WORLD TRADE ORGANIZATION

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STATEMENT BY THE INTERNATIONAL MONETARY FUND TO THE WTO COMMITTEE ON AGRICULTURE ON THE OCCASION OF THE ANNUAL MONITORING EXERCISE OF THE MARRAKESH MINISTERIAL DECISION ON NET FOOD-IMPORTING DEVELOPING COUNTRIES

1. The global economic recovery has suffered some setbacks and prospects remain uncertain. Activity in the advanced countries has decelerated, and growth has also slowed in many emerging and developing countries. For many emerging and developing countries higher prices of certain food items add to the downside risks. While global imbalances and associated vulnerabilities have diminished somewhat, more decisive policies will be necessary to lower risks and support sustainable global growth.

2. Working with other development partners, the IMF will continue its efforts to help Low-income countries (LICs) and Net Food-Importing Developing Countries (NFIDCs) meet their challenges, including through the Rapid Credit Facility (RCF), Rapid Financing Instrument (RFI), and, as needed, through the augmentation of existing arrangements, such as the Extended Credit Facility (ECF). The IMF will continue to work with other International Financial Institutions (IFIs) toward a strong and open system of international trade, in support of macro-economic stability and sustainable inclusive growth.

I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK FOR 2013

3. The global economic recovery has been disappointing. The downside risks to growth have increased, with a possible further escalation of the euro area crisis and increasing fiscal risks in the United States. Following a downward revision of growth projections, the IMF now expects global output to increase by 3.3% in 2012 and 3.6% in 2013. For emerging market and developing economies, the IMF projects real growth of 5.3% in 2012 and 5.6% in 2013.

4. While most LICs[1] have experienced strong growth since 2010, vulnerabilities are re-emerging, in particular with regard to global conditions and commodity price volatility. With weaker fiscal positions and higher current account deficits, LICs are now less well prepared to deal with external shocks, and the challenge for these countries is to use their currently buoyant growth to rebuild policy buffers without compromising public investment and social protection.

5. For NFIDCs, the IMF projects a modest recovery in 2012 and 2013. Real growth in these countries is expected to rebound to 4.3% in 2012 and 4.6% in 2013. While remaining significantly higher than in other emerging market and developing economies, consumer price inflation is expected to decline to 10.1% in 2012 and further to 9.5% in 2013. Growth in NFIDC import volumes is projected to remain somewhat lower than the weighted average for all emerging market and

[1] LICs are countries eligible for concessional support under the Poverty Reduction and Growth Trust, see www.imf.org/external/np/pp/eng/2012/011312.pdf.

developing economies in both 2012 and 2013, while export growth is expected to rebound strongly to 6.5% in 2013 (Table 1).

6. Recent volatility in commodity prices gives rise to concern, with possibly substantial effects on low-income countries and their vulnerable populations. Prices for food and cereal have risen by 12 and 19%, respectively, as of September 2012, relative to end 2011, as the recent drought in the United States contributed to a rise in prices for corn and soybeans, while wheat prices increased amid smaller production in the Black Sea region. While the current shock is less severe than the food price shock of 2007-2008, since it has affected a more limited number of food commodities and has so far not been aggravated by trade restrictions, food prices remain elevated. Also, stocks are more comfortable now than in 2007–2008, even though the inventories of corn and rice are low, and wheat and soybean inventories are falling. Countries in Africa, Central America, the Caribbean, and the Middle East are most vulnerable to potential deterioration in trade balances, inflation, and fiscal positions. Oil prices also have been volatile in 2012, but spillovers to other markets have so far been limited. The IMF expects food prices to fall by 1% in 2012, on average, relative to 2011, and average petroleum spot prices to rise by 2% over the same period. Futures markets point to a further moderation in food prices by end 2013, although the risks are tilted to the upside.

II. POLICY IMPLICATIONS

A. Growth-oriented policies

7. Over the short to medium term, the main policy challenge will be to support growth and maintain financial stability, while preserving the policy space to deal with future shocks. In both LICs and emerging markets, policymakers should focus their efforts on shielding the most vulnerable segments of the population from the adverse effects of external shocks. Structural policies need to complement macroeconomic policies to improve both the medium-term and longer-term outlook for growth and jobs.

