

Frontier Economies: Unlocking Growth Potential

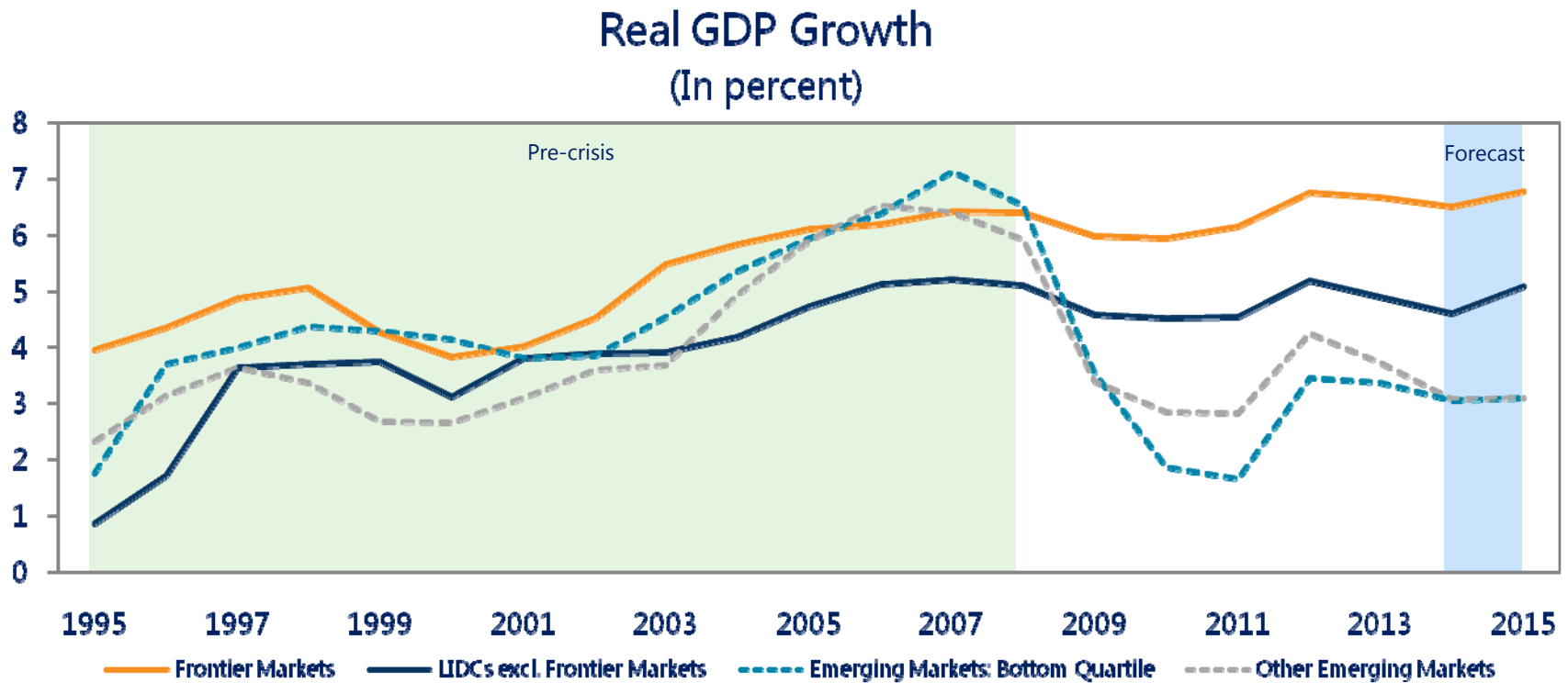
Min Zhu

International Monetary Fund



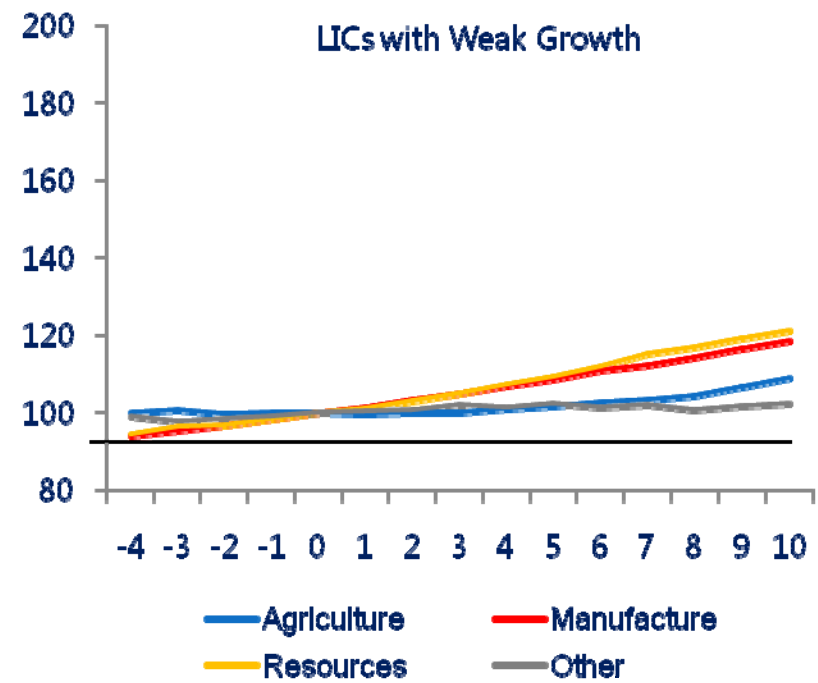
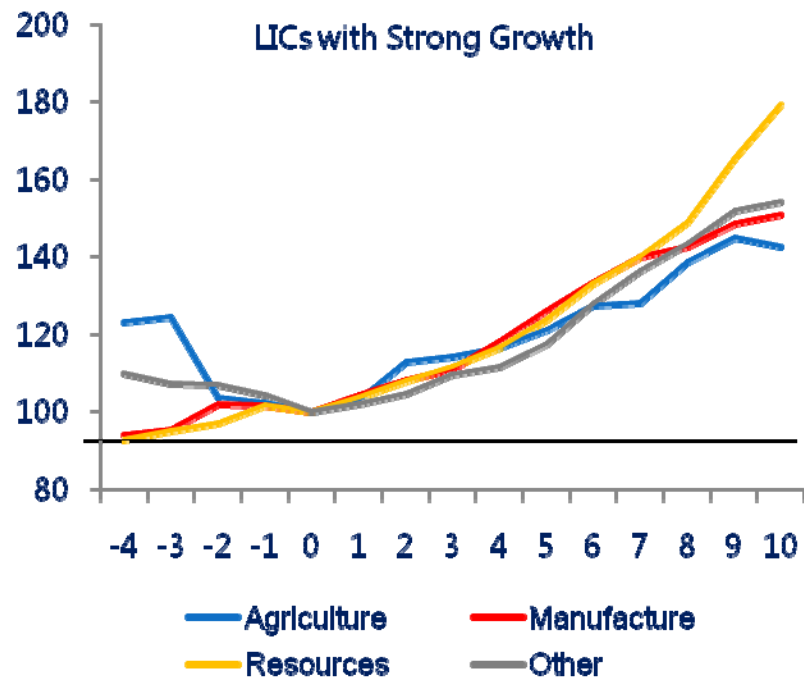
I. Economies on the rise: Why and how

Frontier economies have experienced rapid growth



Source: World Economic Outlook.

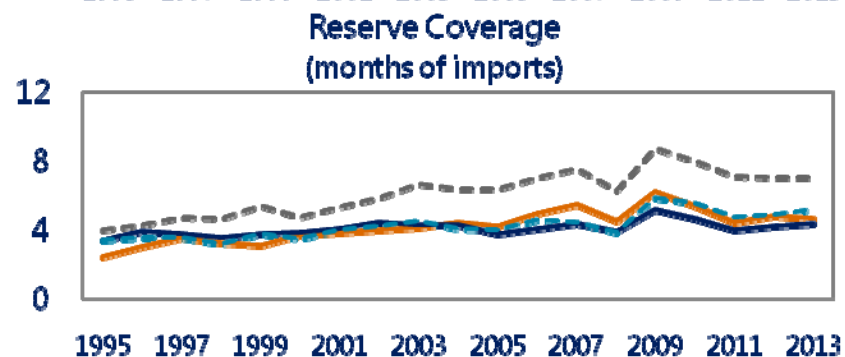
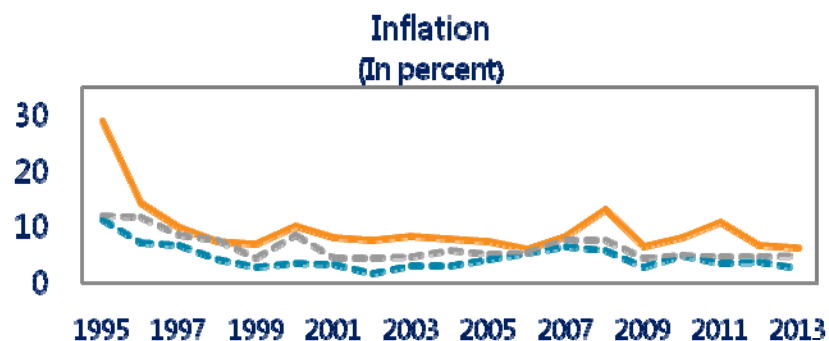
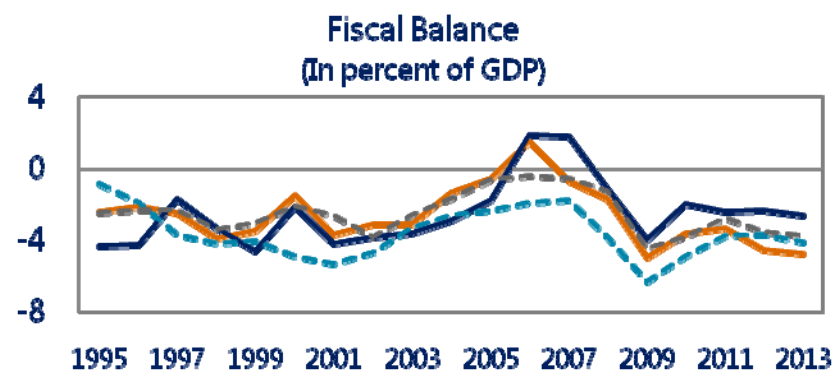
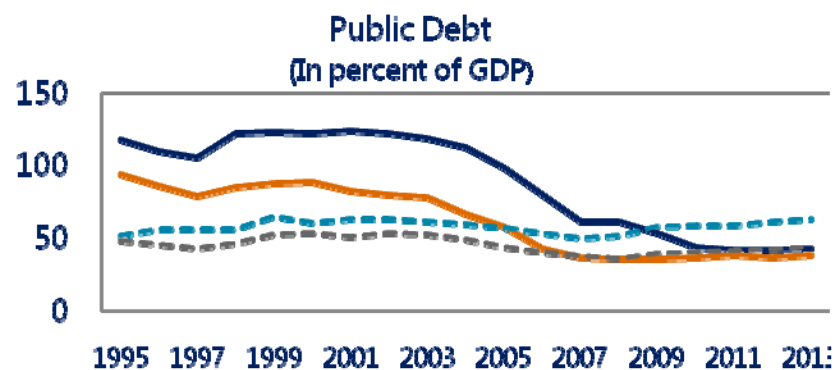
All sectors experienced growth



(Median economy; normalized to 100 at $t = 0$, the year before the start of a strong or weak growth episode; years on x-axis)

Source: IMF staff calculations.

