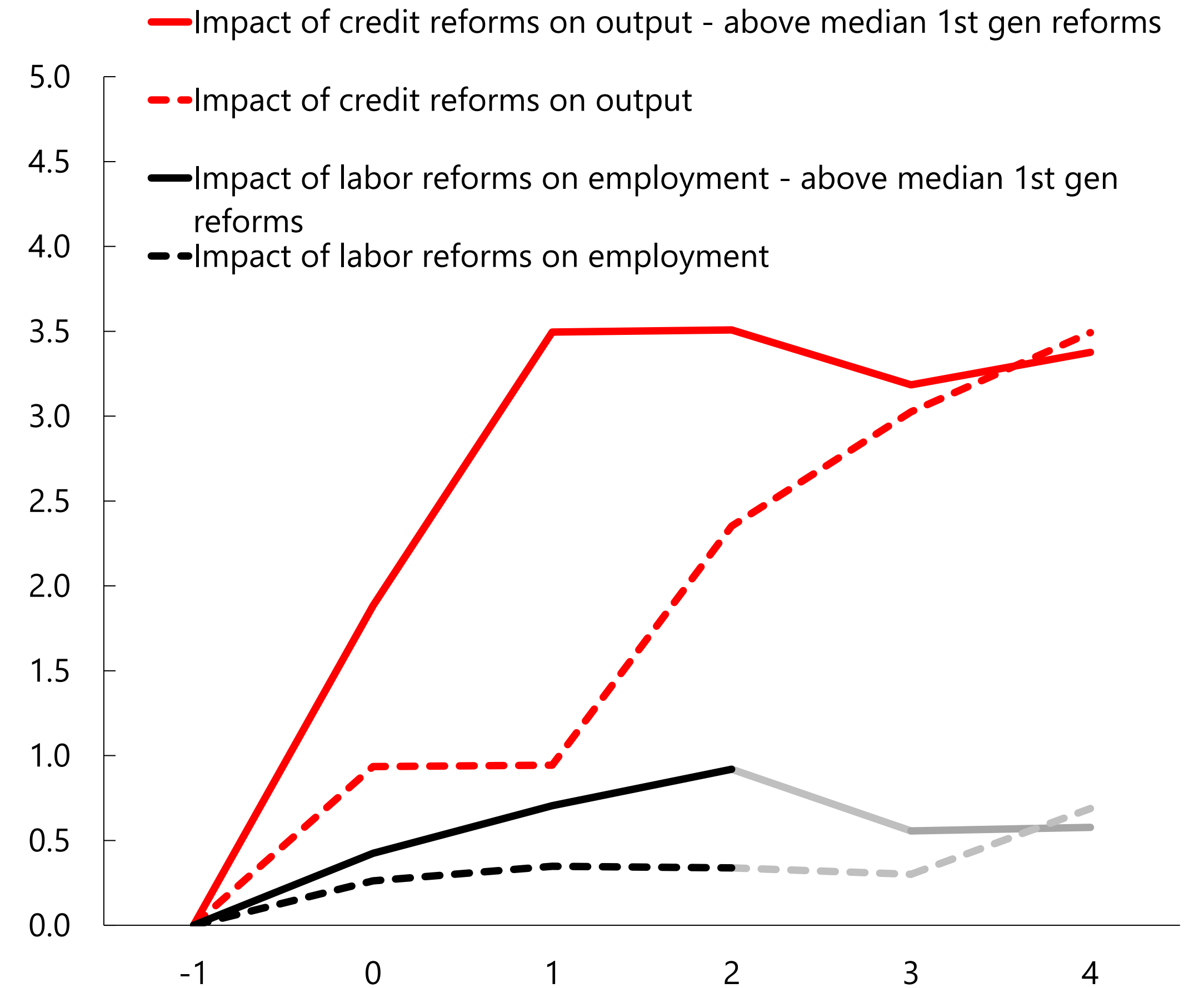
Gaps in Macrostructural Reforms, 2021 1/

(Relative to emerging market economies frontier; percent; larger gap indicates greater distance to frontier)



Impact of 2nd generation reforms 2/

(percent, output or employment)



Sources: Fraser Institute; ; Penn World Table; Pizzinelli and others (2023); World Bank; "Structural Reforms to Accelerate Growth, Ease Policy Trade-offs, and Support the Green Transition in Emerging Market and Developing Economies," Budina and others (2023); and IMF staff calculations.