B. Response to food price volatility

8. In response to food price shocks, the IMF recommends that food importing countries scale up safety nets to protect the poor, accommodate first-round effects on inflation while allowing greater flexibility of the real exchange rate, and, where effects are large, possibly use fiscal space to reduce food taxes, if and where available. They might also consider drawing on external finance to support the balance of payments. Food producers and exporters should increase agricultural investment and avoid export restrictions, which would disrupt supply and exacerbate price increases.

C. Response to fuel price volatility

9. Policies in response to fuel price volatility should encourage a stronger demand response to higher prices, including through higher fuel taxes in some advanced economies, and targeted cash transfers in place of fuel subsidies in developing economies. In the short to medium term, increased investment in the oil sector will be important to bring stability to oil prices. Over the longer term, a transition to other fuels and renewable sources of energy will be essential.

D. Trade liberalization

10. Concluding the Doha Round remains a priority, and more work is needed to overcome the remaining differences. Beyond the Doha Round, more inventive approaches are needed on food and energy security, open regionalism, services, and trade-related climate change issues. Pending tangible progress at the multilateral level, advanced and major emerging market countries could pursue unilateral trade liberalization (especially on a nondiscriminatory basis); expand and simplify trade

preferences for the poorest countries; and reduce trade-distorting farm subsidies. In view of the recent focus on bilateral, regional, and plurilateral trade negotiations, it is essential that regionalism be transparent and trade-creating, rather than trade-diverting.

E. AID EFFECTIVENESS

11. While economic challenges in many donor countries have put pressure on aid budgets, donors should strive to meet aid commitments. Further increasing aid effectiveness is also important, including through enhanced capacity building.

III. THE IMF RESPONSE TO GLOBAL ECONOMIC CHALLENGES

A. LENDING

12. Since the beginning of the global economic crisis in 2008, the Fund has made 138 new commitments, 58 non concessional General Resources Account (GRA) and 80 concessional (PRGT), with gross commitments of US$534 billion and US$154 billion disbursed.

B. SUPPORT FOR LICS

13. Demand from the IMF's LIC members for concessional financing remains high, with annual commitments averaging about US$2 billion during 2010-2012, and demand from small and fragile economies has increased. Fund financial and policy support is promoting poverty reduction and growth by relieving liquidity constraints and catalysing donor support[2], and has enabled LICs to protect or even boost priority spending. In response to drought-related vulnerabilities, the IMF augmented its financial support to Burkina Faso, Djibouti, and Kenya, and approved new financing for The Gambia, Mali, and Niger. The US$1 billion ECF arrangement for Bangladesh has aided macroeconomic stabilization and is supporting stronger growth.

C. SUPPORT FOR THE ARAB COUNTRIES IN TRANSITION (ACT)

14. The IMF actively supports the ACT through financial assistance, capacity building, policy advice, and technical assistance. Sustained engagement by the international community and determined efforts by the ACTs are needed to maintain macroeconomic stability and attain durable and inclusive economic growth. The IMF has so far provided financial assistance to Yemen, Jordan, and Morocco and is negotiating assistance to additional ACT.

D. DEBT RELIEF

15. Further progress has been made under the Heavily Indebted Poor Countries (HIPC) Initiative, with Côte d'Ivoire and Guinea reaching the completion point during 2012. This brings the share of countries benefiting from irrevocable debt relief under the HIPC and the Multilateral Debt Relief Initiative (MDRI) to nearly 90% of all those eligible. Debt relief provided under the HIPC and MDRI is estimated at US$94.3 billion in end 2011 present value terms. The IMF continues to work with other eligible countries that could benefit from the initiatives.

[2] See http://www.imf.org/external/np/sec/pn/2012/pn12108.htm.