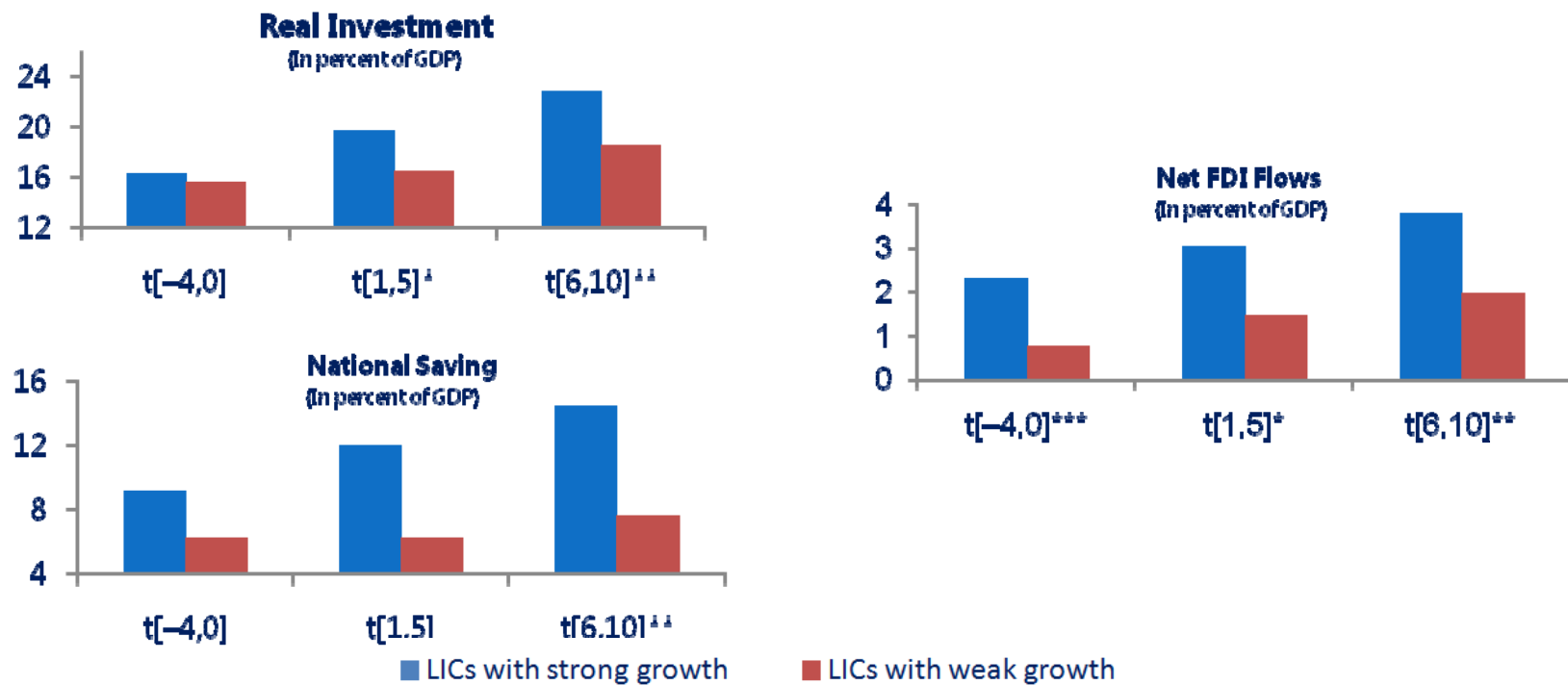
Maintained macroeconomic stability



— Frontier Markets — LIDCs excl. Frontier Markets - - - Emerging Markets: Bottom Quartile - - - Other Emerging Markets

Source: World Economic Outlook.

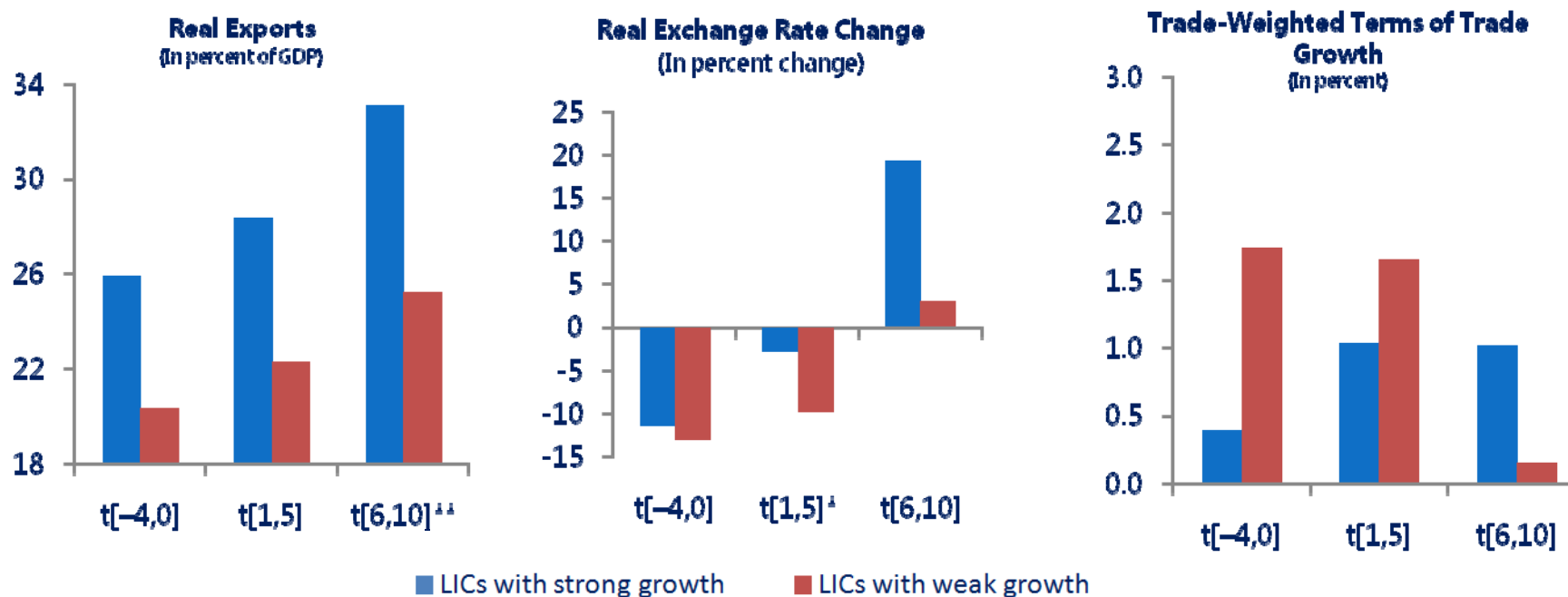
Strong Investment and Savings



Median economy; t = 1 in the first year of a strong or weak growth episode)

Source: World Economic Outlook, World Development Indicators, and IMF staff calculations.

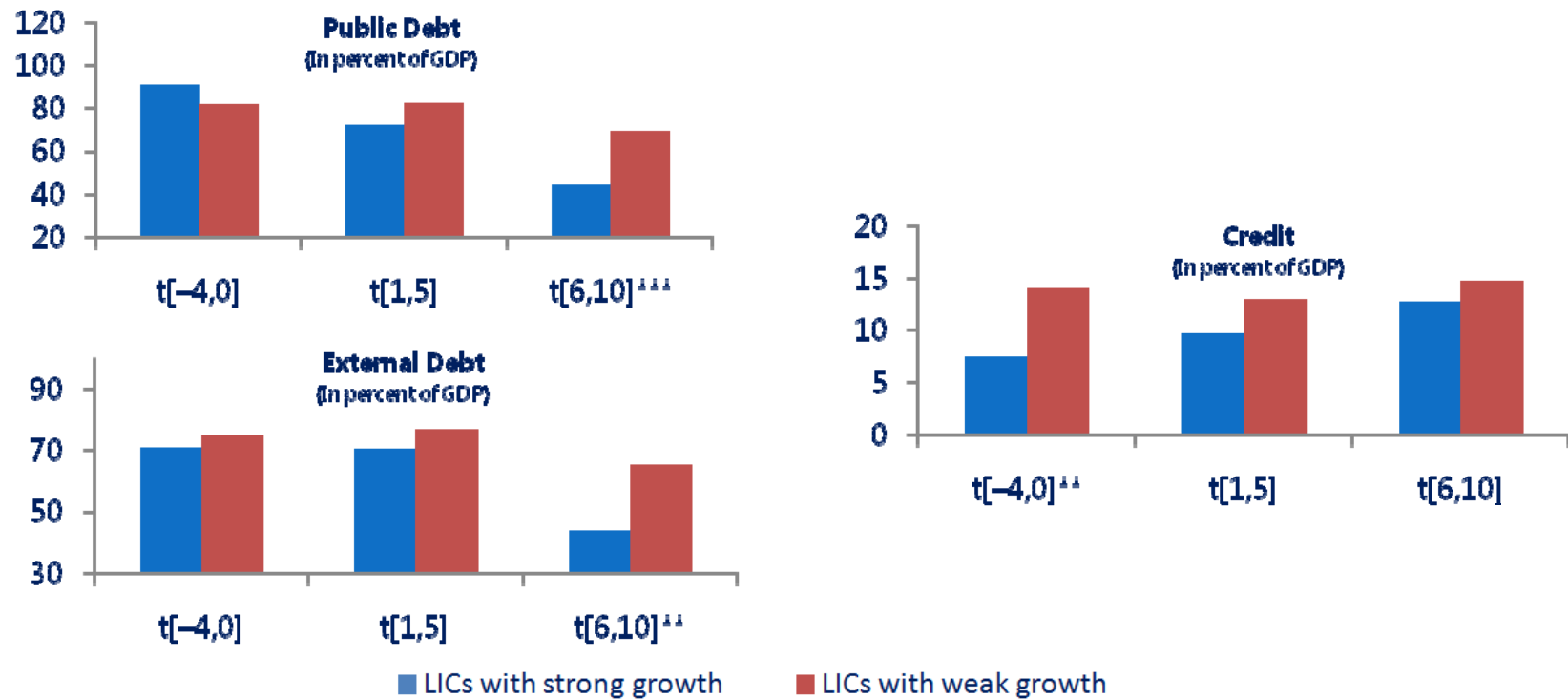
Strong export growth and external competitiveness



Median economy; $t = 1$ in the first year of a strong or weak growth episode)

Source: World Economic Outlook, World Development Indicators, and IMF staff calculations.