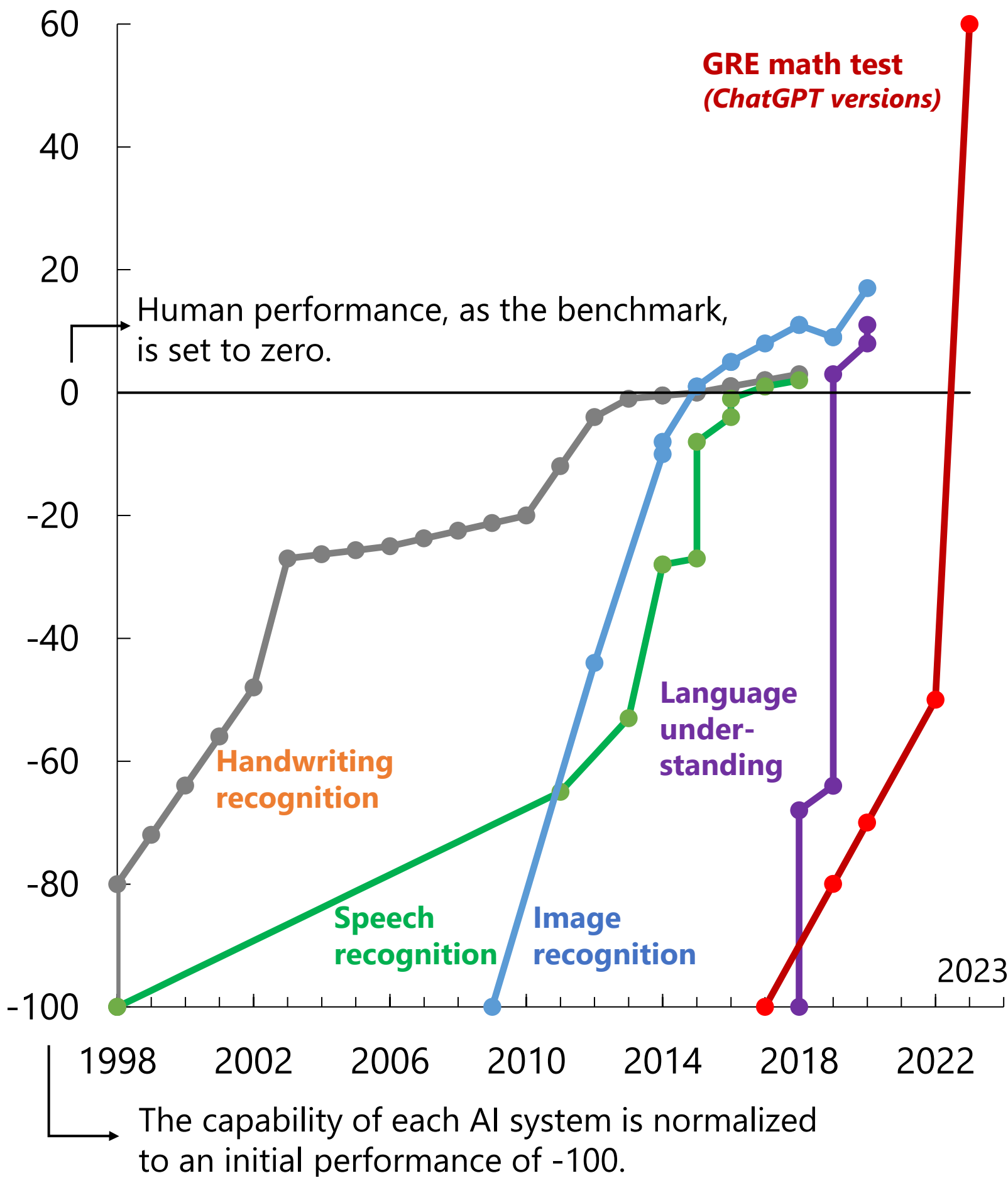
1/ Structural gaps are calculated as the deviation of each reform area from its frontier (best performer in the same year). Each reform indicator is normalized between 0 and 1 based on the sample. EM Asia = India, Indonesia, Malaysia, Philippines, Thailand; EM Europe = Bosnia and Herzegovina, Bulgaria, Hungary, Poland, Romania, Serbia; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

2/ 1st Generation Reform Index includes governance, business regulation, and external sector reforms. 2nd generation reforms include credit market, labor market reforms, and energy policies.