IV. STRENGTHENING THE IMF'S INSTRUMENTS

A. PROGRAMME MODALITIES

16. In response to global economic challenges, the Fund has substantially reformed the GRA and the PRGT lending toolkits. Since 2009, GRA lending reforms have resulted in the creation of the Flexible Credit Line (FCL) and the Precautionary and Liquidity Line (PLL), to allow for greater duration flexibility. The RFI was also created to broaden and consolidate emergency assistance responses. In 2009, reforms to the PRGT had expanded the Fund's ability to support LICs. A review of these reforms found that they had succeeded in creating a flexible and streamlined financing architecture, better tailored to members' diverse needs.

B. ADDITIONAL RESOURCES

17. In response to persisting global economic risks, 39 IMF members have pledged US$461 billion to supplement IMF resources through bilateral borrowing agreements. Together with quota resources and the new arrangements to borrow, the new resources, when fully in place, will bring the Fund's lending power to over US$1 trillion.

C. CONCESSIONAL FINANCING

18. The Executive Board recently endorsed a strategy to place the Fund's concessional lending framework on a sustainable basis.[3] For this, the Fund will use a part of its windfall gold sales profits. Member countries have already given the needed assurances that they will do their part by providing their share of a first part of the windfall profits to the Poverty Reduction and Growth Trust. A critical step will be to secure similar assurances for a second share of the windfall profits.

D. CONDITIONALITY

19. The recent Review of Conditionality found that Fund-supported programmes had been tailored to country needs, had adapted to circumstances, and used streamlined conditionality. However, further efforts are needed to strengthen the link between surveillance and programme work, including by enhancing risk diagnostics. The Review highlighted challenges the Fund faces in programmes for countries with high debt, and the need to keep conditionality focused and to further improve partnerships with other institutions. While programmes had largely protected priority spending, the social aspects of policy measures in programme design also need to be considered in the broader context of employment issues and strategies for inclusive growth.

E. SURVEILLANCE

20. The Integrated Surveillance Decision and the Pilot External Sector Report are important steps toward better integrating the Fund's surveillance over individual economies and global developments. Among other things, the Integrated Surveillance Decision will help improve the effectiveness of the IMF's surveillance by allowing a fuller analysis of spillover effects between countries of economic policies. The External Sector Report provides a multilaterally consistent analysis of the external positions of major world economies, providing comprehensive analysis of exchange rates, current accounts, reserves, capital flows, and external balance sheets.

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[3] See http://www.imf.org/external/np/sec/pn/2012/pn12118.htm.

F. ANALYSIS OF VULNERABILITIES

21. As part of its work to help LICs manage volatility, the Fund has developed an analytical framework to assess vulnerabilities and emerging risks that arise from changes in the external environment. A report published in 2011 drew on the results of the first Vulnerability Exercise for LICs conducted by Fund staff using this new framework, focusing on the risks of a downturn in global growth and of further global commodity price shocks and related policy challenges. The update of this exercise, completed in early November 2012, found that the near-term risks for LICs of a shock-induced recession have been reduced since the 2009 crisis, but that vulnerabilities are re-emerging in 2012 given lower and unevenly distributed macroeconomic policy buffers and additional risk factors. The IMF also regularly conducts vulnerability exercises for Advanced and Emerging Economies.

G. FRAGILE STATES

22. In July 2011, the Executive Board discussed the IMF's engagement with fragile states, expressing support for a graduated, flexible, and programmatic approach to working with these countries. The IMF's engagement with countries in fragile situations has helped strengthen macroeconomic frameworks, build up institutional and human capacity, and secure debt relief. Greater flexibility in programme design will serve to better reflect the limited implementation capacity in states in fragile situations and help foster macroeconomic stability while implementing reforms with tangible benefits.

H. TECHNICAL ASSISTANCE (TA)

23. In providing TA and training, the Fund will maintain its focus on LICs. Having opened regional TA and training centers in Kuwait and Mauritius, and preparing for the establishment of a TA center in Ghana, the Fund is also bolstering resources at headquarters to maintain backstopping and quality control for TA.

