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<td><em>Eugenio Diaz-Bonilla</em>, Executive Director for Argentina and Haiti, Inter-American Development Bank, USA</td>
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<td>Global Macroeconomic Developments Implications for Poverty</td>
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GLOBAL MACROECONOMIC DEVELOPMENTS
IMPLICATIONS FOR POVERTY

Eugenio Díaz Bonilla
Executive Director for Argentina and Haiti
Inter-American Development Bank
“Taking Action for the World’s Poor and Hungry People”
Beijing, China. October 17-19, 2007

Growth and Poverty
- Quality of growth in developing countries and poverty alleviation...
  - Level (Trend)
  - Volatility (Cycles and Crises)
  - Distribution (Social Groups, Production Factors, Sectors)
- …affected by world variables
  - Growth in industrialized countries
  - Trade
  - Inflation and Interest Rates
  - Capital Flows
  - Exchange Rates (US Dollar)
  - Prices of commodities

Growth: Trends and Cycles
- World
  - Trend: growth higher in 1960s until mid 1970s; declined later
- Developing countries
  - Acceleration of growth in the 2000s, with lower volatility and inflation. Positive for poverty alleviation
- What comes next?
Future Developments: Cycles 1

- Experience from previous recessions

- Current cycle that started early 2000s:
  - High growth and accelerating inflation (suggests monetary tightening)
  - Over-investment cycle playing out (not only in the USA) and credit problems (suggests monetary easing)
  - Large world imbalances in current accounts; they require coordinated management of aggregate demand and exchange rates in different countries: cooperative or chaotic adjustment?

Future Developments: Cycles 2

- Heading down? The last two recessions...
  - ...world growth declined about 2.5 percentage points
  - ...world trade growth dropped about 6 percentage points
  - ...nominal commodity prices declined (compared to average 3 previous years):
    - Food -8%
    - Beverages -31%
    - Agricultural Raw Materials -3%
    - Metals -17%
    - Index Export Prices LMIC (WB) -16%

Future Developments: Cycles 3

- Developing countries must be prepared for likely turn of the cycle in 2008-2009
  - (1) Strengthen fiscal position: reduce public-sector debt ratios; use additional resources from high commodity prices counter-cyclically; create fiscal space to establish safety nets for the poor and vulnerable
  - (2) Avoid rigid, appreciated real exchange rates
  - (3) Maintain reasonable level of reserves in the central banks as a precaution against possible global turbulences (declines in commodity prices, reversals of capital flows)

- Developing countries have been following better policies than previous debt crises in the 1980s and 1990s, but will that be enough?

Future Developments: Trends

- High trend growth in 1960s and 1970s both developed and developing (3-5% growth pc).
- Ended up in inflationary shocks, monetary contraction, and recessions. Lower trend growth in 1980s and in 1990s in developing countries. Negative impact on poverty
- In 2000s, trend growth appears to have increased in developing countries to 3-5% pc (but industrialized countries about 1-2%)
  - Labor-intensive Asia, globalization and productivity trends: kept inflation low and allowed monetary easing in last two cycles
  - Growth strengthened prices of commodities helping resource-based LAC, SSA, MENA
  - In general, good for poverty reduction
  - But pressure on resources is increasing inflationary trends, and possibility of oil shocks

Medium Term Challenge

- Climate and Environment
- Energy
- Agriculture
- Resource Base

*World Sustainable Energy
*Energy and Poverty
*Energy and Food Security,
*Energy and Health

Poverty, Nutrition, Health

- 1600 million people without electricity (2002)
  - To reach MDG en 2015, ~600 million should have access to electricity
- 2300 millions use biomass for cooking and heating (2002)
  - Impact on health, time, environment
- Impact of global warming on water, temperature, climate events, particularly Africa and South Asia
  - Implications for food security and malnutrition
Energy Issues

- Short-term: imbalances in oil markets by 2010-2012 (International Energy Agency)
  - Demand (oil and products): from 86 mbd to 96 mbd (2007-2012); mostly developing countries. Supply (2012): non-OPEC 60 mbd; OPEC 37/38 mbd
  - OPEC excess supply capacity: low in historical perspective (less 5% of global demand); will decline further since 2010, and go below 2% in 2012.

- Medium to Long Term Projections 2050
  - GDP: 36 trillions (2004) to 105000-115000 trillions
  - Population: 6.5 billions (2004) to 9-10 billions
  - Energy needs: some 480 EJ (2004) to 800-900 EJ
    - Plenty of coal, but problem of greenhouse emissions (GHE)
    - Not viable alternative yet for transportation (more GHE)

Two Crucial Governance Issues

- Macroeconomic imbalances and world business cycle: global coordination failure 1
  - FMI and strengthened surveillance?
  - Multi-country macroeconomic coordination in a different setting? G-7/8 plus China? Financial G-20?

- Energy imbalances and world trend growth: global coordination failure 2
  - What form will take the successor to the Kyoto Agreement?
  - Investments in technology (clean electricity and clean transportation)
  - Crucial for development and poverty alleviation: developing countries need support for policy analysis, negotiations and investments

Thank you...