Productivity Gains Key for Growth Uplift: Preparedness for AI can Help

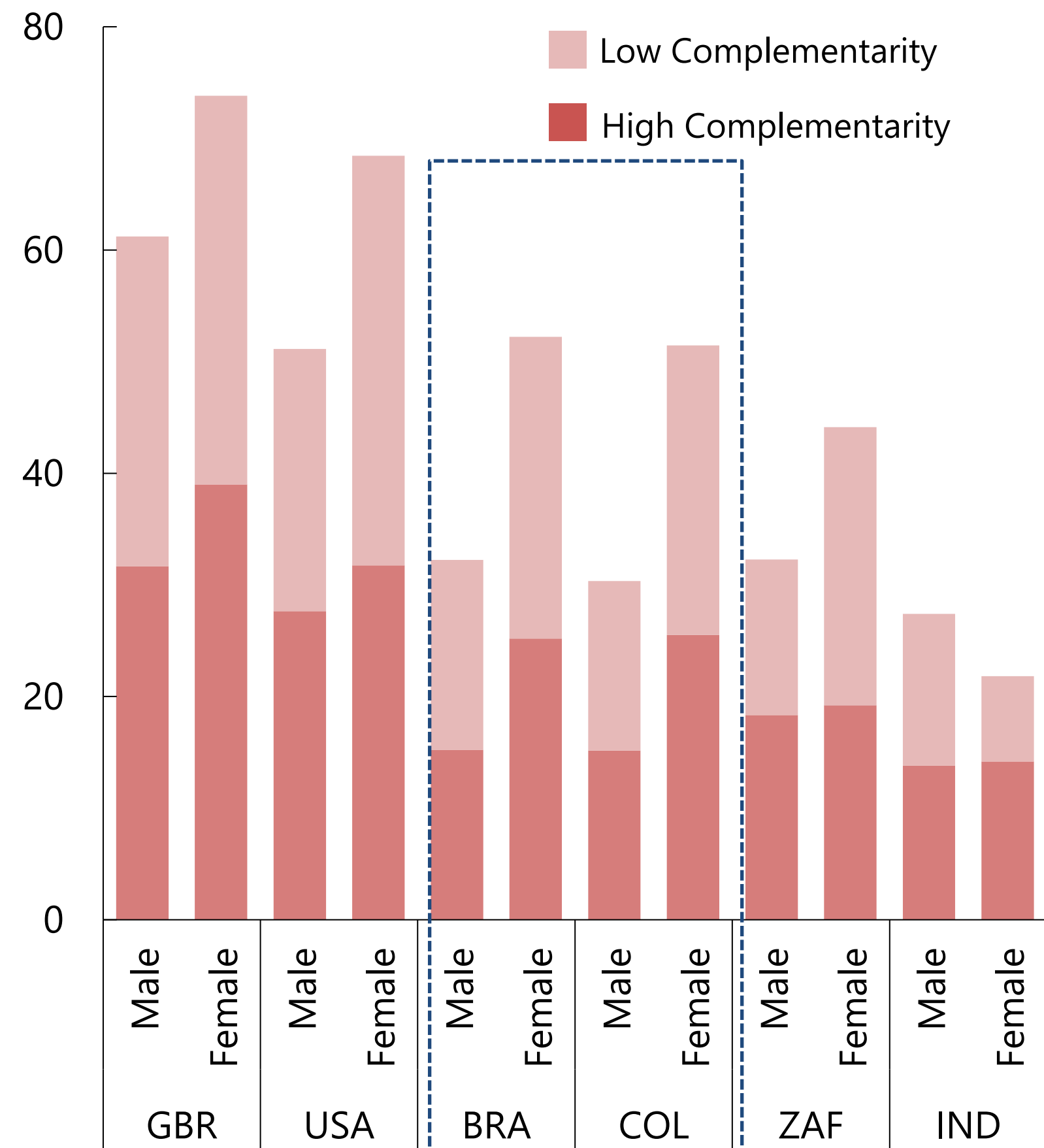
AI performance on human tasks 1/

(human benchmark=0; initial AI performance = -100)



