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IMF Annual Report: Economic Outlook for Developing Nations Not Promising

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The International Monetary Fund's annual report released Sept. 16 describes an economic situation that has deteriorated in many respects for developing countries in 1986 and early 1987. In addition, the Fund outlined rather gloomy prospects for growth in the world's industrial nations. The annual report is an analysis prepared by the IMF executive board covering the 12 months ending in July. Developing nations' overall growth accelerated slightly in 1986 to 4.0% vis-a-vis 3.25% in 1985.

Declines occurred in the case of oil-exporting nations, while output stagnated or increased slightly in the large non-oil exporting countries of Asia and Latin America. Low prices for oil and other commodities produced an average 17% decline in the terms of trade for developing nations as a whole. The decline was borne in large part by the oil-exporting countries. Export volume increased, but due to the price decline, real purchasing power of third world exports dropped 9.5% in 1986. This compares with an average annual rate of increase of about 7% from 1970 to 1984, and a slight decline in 1985.

The overall current account deficit for the developing nations as a whole almost doubled, from $24 billion in 1985 to $46 billion in 1986. Third world import volume fell 2.5% in 1986, after remaining unchanged in 1985. This decline was concentrated among oil-exporting countries, which as a group reduced import volumes by 21%. Non-oil third world exporters benefitted from an average 9% increase in the purchasing power of their exports in 1986, while raising import volume by 4.5%.

External financing from all sources for developing countries fell slightly in 1986 from $80 billion to $77 billion. Official financial flows to developing countries rose to $52 billion, up from the 1985 low of $44 billion. The report notes that private lending fell far short of official lending levels. However, the latter was also offset by net repayments to the IMF of about $2 billion in 1986. Total third world external debt rose by 9% in 1986 to $1.1 trillion.

Much of the increase, according to the report, can be attributed to the devaluation of the US dollar which boosted the dollar value of debt denominated in other major currencies. Excluding this dollar effect, the value of the debt rose 4%, down from a 6% average in 1983-85, and 19% in the years immediately preceding the debt crisis. Regarding industrial nations, the Fund declares that continued growth of current account imbalances among the United States, Japan and West Germany could cause serious damage to the global economy due to the threat of protectionism and the risk of financial market upheaval.

In calendar year 1986, the US current account deficit increased by $25 billion, while the current account surpluses of Japan and West Germany increased by $37 billion and $20 billion, respectively. The report stated that these imbalances were exacerbated despite the significant change in real
exchange rates since early 1985. The exchange rate movements have almost reversed the real appreciation of the US dollar that occurred during the first half of the decade. Between early 1985 when the dollar peaked, and April 1987, the dollar had depreciated in real effective terms by about 35%. In the same period, the 20% appreciation of the Deutsche mark brought its effective real value back to 1980 levels.

The real effective value of the Japanese yen in April 1987 was 31% higher than its value two years earlier and about the same percentage above its average value in 1980. Major components in a strategy leading to a drop in current account imbalances are reduction in the US budget deficit, and higher domestic demand growth in all industrial nations with large external surpluses, but mainly Japan and Germany.

The IMF described recent world growth performance as "disappointing" in terms of expected benefits from lower oil and non-oil commodity prices and easier monetary conditions. Real growth was about 3.25% last year, similar to that of 1985. In industrial countries, growth slowed to 2.75% in 1986 from 1985's 3.25%. Lower prices paid by industrial countries for fuel and other primary commodities did not produce the expected stimulus to domestic demand. In contrast, developing nations' reduced export earnings led to comparatively rapid cutbacks in imports from industrial countries.

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