Statement by Mr. Jose Antonio Ocampo,
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To the Economic and Social Council High-Level Segment
World Economic Situation and Prospects as of mid-2005

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Mr. President, Distinguished Friends

According to the mid-year update of the *World Economic Situation and Prospects 2005* that you have on your tables, the world economy has behaved broadly in line with what we projected in January. Global economic growth has slowed, with gross world product (GWP) expected to expand at a rate of 3 1/4 per cent in 2005 and 3 1/2 per cent in 2006, following 4.1 per cent in 2004.

The anticipated growth of the world economy for 2004-2006 is not only the strongest for the past few years but is unusually widespread among developing countries and economies in transition. Even with a deceleration, developing countries as a group are expected to grow at a rate approaching 6 per cent in 2005-2006, while the economies in transition will remain above 5 per cent. The developing countries, in particular, are showing greater resilience than in the past to the deceleration in economic growth in the developed world; growth in Africa, for example, is expected to be higher in 2005-2006 than in 2004.

Long-standing disparities in growth among developing regions remain, but they are less than on most previous occasions and all developing regions are performing well by their respective standards of the past few decades. South Asia has joined East Asia in growing in the range of 6-7 per cent while Africa and Latin America are expected to exceed 5 and 4 per cent respectively in 2005-2006. Among sub-groupings, the least developed, the landlocked and the sub-Saharan African countries (excluding Nigeria and South Africa) are all expected to average growth approaching 6 per cent over the these two years. Looking back, output per capita rose by more than 3 per cent in 2004 in almost half the developing countries and these countries accounted for over 80 per cent of the developing world's population.

This higher economic growth in many developing countries is partially attributable to the improvements in economic policies within these countries themselves. In addition, domestic demand is playing a more important role because of these countries' more stable economic and, in some cases, political conditions. However, the outcome is also a result of an international economic environment that, for most developing countries, is more favourable than any since the 1970s.

International trade grew by some 11 per cent in 2004 and is forecast to increase by a further 8 per cent in 2005. At the same time, the international prices of many of the exports of developing countries, notably oil but also many other commodities, have risen in the past couple of years: oil prices, as everybody knows, have more than doubled but non-oil commodity prices have increased by more than a quarter in dollar terms and by about 10 per cent in real terms. In the cases of both oil and non-oil commodities, prices remain below their long-term averages and the recent improvements have been partially offset by the depreciation of the United States dollar. Nevertheless, the higher prices have yielded a short-run benefit. The price increases of the recent past are not expected to continue, but neither are prices expected to fall to their previous levels so that there will be some continuing benefit to exporters for the immediate future. The significant weight of Chinese demand is, as we know, a major factor behind high commodity prices.

Conditions for many developing countries have also improved in international financial markets. Financial flows to developing countries are increasing, their costs are low by historical standards and non-debt-creating flows, notably FDI, are assuming greater importance. For countries without access to international financial markets, ODA has reversed its decline and commitments by several donors suggest further increases in the years ahead. Similarly, there has been some further progress towards reducing the debt burden of some of the Heavily Indebted Poor Countries (HIPCs).

Despite these improvements, however, the net transfer of financial resources from developing countries continues to increase –from over $270 billion in 2003 to a record of over $350 billion in 2004. Admittedly, this net transfer overwhelmingly reflects a build-up of foreign exchange reserves by a number of countries with trade surpluses rather than the capital outflows and debt service payments that characterized the 1980s and some of the 1990s. Nevertheless, this extensive accumulation of reserves raises the question of whether the international financial system could be reformed in such a way that the countries concerned would not feel the need to use these resources in a way that yields few tangible developmental benefits beyond the "self-insurance" from future financial crises.

Contrary to our expectations, the price of oil has continued to increase, having recently crossed the threshold of $60 per barrel. Oil prices, as we all know, can have a critical bearing on the growth of the world economy and the persistence of higher oil prices is one of the factors that is dampening global growth: the longer the present levels of oil prices persist, the greater the damage to global economic growth. Slower global growth, in turn, is expected to reduce the upward pressure on oil prices but, given the tight supply and the slow installation of additional capacity, oil prices are unlikely to decline substantially. If we again prove wrong in our forecast and oil prices increase yet further, a more substantial global economic slowdown seems likely. Otherwise, the world economy seems to be adjusting to higher oil prices without large adverse effects.

At the present time, a greater risk of a sudden and disruptive shock to the world economy seems likely to stem from the large and widening global imbalances: the current account deficit of the United States is expected to rise to over $700 billion in 2005 and to remain in that range in 2006. Reflecting this deficit, and despite some strength in recent weeks, the US dollar has depreciated vis-à-vis other major currencies over the past few years. So far, however, this depreciation does not appear to have had much corrective effect on the imbalances. As long as the large United States deficit persists, there will be a risk of adverse reactions, either by policy makers or by markets. There are, for example, dangers of increasing protectionism in some areas. In financial markets, there is the persistent possibility of a new wave of weakening of the dollar, including a chance that it could take place in a disorderly manner. Such disorderly adjustment would have severely disruptive effects on world trade, global financial markets and, ultimately, global economic growth.

Both analysis and evidence to date suggest that the depreciation of the United States dollar is not sufficient to reduce the imbalances to sustainable levels. A more comprehensive and long-term set of measures is required. Importantly, these measures should involve both deficit and surplus countries and should, above all, avoid contractionary effects on developing countries. To achieve these objectives, there is a need for more concrete international economic coordination specifically aimed at rectifying the imbalances. The present would be an ideal opportunity to begin such corrective action, precisely because the world economy as a whole is in a relatively strong position.

The present economic strength of many developing countries demonstrates that substantial progress is possible under the right domestic and global economic conditions. A deterioration in the external environment stemming from the global imbalances would have an untoward effect on both the immediate prospects of developing countries and their longer term development, including their efforts to achieve the internationally-agreed development goals. It is from this perspective that addressing the global imbalances should be seen as part of the long-term global development agenda that is the theme of this session of ECOSOC.

Particularly after the weak growth at the beginning of the millennium, even the improvement now being achieved by many developing economies is unlikely to be sufficient to enable them all to achieve the internationally-agreed development goals; further improvement in growth is necessary and any loss of momentum would be critical. At the same time, in many smaller countries, notably in Africa, economic growth itself continues to languish and an even more substantial improvement is required for such countries to achieve the longer-term objectives that are the focus of the present session. I hope our discussions here this morning will identify ways and means –at both the national and international levels—to ensure that the necessary further improvements in growth are achieved.

At the same time, we all recognize that economic growth alone, while necessary, will not be sufficient to ensure long-term development. The present period of robust global growth opens a window of opportunity for accelerating the implementation of the global development agenda set at the global conferences of the 1990s and at the Millennium Summit in 2000. We have already had two days of fruitful discussions in the General Assembly's High-level Dialogue on Financing for Development. I hope that our discussions over the next three days will advance the consensus that has developed and, above all, will generate yet additional political will to ensure that bold and decisive action is taken at the Summit Meeting in September.