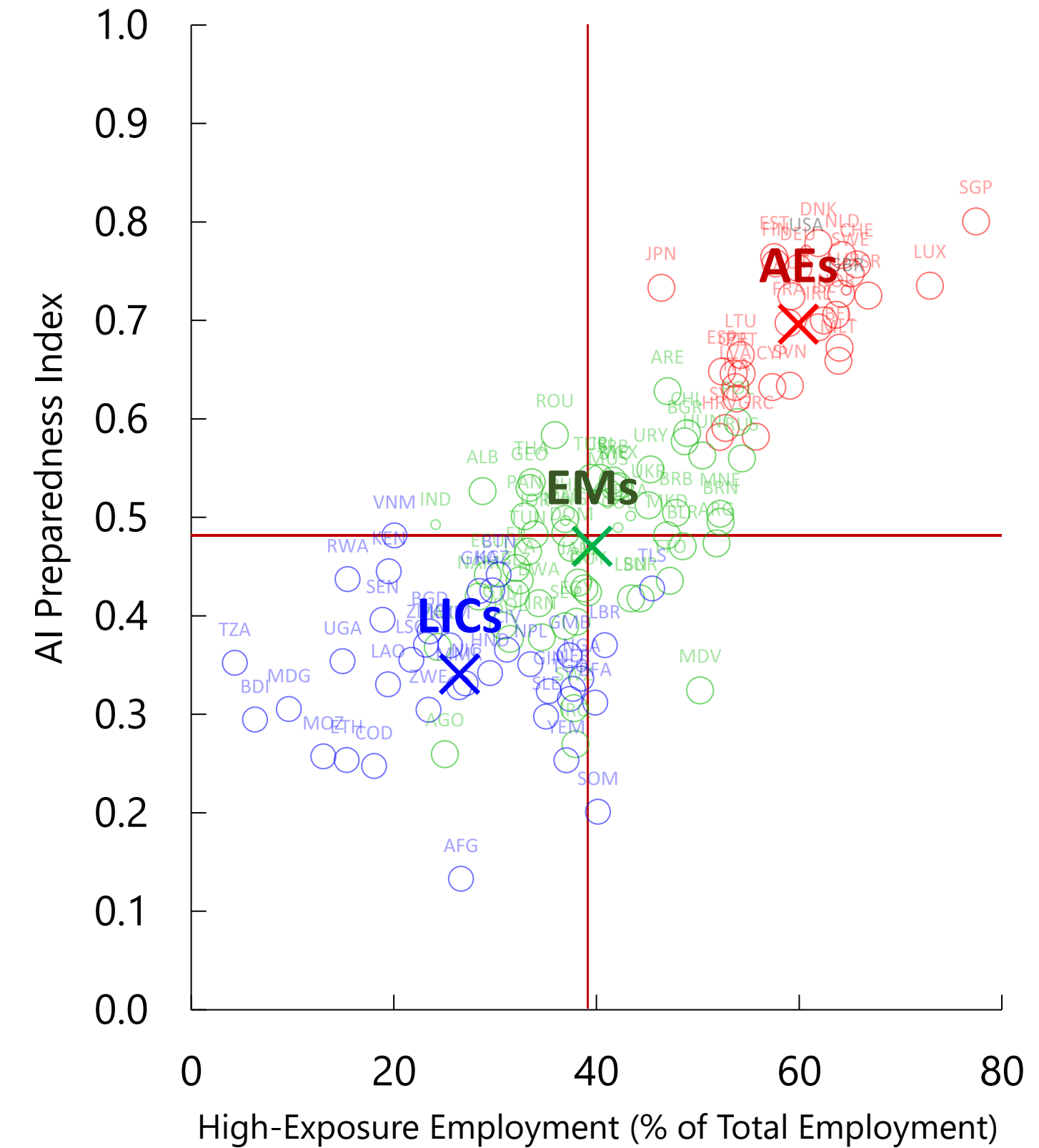
Share of occupations exposed to AI (percent)

AI (percent)



AI Preparedness and Exposure

(index)

