ECOSOC Dialogue with International Finance, Trade Organizations,

New York July 3, 2012

Mr. ZHU focused on the global economic situation, the impact of the downturn on low-income countries and policy options to address the issue. The global economy was in “a synchronized slowdown”, he said, explaining that the European Union was in recession and the United States’ economy was dragging. Further, economies in emerging countries, such as China, India and Brazil, were slowing as well. Those trends were continuing despite a host of stimulus packages injected and monetary easing in many parts of the world.

The fundamental problem was “deleveraging”, explained Mr. Zhu. Debt levels were very high. Some Governments had a debt ratio of 300 per cent or even 500 per cent of their gross domestic product (GDP). “This has to change,” he said, but acknowledged that it would not be so easy to do. To reduce debt levels, households must save more and spend less, which was bad for economic growth. Deleveraging was a long process. Despite the past three years of austerity measures, debt ratios were on “the upside, not downside”, he said, cautioning about the negative impact of deleveraging on growth.

He said some low-income countries enjoyed strong economic growth, including in Africa’s sub-Sahara region. Despite that, many factors combined to create serious concern for low-income countries, such as low demand, volatile capital flow, commodity prices, escalated risk, and little space for policy options. “Putting these together,” he said, there was a real concern.

There were, nevertheless, some recommended measures that could help address those issues. He said that some countries still had room for policy options. Structural reform was particularly important, and the European Union, for example, had a lot of room for structural reform. Social protection for the most vulnerable people was also important. And growth must be accompanied with job creation. Many studies showed that Governments could do both, along with providing social protection.

It was also vital for donor countries to keep their commitments and continue supporting low-income countries. Lastly, he said that it was important to carefully monitor situations through various available instruments. Preventive measures were also vital. Low-income countries should have access to credit lines before the onset of crises. He solicited Member States’ support for a poverty reduction facility with zero interest rate. “If you have not done so, please do vote yes,” he said.

Mr. ZHU said some issues were not yet understood, such as how technology impacted labour market conditions. There was room in the macroeconomic framework to promote job creation. The Fund worked with the International Labour Organization (ILO) on job and labour market issues, as well as with programme countries including Zambia, Bulgaria and the Dominican Republic on creating a social protection floor.

As for whether green growth could be incorporated into macroeconomic policy, he said that it could and added that there also was much room to carry out subsidy reforms without causing poor people to suffer. Many subsidies went to rich people, who consumed more energy, for example, and thus, received more subsidies on a per capita basis. Fiscal policies could also be used to create change. "We're looking for more cooperation," he said.

To a question about balancing austerity and growth, he said both were needed. "We need a credible fiscal policy in the medium-term, and must promote growth in short term. Smart social expenditure was needed as well

Policy Dialogue B

The policy dialogue on the theme: "How can development cooperation serve as a catalyst for other sources of development financing?" was moderated by Pitchette Kampeta Sayinzoga, Permanent Secretary and Secretary to the Treasury, Rwanda. The panel featured three presentations by: Anne Sipiläinen, Under-Secretary of State, Development Policy and Development Cooperation, Ministry of Foreign Affairs, Finland; Min Zhu, Deputy Managing Director, International Monetary Fund (IMF); and Jesse Griffiths, Director, EURODAD.

Mr. ZHU focused on ensuring national income resource growth, saying that success hinged on using domestic policy to mobilize domestic resources. There was much room to improve tax collection in many countries. In most low-income countries, it was essential to prevent tax avoidance and evasion. Closing tax loops would increase the GDP of those countries by 2 to 4 per cent. Subsidy reforms for energy, water and fertilizer were also needed. To criticism that such reforms would hurt poor people, he pointed out that rich people received six times more in energy subsidies than poor people.

In one of its studies, the IMF had found that only 7 per cent of subsidies went to 20 per cent poorest people, he said. If the OECD taxed $25 on carbon emissions, for example, it would see more than $2 billion raised in budget revenue. Ireland, even in the midst of its financial crisis, had successfully introduced a carbon tax, which started at €15, and gradually increased, generating a few billion dollars in revenue.

As for how low-income countries attracted external capital flows, he said external financing was particularly important for local budgets and local infrastructure investments. The bad news was that such flows were growing more volatile. In 2008-2009, they had caused huge exchange rate volatility. Managing those flows had become crucial to managing domestic affairs. One thing was clear: good local institutional capacity and good governance were essential. In environments where those things were in place, the Fund had found that capital flows tended to stay. On local financial sector development, he said low-income countries needed better banking systems and better local bonds markets to support small and medium-sized enterprises. Improving local supervision was also key. There was huge room to carry out that work.

Mr. ZHU said the Fund was committed to low-income countries and currently focusing on the spill-over effects from shocks to those countries. It had found that 60 per cent of

industrial output variation was due to external shocks. Vulnerability tests had been carried out for low-income countries. Also, the Fund had developed new, more flexible lending instruments, including a precautionary liquidity line and zero-interest rate loans. It was looking to expand that type of lending. On technical assistance, he said the Fund had not typically been in that area but had gradually entered it. It received resources from OECD economies and other advanced economies for that purpose.

For the Full Press Release and Other Documents:

http://www.un.org/News/Press/docs//2012/ecosoc6524.doc.htm

http://www.un.org/News/Press/docs//2012/ecosoc6525.doc.htm