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September 3, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Report on the High-Level Segment of the Annual Session of ECOSOC—New York, July 2008**

Attached for the **information** of the Executive Directors is a report on the High-Level Segment of the Annual Session of ECOSOC held in New York in July 2008, together with the text of an address by Mr. Portugal at the High-Level Segment.

Questions may be referred to Mr. Potter, OIA (ext. 35669) and Mr. Harris, SPR (ext. 36621).

This document will shortly be posted on the extranet, a secure website for the Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

High-Level Segment of the 2008 Annual Session of ECOSOC

Prepared by the Special Representative to the United Nations

Approved by Barry H. Potter

September 2, 2008

High-level Segment of the 2008 Annual Session of ECOSOC
New York, June 30-July 3, 2008

The United Nations' Economic and Social Council's (ECOSOC) annual session was held in New York from June 30-July 25, 2008. The session's high-level segment took place from June 30 to July 3 under the theme of promoting an integrated approach to rural development in developing countries for poverty eradication and sustainable development, taking into account current challenges.

The 2008 High-Level Segment was the first session to operationalize all the new functions of the ECOSOC mandated by the 2005 World Summit. It included the customary dialogue with the WTO, the UNCTAD, the World Bank, and the Fund on current economic issues; the second Annual Ministerial Review; and the first biennial Development Cooperation Forum. In addition, Mr. Rajendra K. Pachauri, Chairman of the UN's Intergovernmental Panel on Climate Change, and Mr. Nicholas Stern, main author of the 2006 UK government-sponsored review on the economics of climate change, gave key-note addresses on the theme of achieving sustainable development.

In a message to the opening of the high-level segment, the UN Secretary-General pointed to four pressing challenges—the fragility of major economies at a time of persistent imbalances, rising fuel prices and disruption in financial markets; the vulnerability of many developing countries to high and rising food prices that would reverse progress toward the MDGs if not addressed rapidly; the deepening threat to the global economy of climate change and environmental degradation; and rising skepticism about the impact of globalization due to rising inequalities. Stressing the need for longer-term planning to improve world food security and to find solutions to rising fuel prices, the Secretary-General noted that this ECOSOC session should give new impetus to realizing the achievement of economic growth, social development, and environmental protection in an integrated and balanced manner.

Sustainable development and climate change

Mr. Pachauri focused his presentation on the urgent need for climate change mitigation given the starting points on both climate and socio-economic systems. Targeting even a relatively low long-run level of green-house gasses in the atmosphere would be feasible through deployment of current and expected new technologies with the bulk of green-house gas reductions coming from the supply side (new energy systems and changed industrial processes). Mr. Stern centered his address on the key components needed to secure a global deal on climate change. The Heiligendamm target of 50 percent cuts in world emissions by 2050 would need to be confirmed and developing countries should take on emission targets of their own by 2020 after industrialized countries have demonstrated the feasibility of low-carbon growth, increased funds to developing countries and stepped up technology transfers.

Inter-agency dialogue

Mr. Portugal participated in the inter-agency dialogue together with Mr. Supachai Panitchpakdi (UNCTAD), Ms. Valentine Rugwabiza (WTO), and Mr. Justin Lin (World Bank).[1] In his address, Mr. Portugal touched on the macroeconomic effects of sharply rising commodity prices, the ongoing stress in world financial markets, and the shifting pattern of global imbalances (see annex). In his intervention, Mr. Supachai expressed concern about the emergence of double-digit inflation in several developing countries and called for a global approach to address heightened inflation risks, including a global energy policy to slow further fuel price increases. Mr. Supachai also called for higher ODA allocations to agriculture while protecting ODA allocations for health and education. Mr. Lin's intervention focused on the implications for developing countries of the global economic outlook with a particular emphasis on progress toward meeting the MDGs, while Ms. Rugwabiza discussed the prospects of reaching an early conclusion of the Doha Round negotiations.