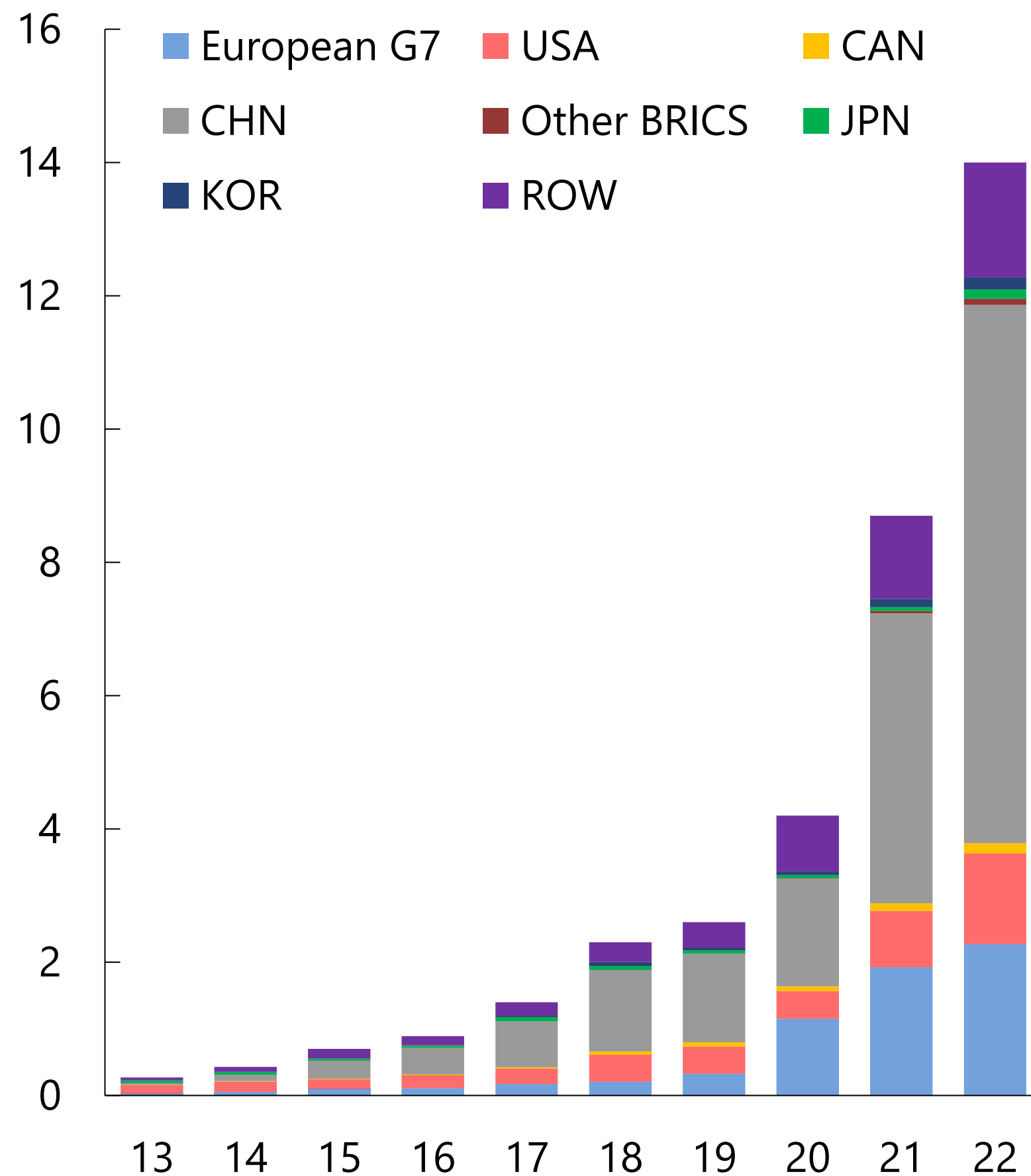


Sources: Haver Analytics; "Artificial Intelligence: Implications for the Future of Work", IMF Staff Discussion Note (forthcoming) by Cazzaniga and others; "Dynabench: Rethinking Benchmarking in NLP", Kiela et al. (2021); OpenAI; and IMF staff calculations.