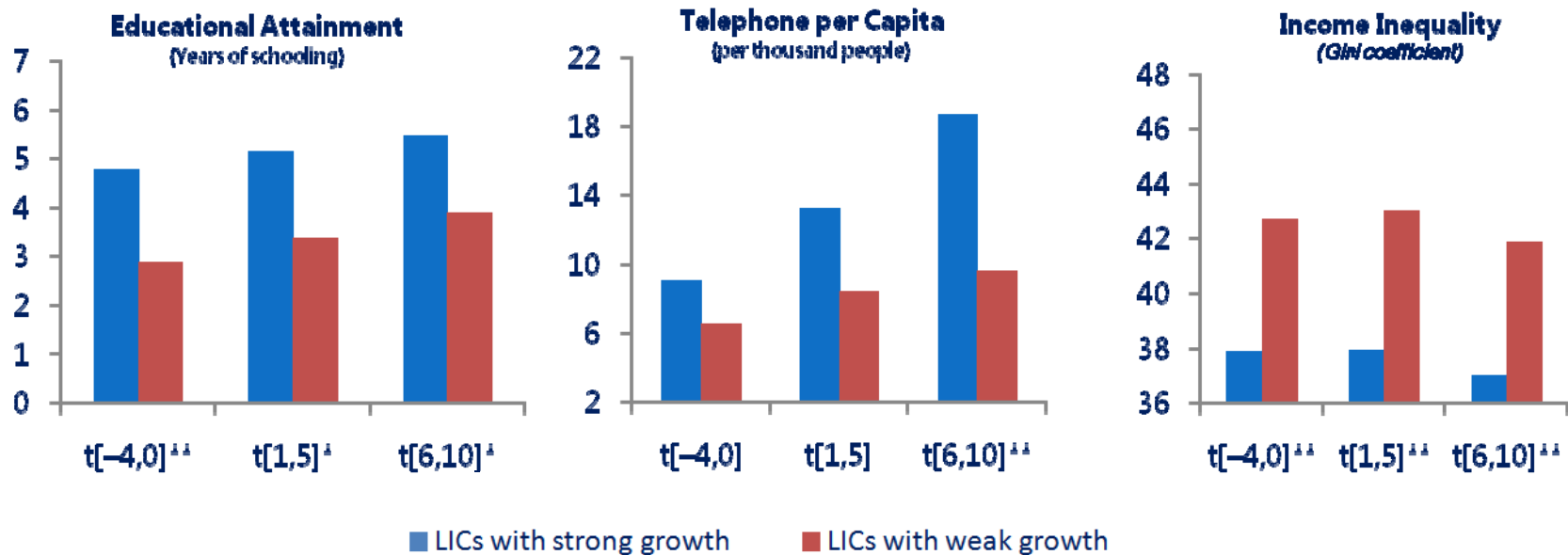
Managed debt and credit growth



Median economy; $t = 1$ in the first year of a strong or weak growth episode)

Source: World Economic Outlook, World Development Indicators, and IMF staff calculations.

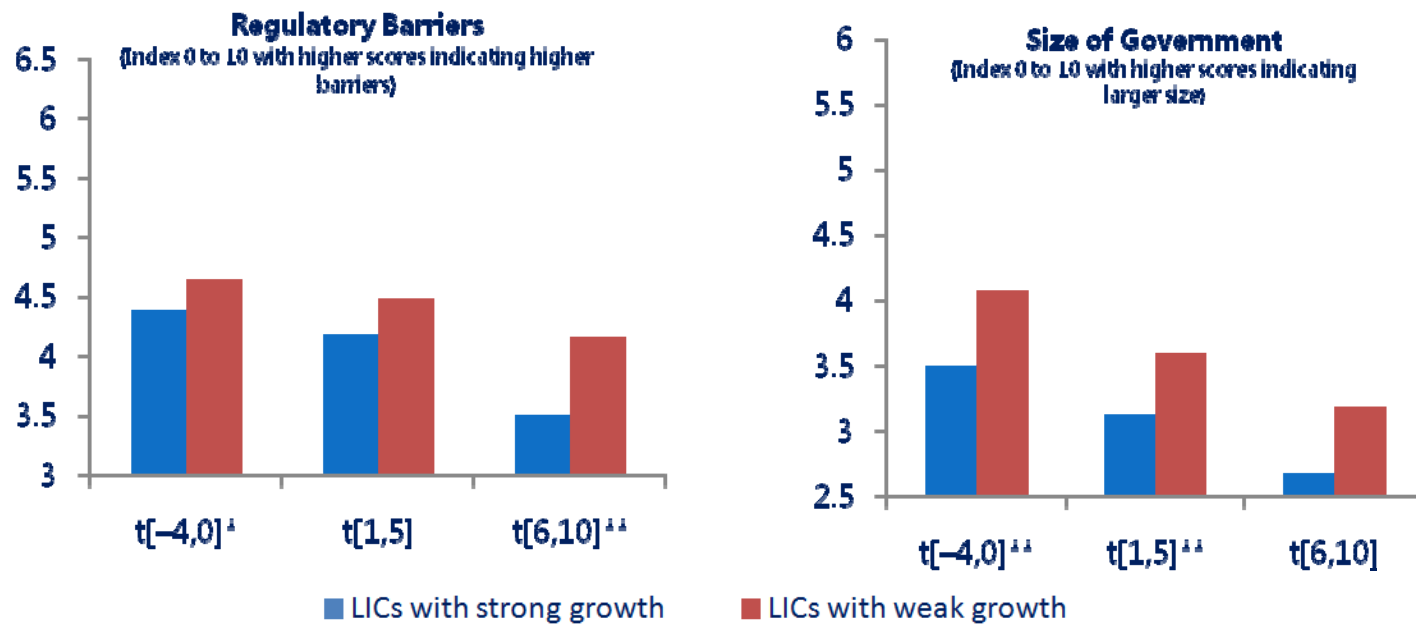
Improved social indicators



Median economy; $t = 1$ in the first year of a strong or weak growth episode)

Source: World Economic Outlook, World Development Indicators, and IMF staff calculations.

Improved governance

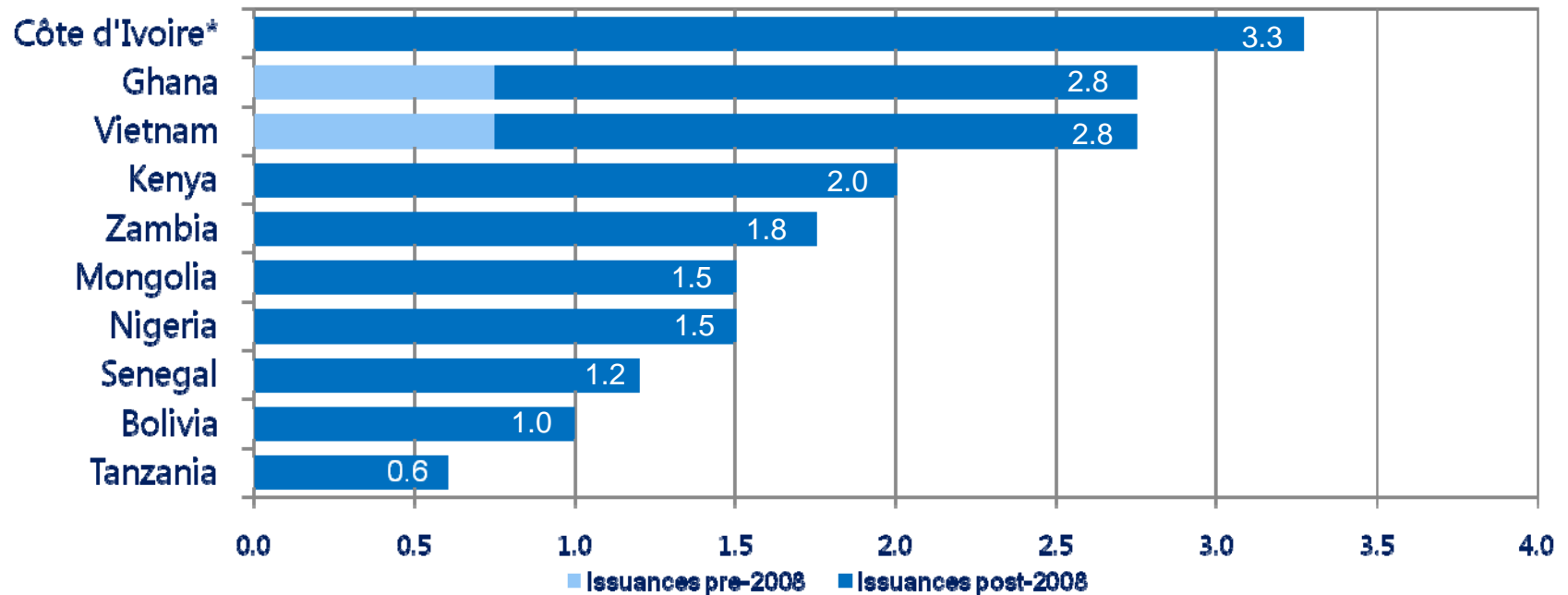


Median economy; $t = 1$ in the first year of a strong or weak growth episode)

Source: World Economic Outlook, World Development Indicators, and IMF staff calculations.

Had access to capital markets

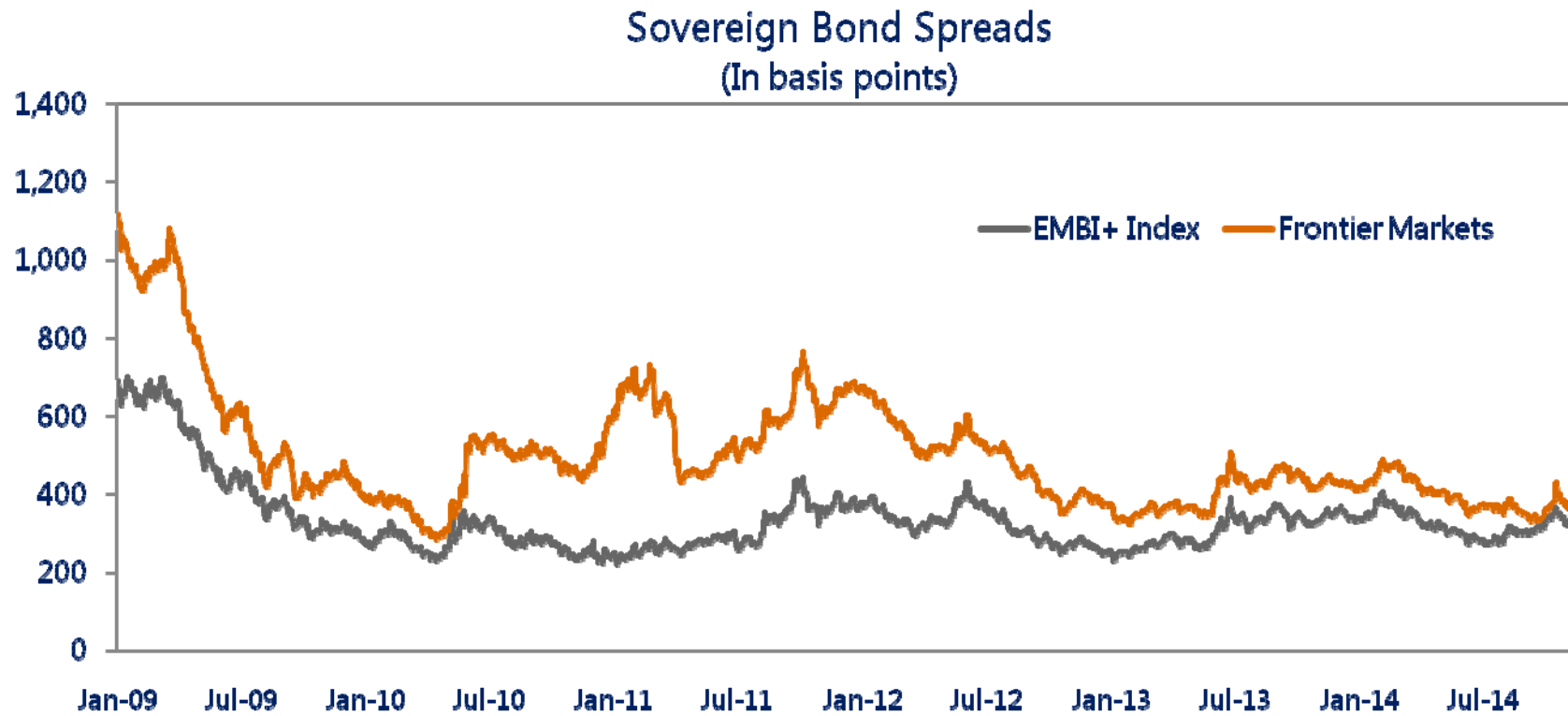
Cumulative Sovereign Bond Issuance, 2005-2014
(In US\$ billion)



*Includes sovereign bond issuances in the context of debt restructuring.