Annual Ministerial Review

This year's *Annual Ministerial Review* (the first was in 2007) assessed progress made towards implementing the internationally agreed development goals, including the Millennium Development Goals (MDGs), and contributed to furthering the development agenda by showcasing successful practices and approaches that merit scaling up. The *Review* addressed the theme of implementing the internationally agreed goals and commitments in regard to sustainable development and included presentations by four donor countries (Belgium, Finland, Luxembourg, and the UK) as well as four developing countries (Chile, Lao P.D.R., Kazakhstan, and Tanzania).[2]

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[1] Mr. Potter (UNO) and Messrs. Harris and Nielsen (PDR) also attended the ECOSOC meeting.

[2] The national presentations are available at http://www.un.org/ecosoc/newfunct/amrnational.shtml.

Development Cooperation Forum

The new biennial *Development Cooperation Forum* (DCF) aims at positioning ECOSOC as a principal forum for global dialogue and policy review on the effectiveness and coherence of all aspects of international development cooperation. The DCF was expected to strengthen the voice of all stakeholders through an inclusive high-level dialogue on key development cooperation issues covering the broad range of issues affecting development effectiveness, including policy coherence, and serving as an international mechanism of mutual accountability.

The first DCF served to provide strategic input to the September Accra High-level Forum on Aid Effectiveness and the November Doha review conference on Financing for Development, which is seen as an opportunity to define measures to put the attainment of the MDGs back on track, in the context of a rapidly changing landscape for development finance. The debate highlighted the need to meet aid commitments and better balance aid allocations across countries and sectors, and for greater policy coherence, support for country-driven national development and capacity-building strategies. The DCF also called for closer integration of non-state development cooperation actors and deeper South/South cooperation. There were also calls for more transparent criteria for aid allocation across program countries and increased aid in support of agriculture and food security, infrastructure, energy and trade.[3]

Ministerial Declaration

The adoption of the ministerial declaration capped the high-level segment. Against the background of current global challenges relating to slowing growth, rising food and fuel prices, and financial instability, the declaration called for early and concerted action to realize the internationally agreed development goals, and in particular, for all donors and the UN system to increase assistance to developing countries most affected by rising food prices. Concern was expressed over the overall decline in ODA in 2006 and 2007, but the declaration welcomed the fact that the HIPC/MDRI initiatives had enabled benefiting countries to increase their expenditures in the social sectors consistent with achieving national priorities including those related to achieving the MDGs. The declaration called for an effective and appropriate international response to the global challenge of climate change, based on the principle of common but differentiated responsibilities. It also stressed the importance of diversifying energy supply toward renewable energy sources and emphasized the need to address the challenges and opportunities posed by biofuels in view of the world's food security, energy, and sustainable development needs.[4] Ministers also called for the early conclusion and successful development-oriented outcome of the Doha Round of trade negotiations.

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[3] A summary of the *Forum's* deliberations is available at http://www.un.org/ecosoc/newfunct/2008dcf.shtml.

[4] The full text of the declaration is available at http://www.un.org/Docs/journal/asp/ws.asp?m=E/2008/L.10.

Address by Mr. Murilo Portugal
Deputy Managing Director of the International Monetary Fund
At the 2008 High-Level Segment of ECOSOC
New York, June 30, 2008

Mr. President, Excellencies, Ladies and Gentlemen,

It is a great pleasure to address this distinguished audience again and to share with you the IMF's views on current economic developments and the outlook for the global economy.

The global economy is slowing in the wake of financial dislocations and the effects of soaring commodity prices on global demand. However, global activity seems to be more resilient to the financial shock than the IMF originally feared. At the ECOSOC meeting last April, the IMF was projecting that global growth would slow to below 4 percent in 2008 and 2009, following 4.9 percent growth in 2007. However, actual growth in the first quarter of 2008 has been stronger than anticipated. As a result, our growth forecasts for 2008 are likely to be revised up a notch. But we still anticipate a protracted slowdown. The outlook for global growth for 2009 will likely remain broadly unchanged from our April forecasts.

Growth in the United States fell below one percent in each of the last two quarters, reflecting continuing distress in the housing and financial sectors and slowing private consumption. The downturn appears likely to be more drawn-out than usual. In the **Euro area**, growth is likely to slow, following a first quarter stronger than we anticipated. **Japan's** GDP also grew faster than anticipated in the first quarter, but domestic demand is likely to weaken, because of higher food and fuel prices and slower wage growth. **In emerging and developing economies,** growth is projected to moderate only modestly in 2008 and 2009. This reflects robust domestic demand and the strong growth of export receipts in some commodity exporters.

