Commodity price volatility and growth inclusiveness in LICs

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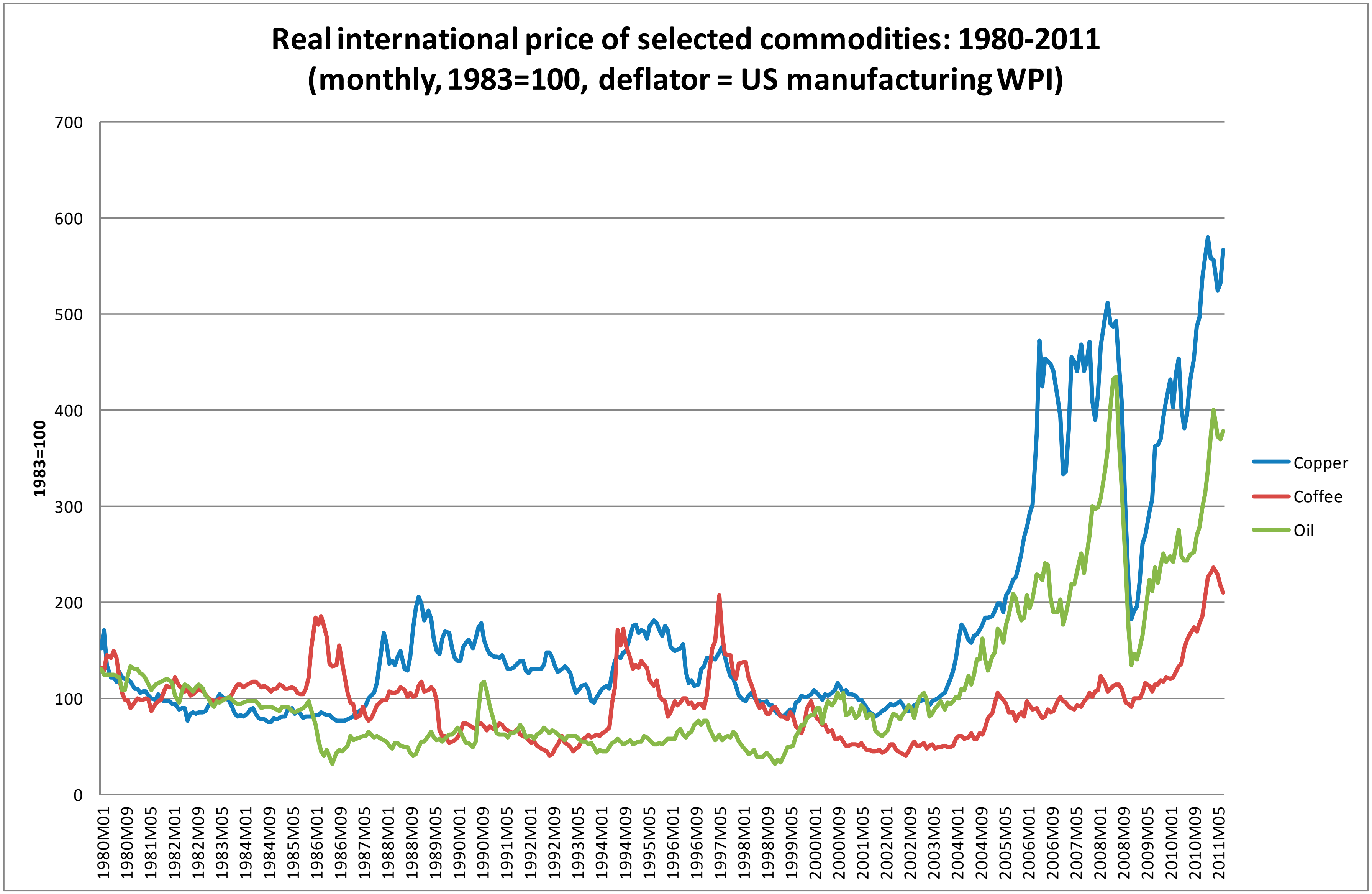

Real international price of selected commodities: 1980-2011
(monthly, 1983=100, deflator = US manufacturing WPI)
1983=100
0
100
200
300
400
500
600
700
1980M01
1980M09
1981M05
1982M01
1982M09
1983M05
1984M01
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2005M05
2006M01
2006M09
2007M05
2008M01
2008M09
2009M05
2010M01
2010M09
2011M05
Copper
Coffee
Oil