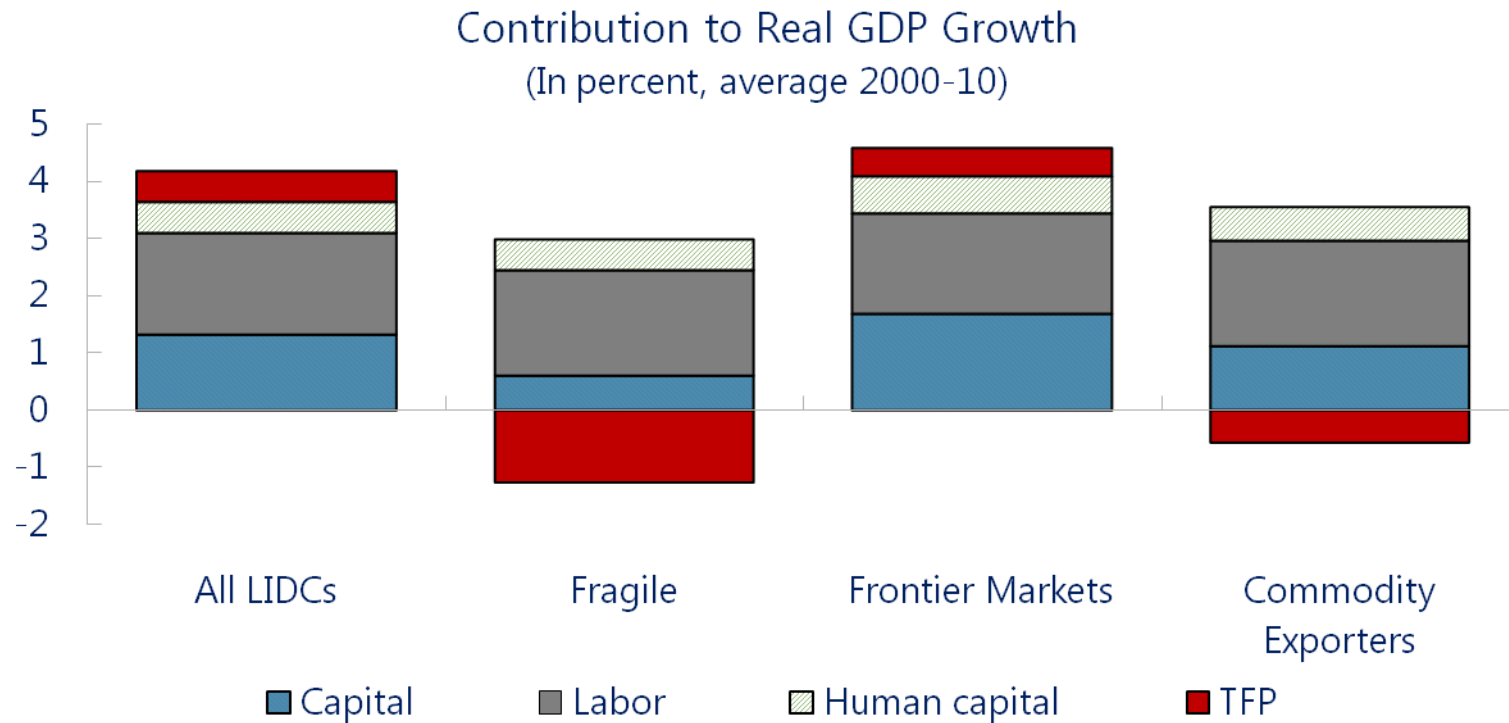
Source: Bloomberg L.P.

Sovereign bond spreads tightened



Source: Bloomberg L.P.

Productivity growth remained strong

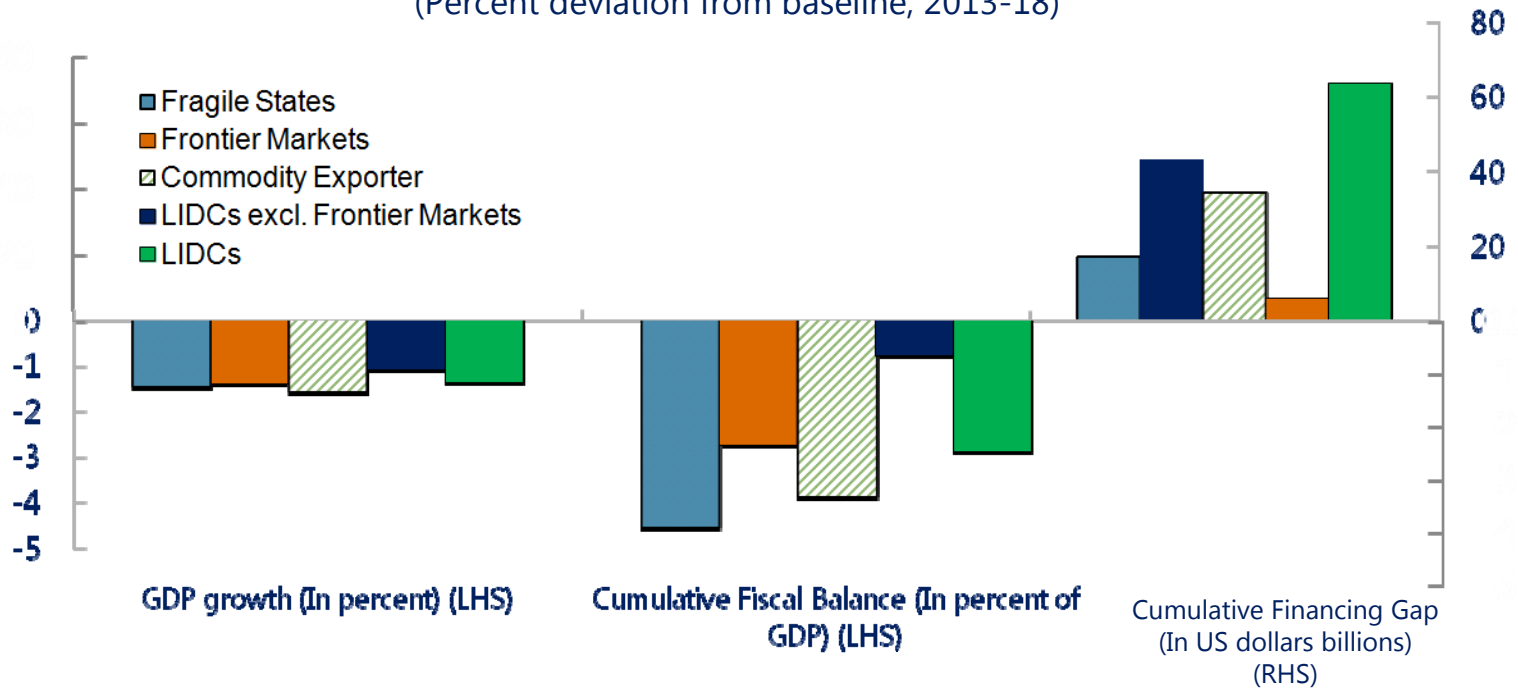


Sources: PRMED growth accounting database; and IMF staff estimates.

II. Challenges and policies

Protracted slowdown

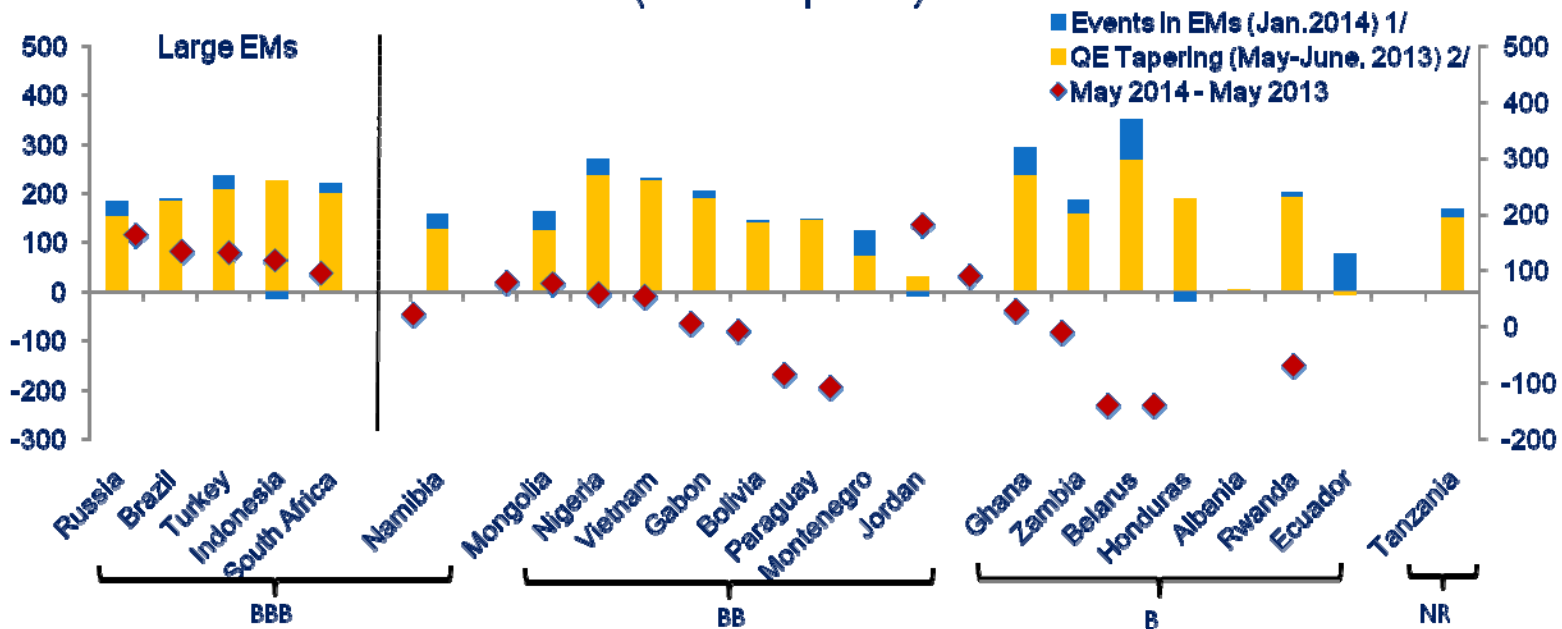
Impact of protracted slowdown
(Percent deviation from baseline, 2013-18)



Source: World Economic Outlook.