But there are important downside risks to this outlook:

- **First, inflation risks, rooted largely in rising commodity prices, have accelerated,** limiting central banks' room for maneuver in support of growth**.** Central banks in some countries have already begun tightening policies to head off second-round effects of the recent price hikes on core inflation, and to re-anchor inflation expectations. Inflation risks are a particular concern in some emerging economies, where monetary policy makers face constraints from inflexible exchange rate regimes.

- **Second, while financial sector risks have moderated and markets begun to stabilize, overall market confidence remains fragile.** Central banks have demonstrated their commitment to forestall systemic events, and financial firms have made progress in recognizing losses and replenishing capital. Yet bank balance sheets are still under strain from accumulated financial losses, despite banks' efforts to raise new capital. Also, the securitization markets remain severely impaired. As economies slow down, the potential for a wider credit deterioration beyond the subprime mortgage market could trigger another round of tightening credit conditions.

- **A third risk is the shifting pattern of global imbalances, which is raising new concerns.** The risks of near-term disorderly adjustment of current account imbalances appear to have eased. However, while the U.S. dollar has declined significantly in real effective terms, this adjustment has fallen disproportionately on currencies of economies with flexible exchange rate regimes. These disproportionate adjustments may be producing new misalignments. Investments of the rapidly expanding surpluses of oil exporters, including through sovereign wealth funds, have raised concerns about some protectionist backlash. Moreover, the increase in capital inflows into some emerging economies could portend growing financial vulnerabilities down the road.

The task of responding to a cyclical slowdown and dealing with financial strains has been considerably complicated by the volatile behavior of oil and other key commodity prices. The recent interest rate cuts in the United States will at some stage need to be unwound, but premature tightening could exacerbate financial strains. In most emerging economies, responding to rising inflation is the most immediate concern. Fiscal policy could play an important complementary role to monetary policy, to help contain rising inflation and commodity price risks. Policy makers would need to respond flexibly to a reemergence of financial strains, and work to rebuild confidence and resilience in the financial system.

Excellencies, Ladies and Gentlemen: the world is facing today a confluence of several challenges. Each of these challenges is serious in its own right, but their combined impact has implications that go beyond managing overall inflation or financing higher import bills.

Higher food and fuel prices confront many developing countries with serious questions about the right macroeconomic response. Among these questions:

- How are the price increases affecting the prospects for achieving the MDGs? What policies can be used to protect hard-won gains in poverty reduction in a sustainable and financially viable manner?

- Can countries mobilize additional financing to pay for immediate measures and higher import bills without diverting resources away from other uses critical to the MDGs?

- What is the right balance between short-term financing and adjustment in the responses to the increased prices? What are the best instruments for this adjustment?

Making the right choice on these questions is further complicated by other challenges that are being brought into stark relief by the rise in food, energy and commodity prices. Higher fossil fuel prices reinforce the attractiveness of biofuels as an alternative energy source. But we must ensure that arable land is not taken out of food production and assigned to biofuels production. Moreover, biofuels production should be driven by market forces, and not by distortionary support subsidies in individual countries.

In an increasingly globalized economy, where world supply for highly traded products falls short of demand and supply cannot be quickly increased, prices will rise—sometimes dramatically as we have seen. While some countries—especially net food and oil importers—are being more affected than others, prices have risen for all and no one country will be immune from their impact on global growth. No one country can overcome all the complex and interrelated challenges on its own. International cooperation and institutions are needed to help find global solutions to interrelated global problems. International institutions should not operate in isolation or compartmentalize the work needed on food prices, on climate change, on biofuels and on achieving the millennium development goals. Our efforts must be coordinated to successfully meet the challenges.

We are seeing good examples of how this coordination can be achieved. Within the UN system, the Secretary General's High-Level Task Force on the Global Food Price Crisis, and the MDG Africa Steering Group have brought together different actors, each with its own area of expertise and comparative advantage, but each firmly committed to finding consistent solutions to the issues at hand. Such joint work is more important than ever before. I can assure you that the IMF remains committed to play its part to help find solutions to these global issues.

Thank you for your attention.