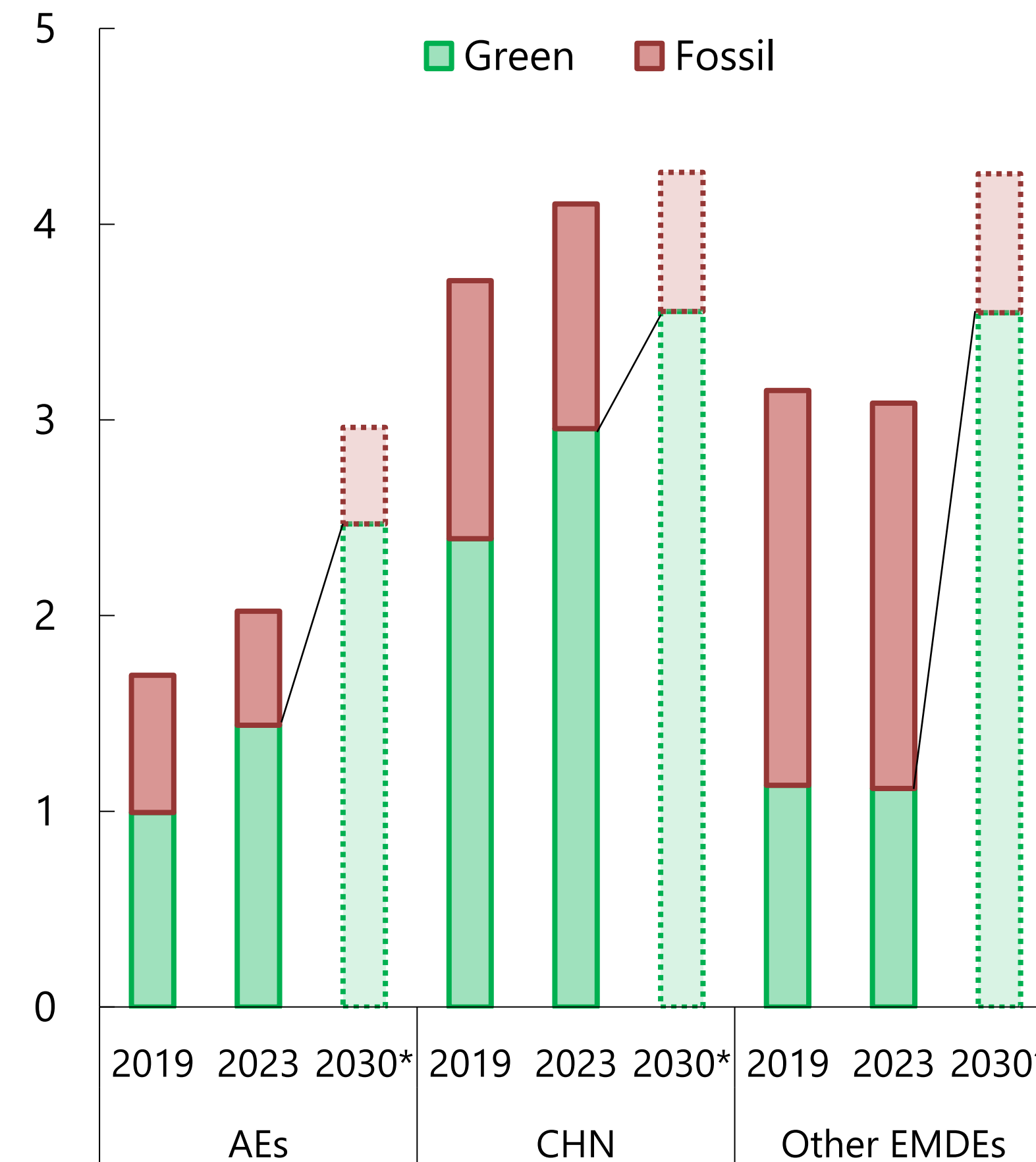
1/ Based on a number of tests in which human and AI performance were evaluated in five different domains, from handwriting recognition to language understanding. For GRE Math, the human benchmark is set at the median percentile, with -100 in 2017 reflecting the publication of the seminal paper on GPTs.