Exiting unconventional monetary policies

Increase in Bond Yield During Recent Sell-Offs (In basis points)



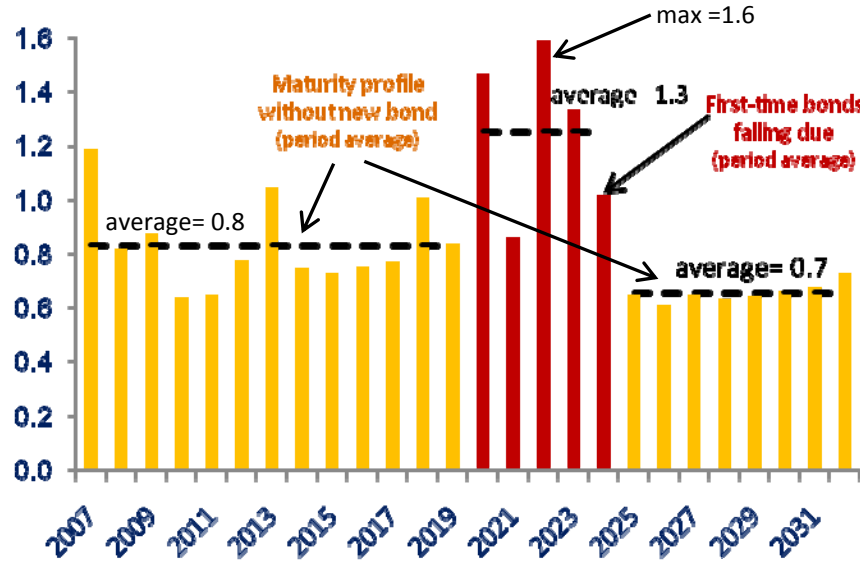
Source: Bloomberg; and IMF staff calculations.

1/ Refers to a series of events in EM economies, which comprises political events in Turkey, lower growth expectation in China and Brazil, devaluation in Argentina, among others.

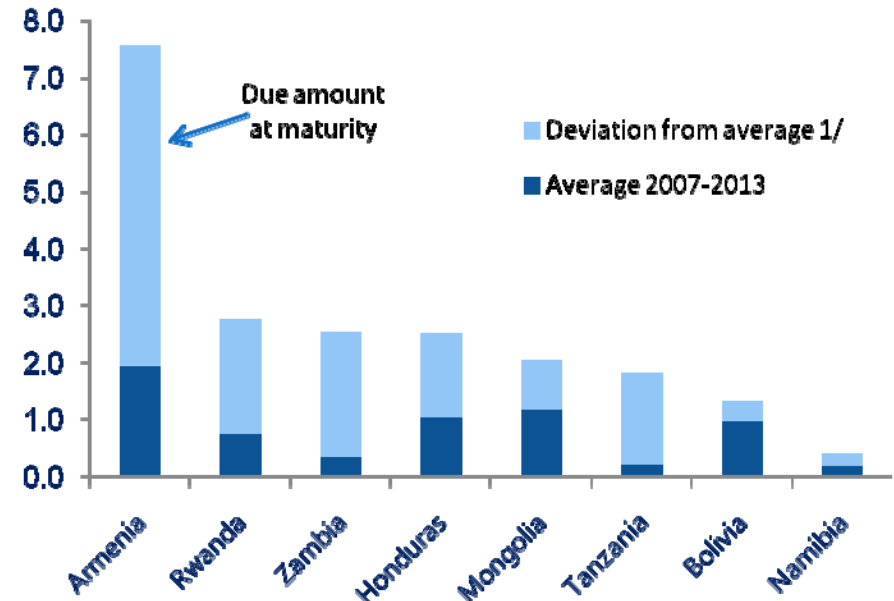
2/ Refers to the distressed period driven by Bernanke's speech about tapering.

Exiting unconventional monetary policies

First-time issuers. Rollover risk
(In percent of GDP)



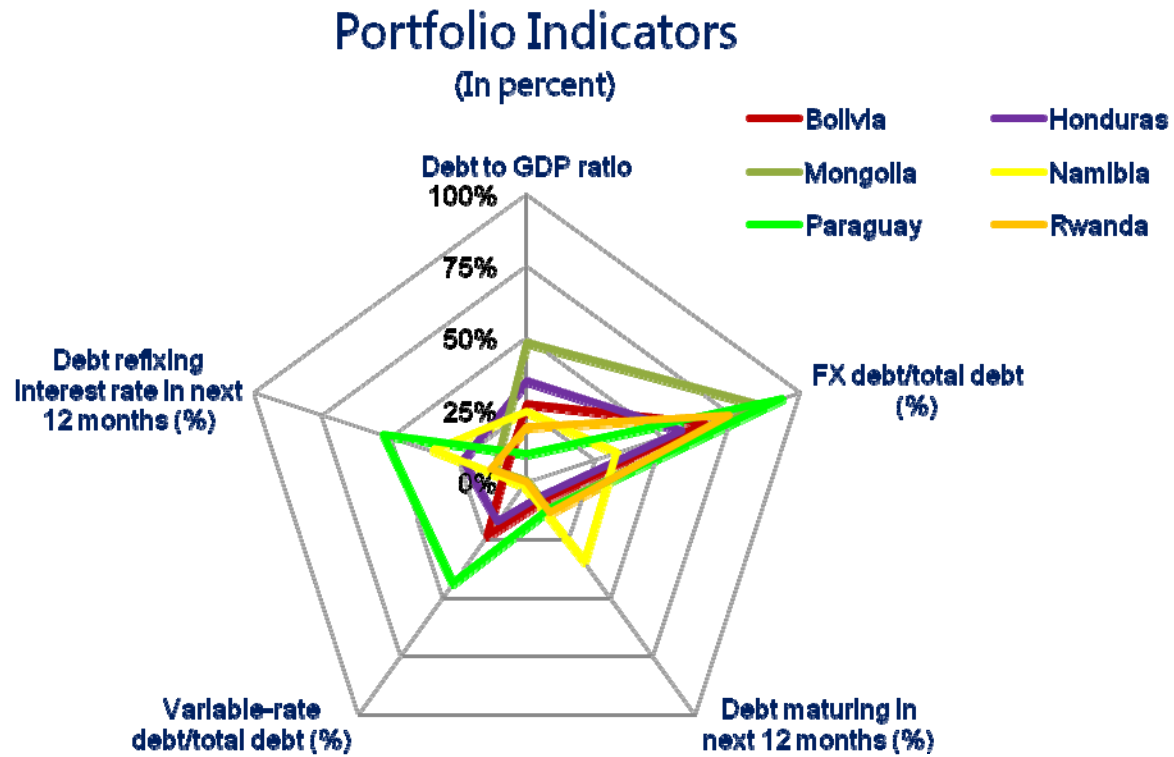
First-time issuers. Redemption profile
Principal Payments, (In percent of GDP)



Source: Country desks and IMF staff calculations.
Note: Country sample includes Armenia, Bolivia, Honduras, Mongolia, Namibia, Paraguay, Rwanda, Tanzania and Zambia.

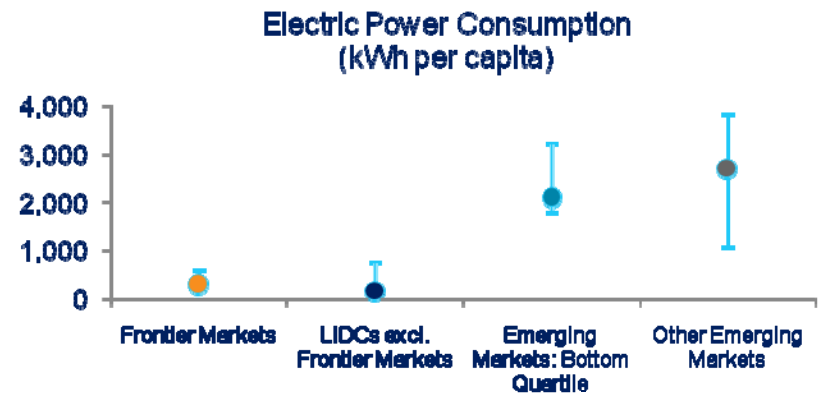
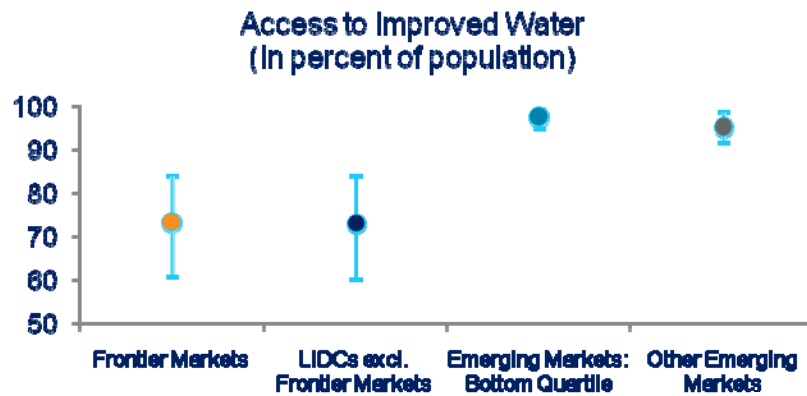
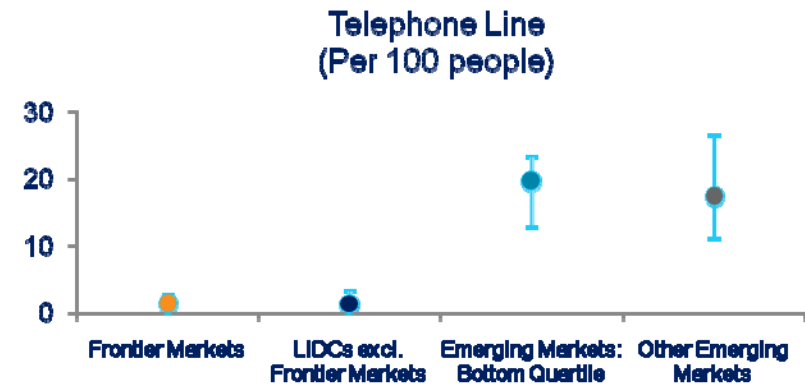
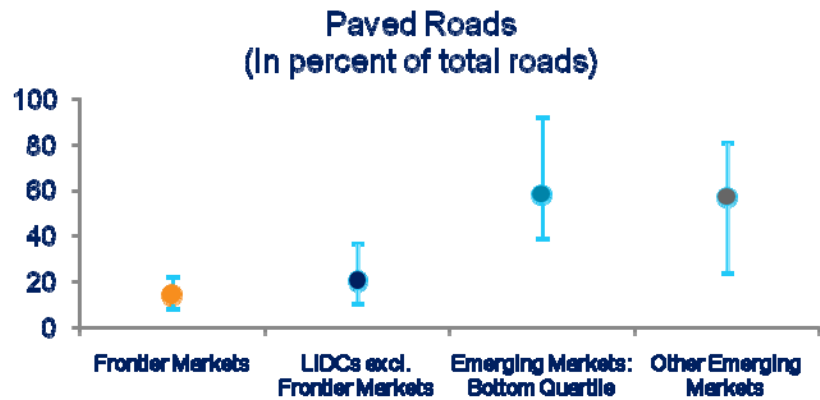
Source: Country desks and IMF staff calculations.
1/ Computed as the difference between principal payments falling due at maturity date and the average 2007-2013. Notice, however, that the new bond may not be the only debt obligation maturing that specific year.