V. INTERNATIONAL POLICY COLLABORATION

A. G-20

24. Along with other partners, the Fund assists the G-20 in advancing the Framework agenda to promote strong, sustainable, and balanced growth. As part of the G-20 Mutual Assessment Process (MAP), the Fund has provided input to assess the consistency of members' policy commitments with stated growth objectives. The Fund is involved in developing an accountability assessment framework as part of the MAP to assess progress toward fiscal, monetary, and structural policy commitments; continues to provide support for the G-20 Data Gaps Initiative; and contributes to discussions to identify optimal policy responses to commodity price volatility.

B. AID FOR TRADE

25. The IMF participates in the Aid for Trade initiative and is a core agency in the Enhanced Integrated Framework (EIF) for least-developed countries.

C. MILLENNIUM DEVELOPMENT GOALS (MDGS)

26. The IMF collaborates with other agencies to help countries achieve the MDGs, including by participating in initiatives such as the MDG GAP Task Force.

TABLE 1
Overview of the World Economic Outlook Projections
(Annual percent change, unless otherwise noted)

			Projections	
	2010	2011	2012	2013
World Output	**5.1**	**3.8**	**3.3**	**3.6**
Advanced Economies	3.0	1.6	1.3	1.5
Emerging and Developing Economies	7.4	6.2	5.3	5.6
Net Food-Importing Countries[1]	4.5	3.8	4.3	4.6
Developing Asia	9.5	7.8	6.7	7.2
China	10.4	9.2	7.8	8.2
India	10.1	6.8	4.9	6.0
ASEAN-5[2]	7.0	4.5	5.4	5.8
Latin America and the Caribbean	6.2	4.5	3.2	3.9
Brazil	7.5	2.7	1.5	4.0
Middle East and North Africa	5.0	3.3	5.3	3.6
Sub-Saharan Africa	5.3	5.1	5.0	5.7
South Africa	2.9	3.1	2.6	3.0
Central and Eastern Europe	4.6	5.3	2.0	2.6
Commonwealth of Independent States	4.8	4.9	4.0	4.1
Russia	4.3	4.3	3.7	3.8
Excluding Russia	6.0	6.2	4.7	4.8
Memorandum				
World Growth Based on Market Exchange Rates	4.1	2.8	2.6	2.9
World Trade Volume (goods and services)	**12.6**	**5.8**	**3.2**	**4.5**
Net Food-Importing Countries	7.5	4.4	3.5	3.3
Imports				
Advanced Economies	11.4	4.4	1.7	3.3
Emerging Market and Developing Economies	14.9	8.8	7.0	6.6
Net Food-Importing Countries[1]	2.3	5.2	6.3	5.4
Exports				
Advanced Economies	12.0	5.3	2.2	3.6
Emerging Market and Developing Economies	13.7	6.5	4.0	5.7
Net Food-Importing Countries[1]	3.4	1.9	2.8	6.5
Commodity Prices (U.S. dollars)				
Oil[3]	27.9	31.6	2.1	-1.0
Nonfuel (average based on world commodity export weights)	26.3	17.8	-9.5	-2.9
Consumer Prices				
Advanced Economies	1.5	2.7	1.9	1.6
Emerging Market and Developing Economies	6.1	7.2	6.1	5.8
Net Food-Importing Countries[1]	9.6	11.5	10.1	9.5
London Interbank Offered Rate (%)[4]				
On U.S. Dollar Deposits	0.5	0.5	0.7	0.6
On Japanese Yen deposits	0.4	0.3	0.4	0.3
On Euro Deposits	0.8	1.4	0.6	0.2

Source: IMF World Economic Outlook, October 2012

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[1] Least Developed Countries as recognized by the Economic and Social Council of the United Nations, in addition to 30 countries, in accordance with the decision of the WTO Meeting of the Committee on Agriculture on March 21, 2012.

[2] Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

[3] Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was US$104.01 in 2011; the assumed price based on futures markets is US$106.18 in 2012 and US$105.10 in 2013.

[4] Six-month rate for the United States and Japan. Three-month rate for the Euro area.