Finally, More Investments are Needed For a Resilient Green Future

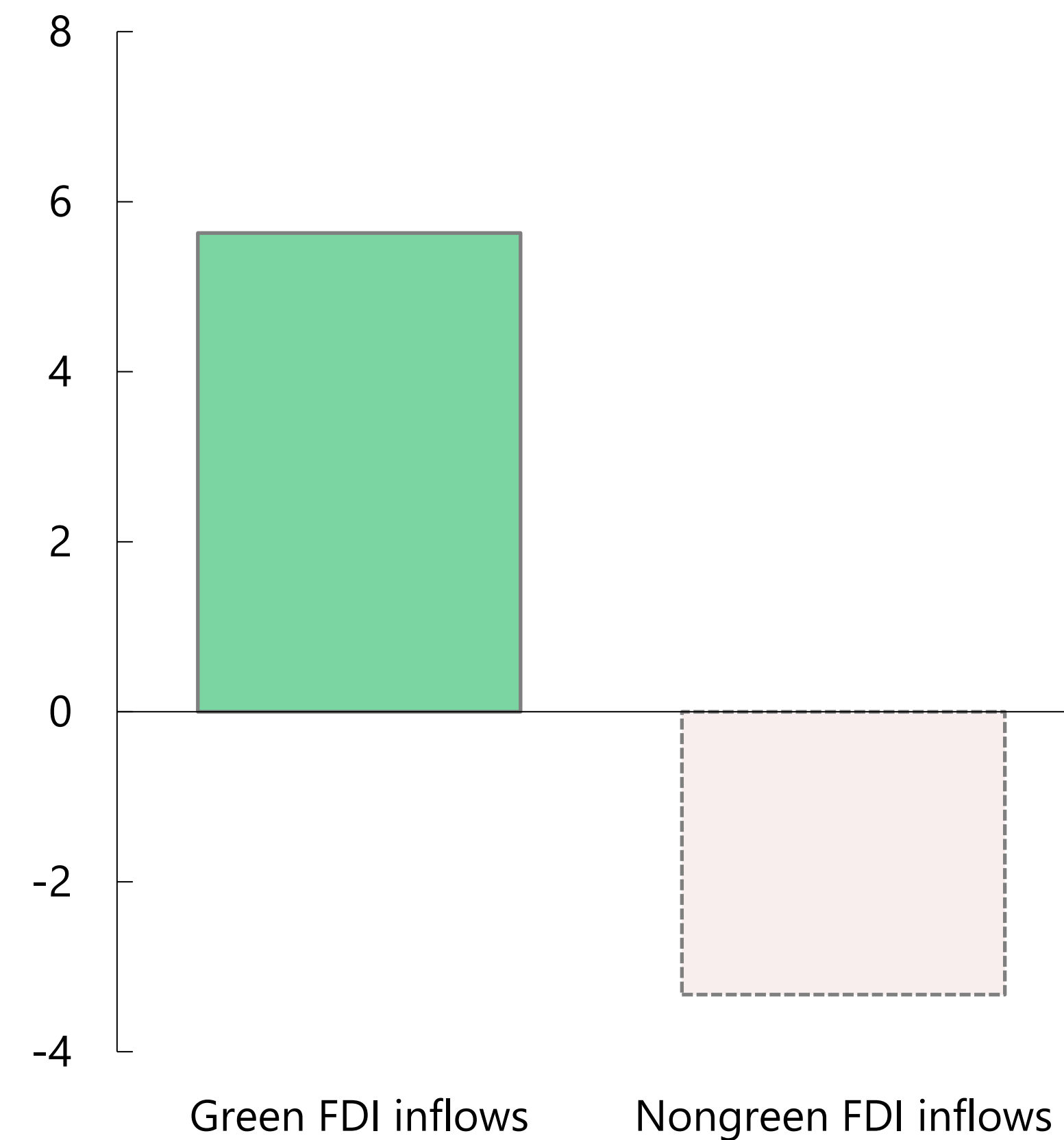
Demand for Green: EV vehicle sales 1/ (percent of total car sales)



Supply of Green: Energy investment – Green vs. Fossil 2/ (percent of GDP)



Climate policy and FDI inflows in EMDEs 3/ (percent increase in FDI/GDP from one s.d. increase in climate policy at impact)



Sources: IEA Global EV Outlook; Maddison Project Database; Global Carbon Budget; World Economic Outlook (WEO); Hasna et al. (2023); and IMF staff calculations.

1/ EV refers to all electric vehicles (battery electric vehicles and plug-in hybrid electric vehicles).

2/ Investment levels for 2030 forecasted using IEA's net-zero scenario target for green investment. For fossil, a fossil-green investment ratio of 1/5 is assumed which converges to 1/10 at the end of the net-zero horizon (2050).

3/ Panel regression results quantifying the impact of a one standard deviation change in log climate policies on each FDI measure. Lighter bars with dotted border are not statistically significant.