Exiting unconventional monetary policies



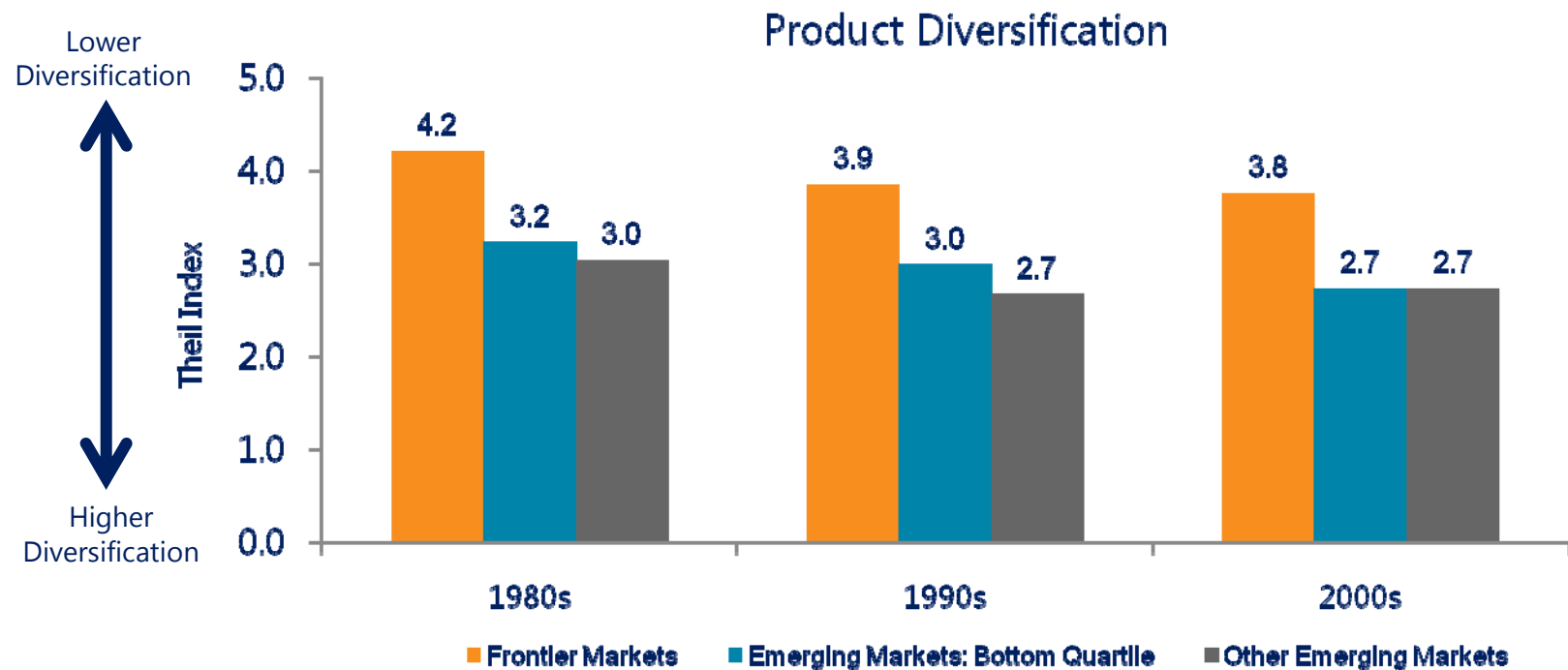
Source: MTDS reports

Infrastructure gaps remain large



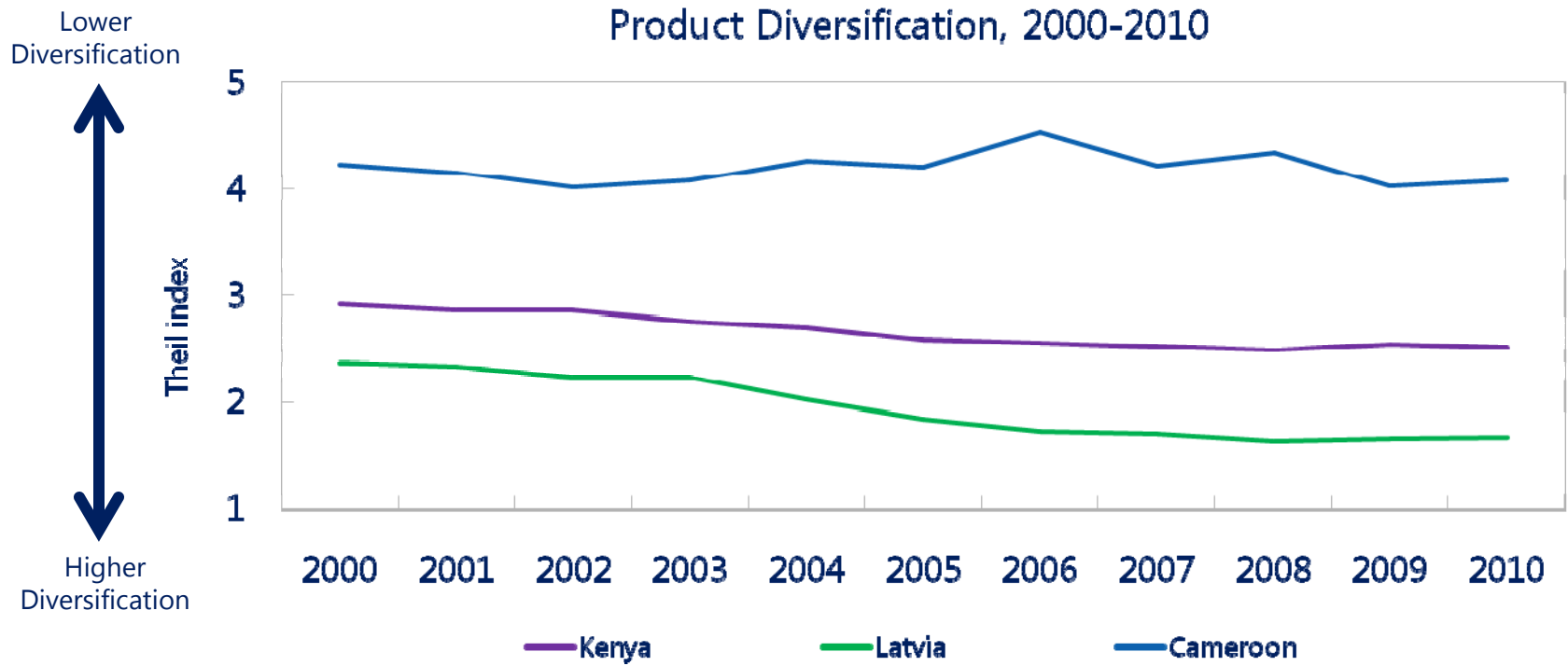
Source: World Development Indicators.

Product diversification remains low



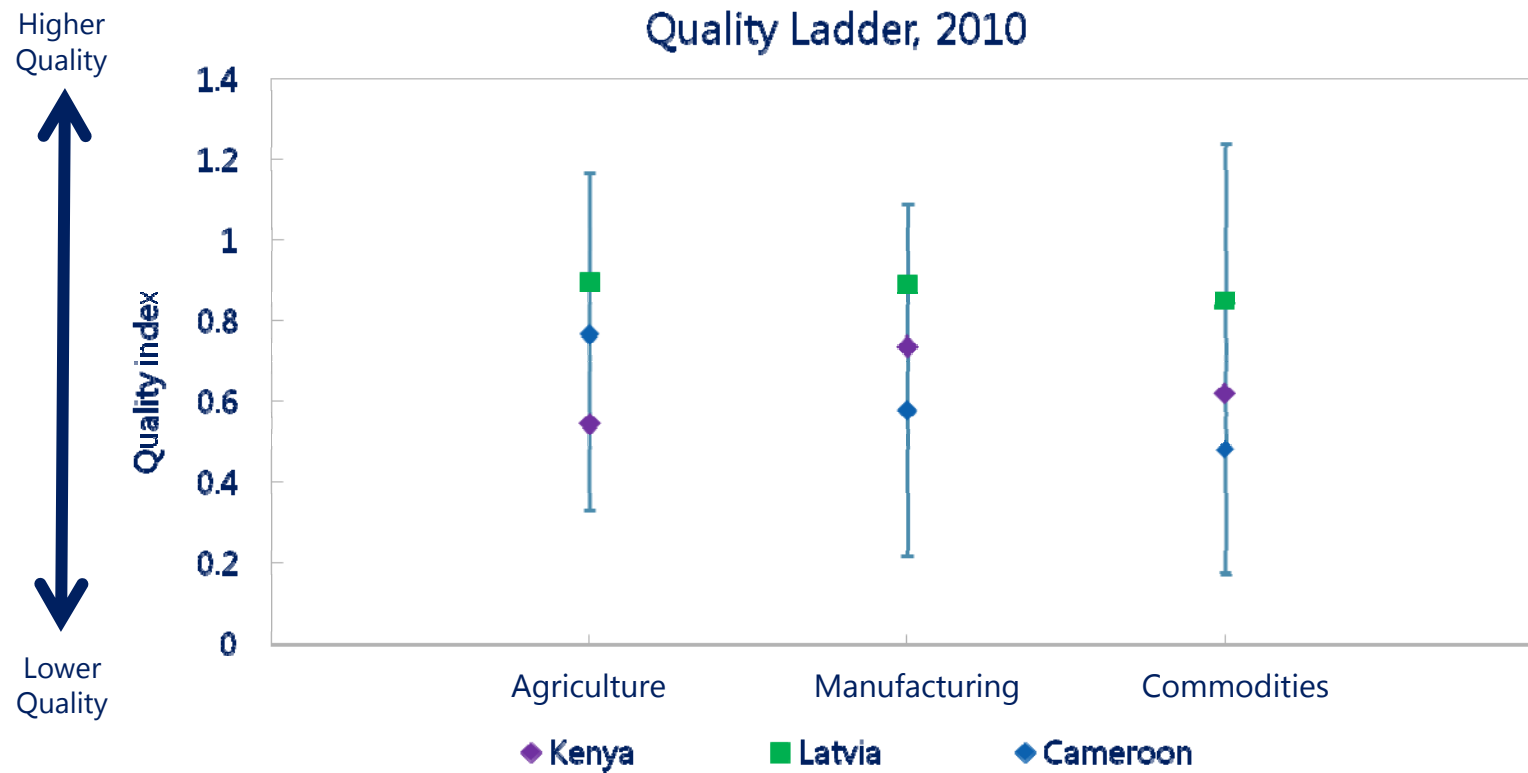
Source: IMF Diversification Toolkit.

Product diversification remains low




Source: IMF Diversification Toolkit.

Product quality remains low



Source: IMF Diversification Toolkit.

Maintain macroeconomic stability

- ❑ Monetary policy should contain inflation
- ❑ Fiscal policy should build up buffers
- ❑ Capital flows could be a double-edged sword  optimize benefits and address related risks
- ❑ Scaling up public investment should be balanced against debt sustainability

Next generation structural reforms

First generation structural reforms, including:

- ❑ Moving towards more market-driven economy
- ❑ Reducing excessive red tape
- ❑ Lowering trade restrictions and promoting exports

Second generation structural reforms, including:

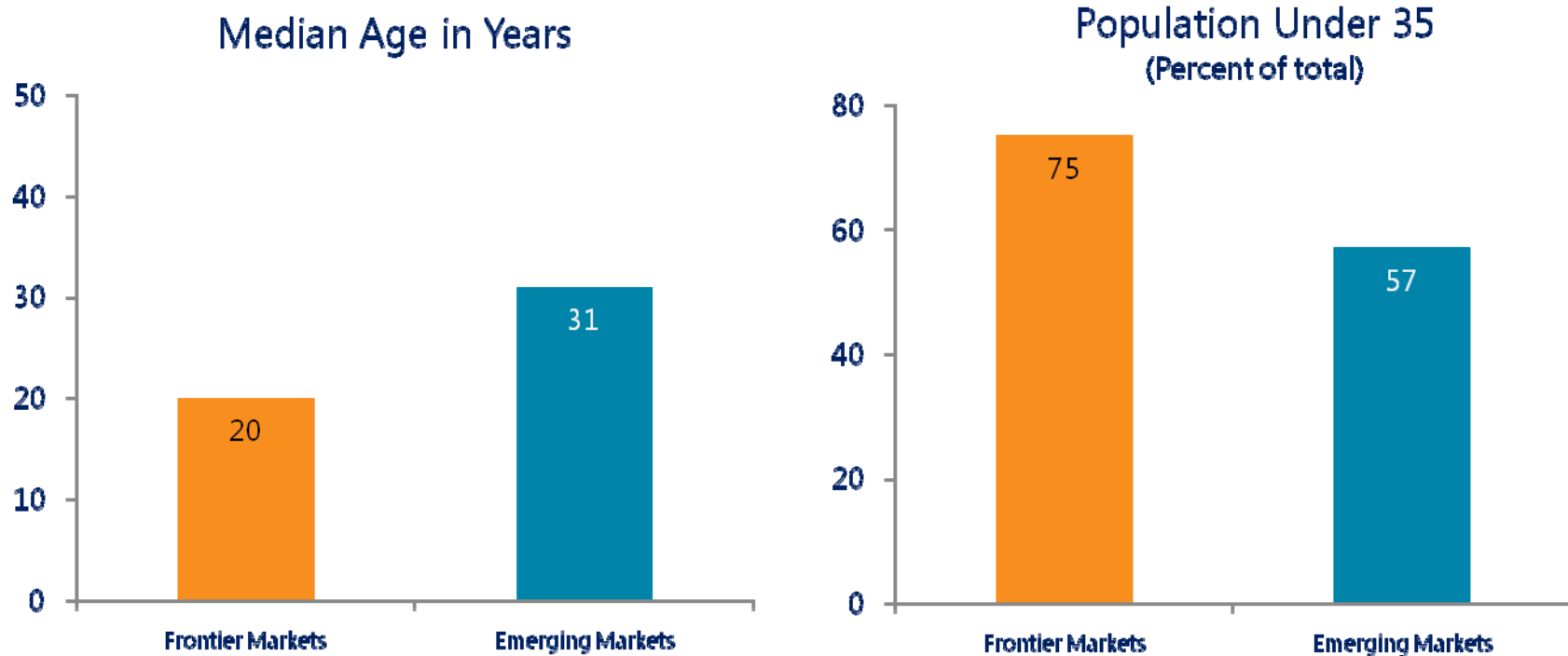
- ❑ Improvements in public finance management (PFM)
- ❑ Move from pro-cyclical policies
- ❑ Deepen sectoral linkages

How the Fund could help

- ❑ A range of tools available for policy analysis and advice
- ❑ Providing financial assistance
- ❑ Increasing flexibility in program design, including monetary policy and debt limits
- ❑ Technical assistance and capacity building





III. Potential for further dynamism

Positive demographic dividends suggests potential for more dynamism



Source: UN Population Division.

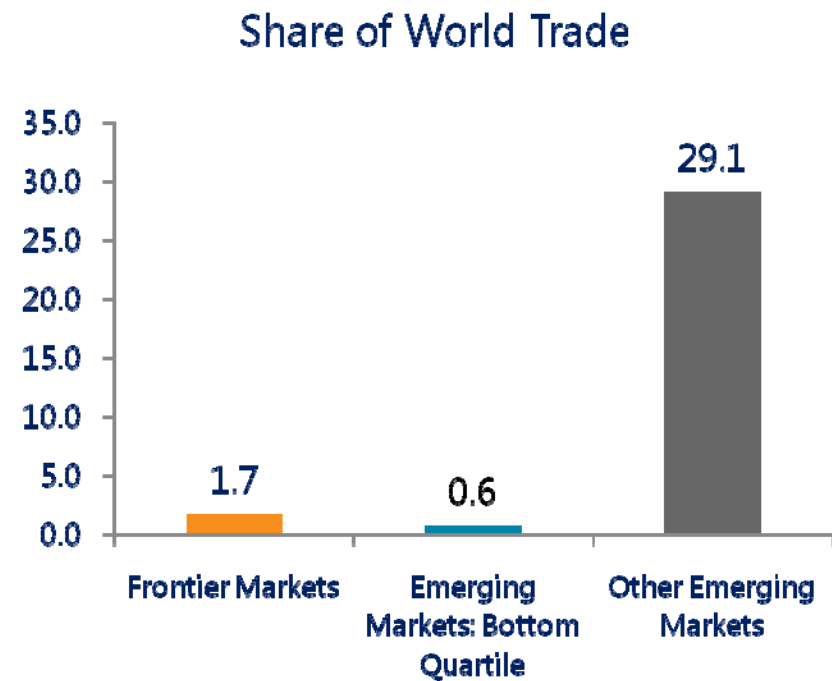
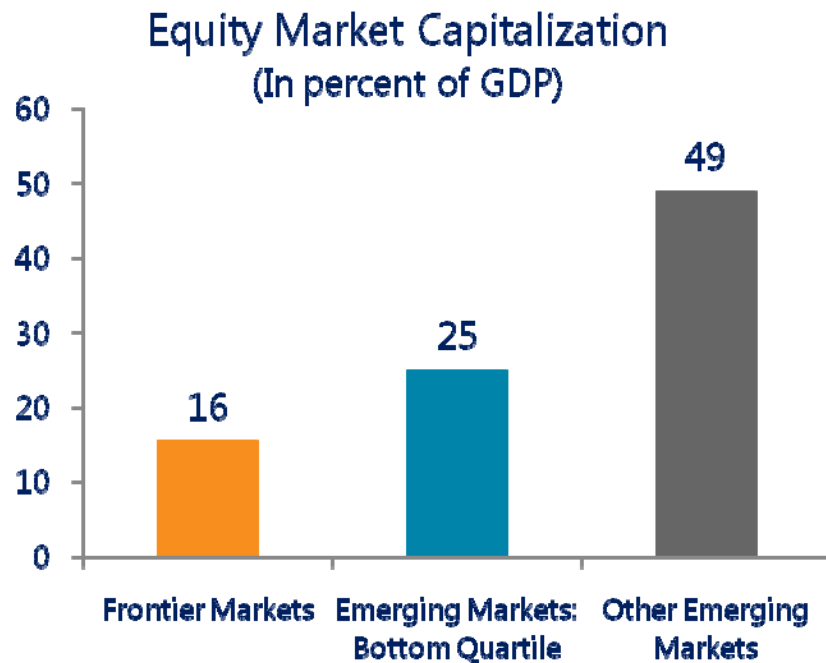
Many frontier economies are well endowed with natural resources

Resource	Country	Proven Reserves	World Ranking
 Oil (Billion Barrels)	Nigeria	37.2	10 th
 Natural Gas (Billion Cubic Feet)	Nigeria Mozambique Bolivia Bangladesh	182,000 100,000 9,940 9,344	9 th 14 th 40 th 42 nd
 Gold (Million Ounces)	Ghana Papua New Guinea Tanzania	45.0 38.6 21.4	9 th 13 th 15 th
 Copper (Million Metric Tons)	Zambia Mongolia	20.0 13.1	10 th 12 th

Note: World rankings of gold are by production.

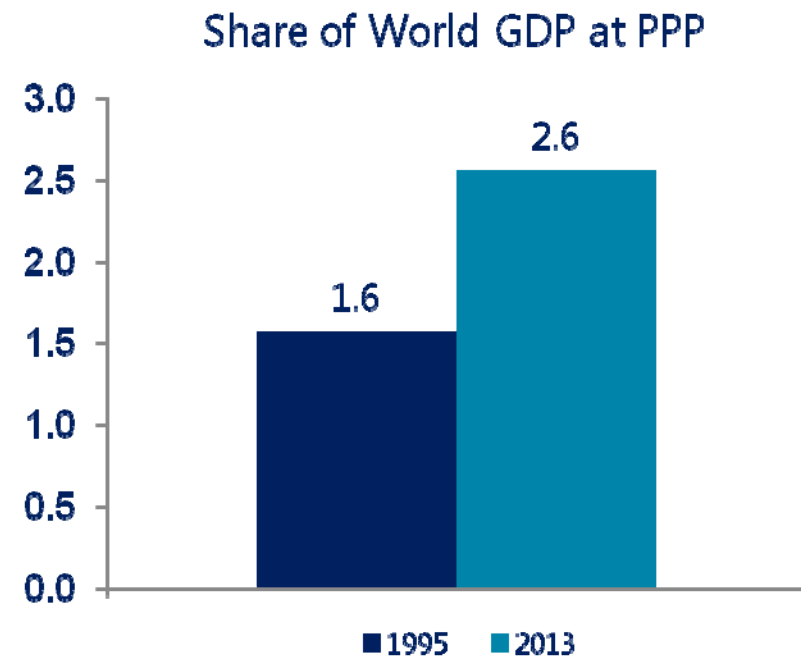
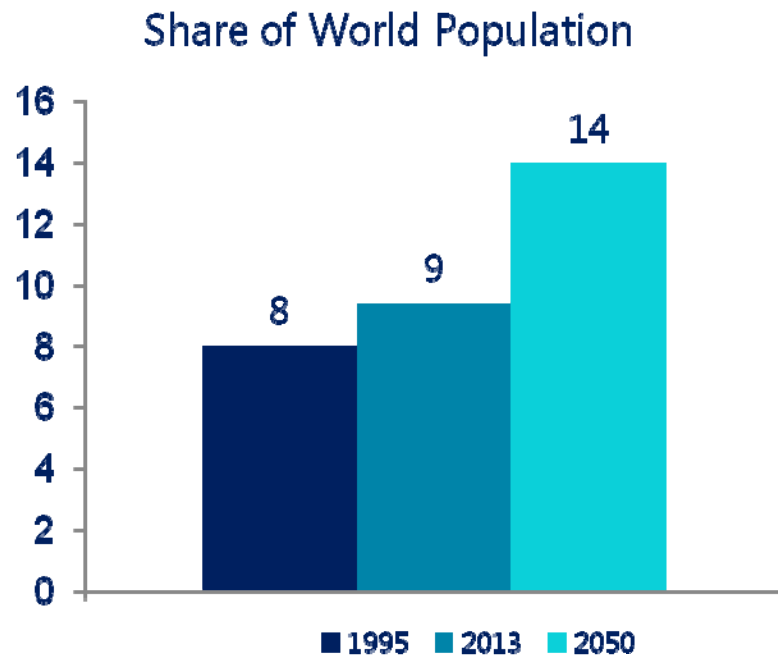
Source: BP Historical Data; U.S. Geological Survey; and Gold Facts.

...even though their share of global flows remains low



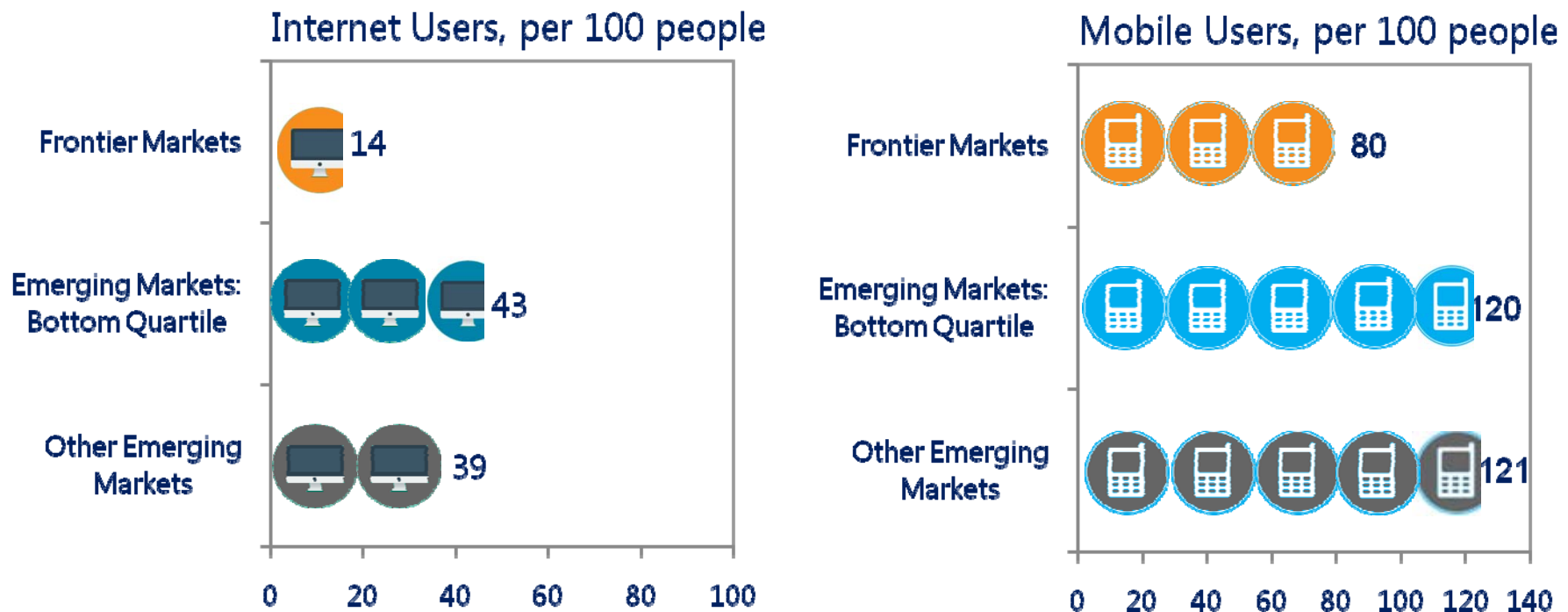
Source: World Development Indicators.

Frontier economies have been making inroads in global ties, albeit from a low base



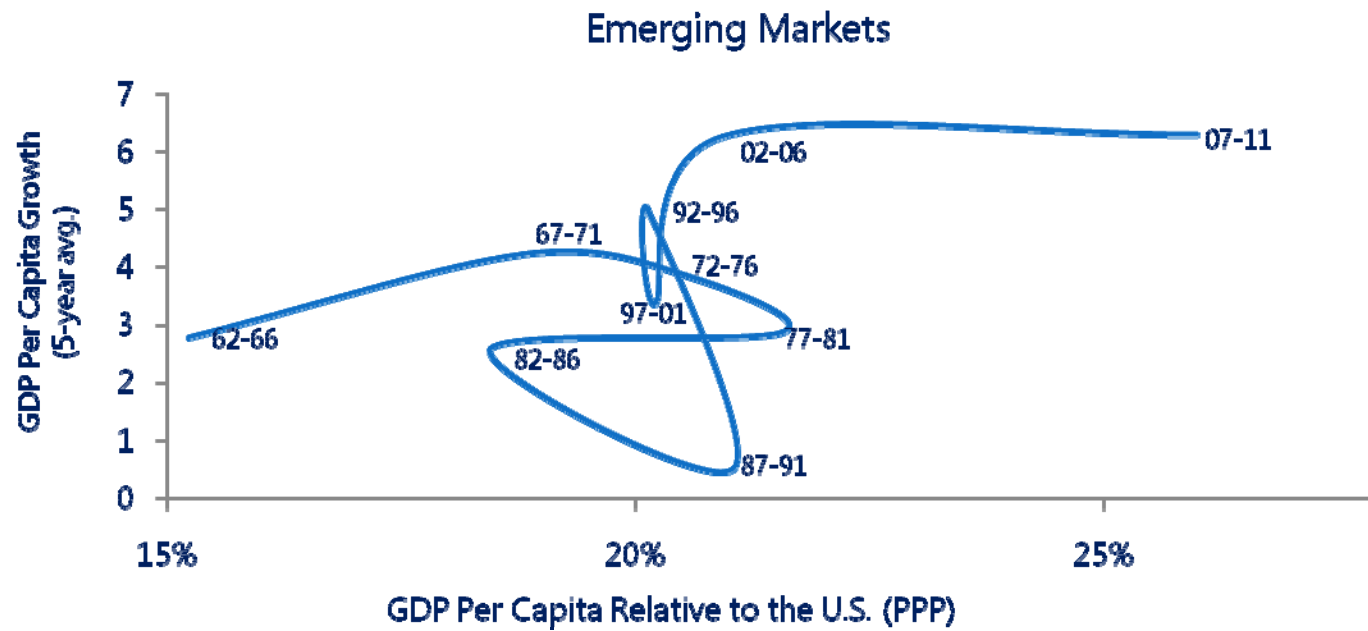
Sources: UN Population Division; and World Economic Outlook.

A small but growing middle class suggests potential for new markets



Source: World Development Indicators.

Convergence



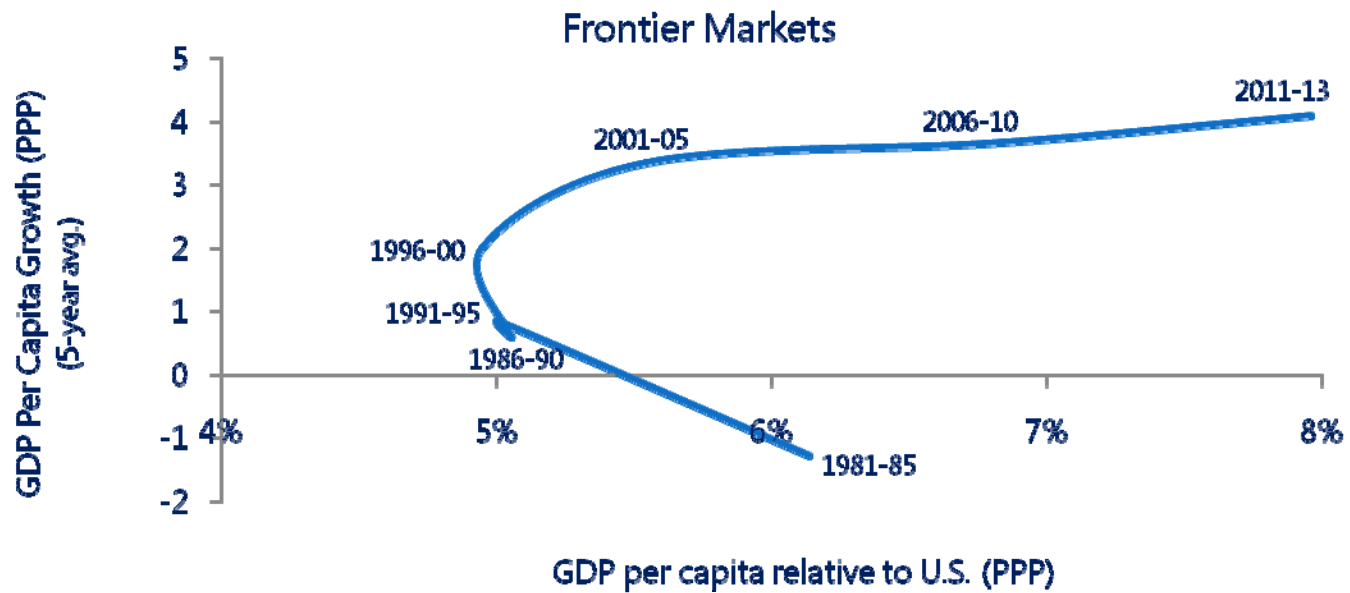
Sources: Penn World Table 7.1, World Economic Outlook; and IMF staff calculations.

Convergence

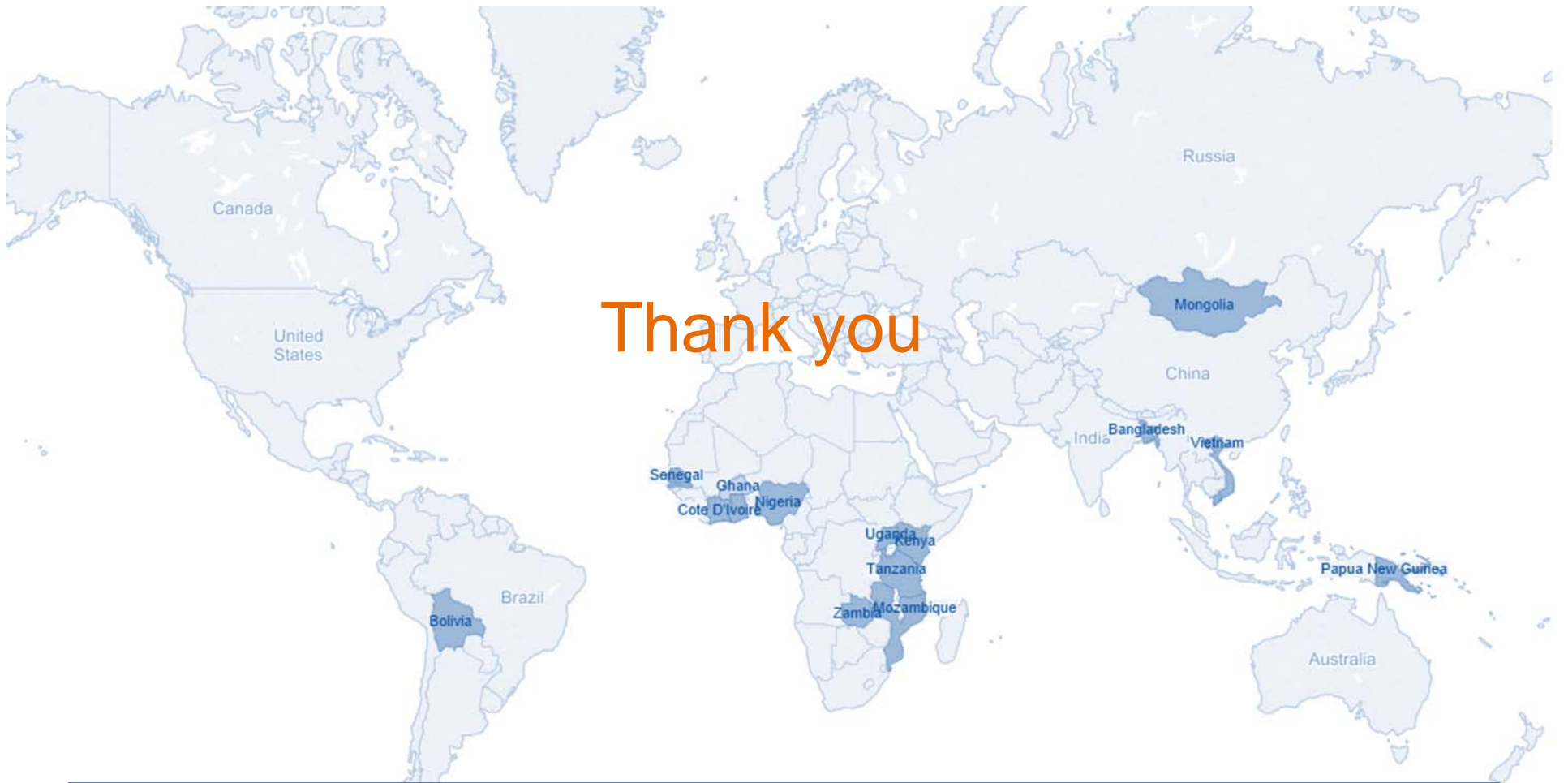


Sources: Penn Table 7.1, World Economic Outlook; IMF staff calculations.

Convergence



Sources: World Economic Outlook ; and IMF staff calculations.



Thank you