The recent growth acceleration in commodity dependent LIC

- Surge in commodity prices
  - accelerated growth in commodity dependent LICs
  - permitted to smoothen the 2008-9 crisis
  - but unclear how much it benefited to the poor
  - no distinctive structural change observe in growth
- New (and longer) slowdown now expected

- … Consequences and implications of that volatility and ways to cope with it

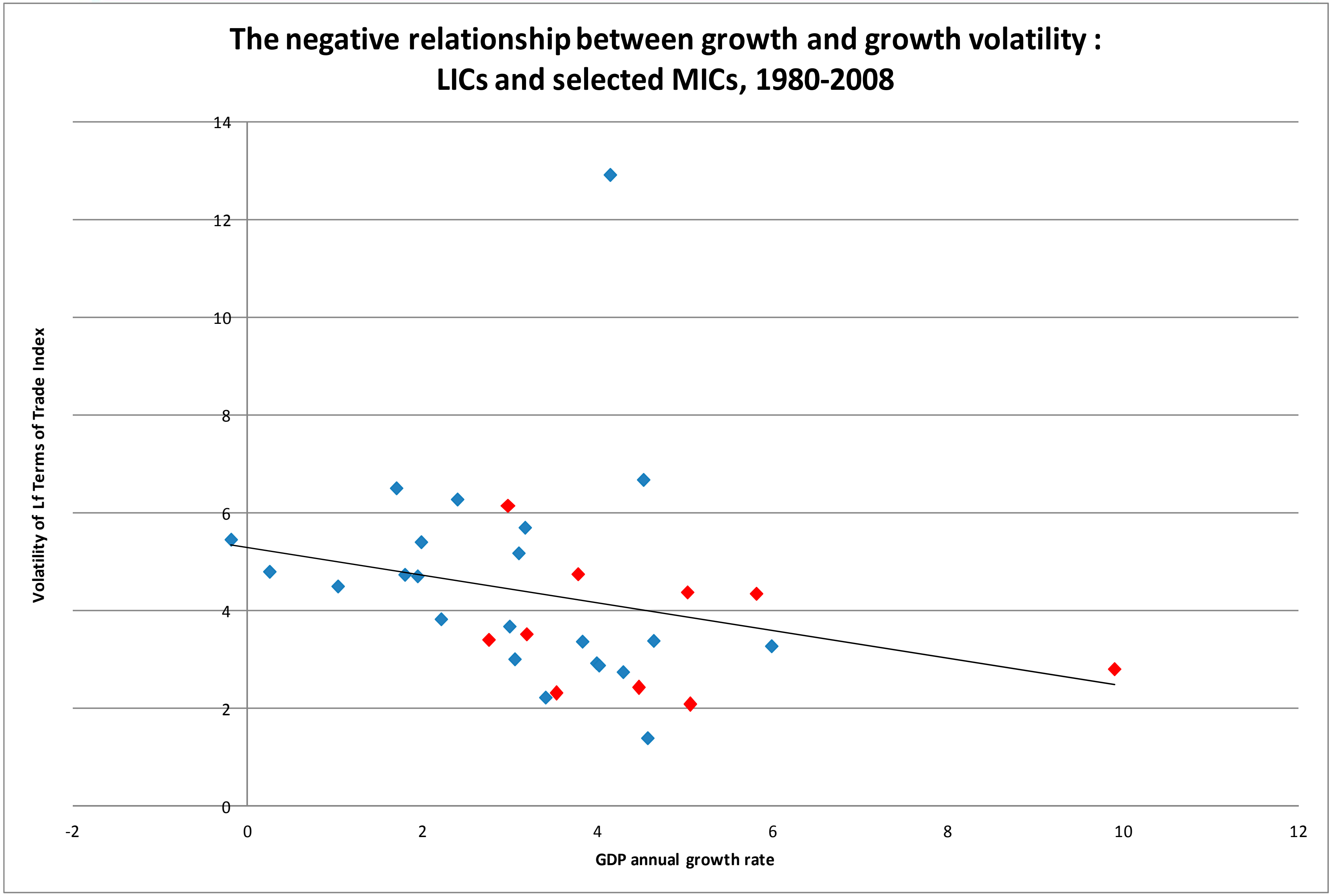
Outline

1. Consequences of commodity price volatility:
   - Growth
   - Inequality
   - Vulnerability
2. How to cope with the effects of volatility:
   - Micro
   - Macro
3. What role for the global community and donors?

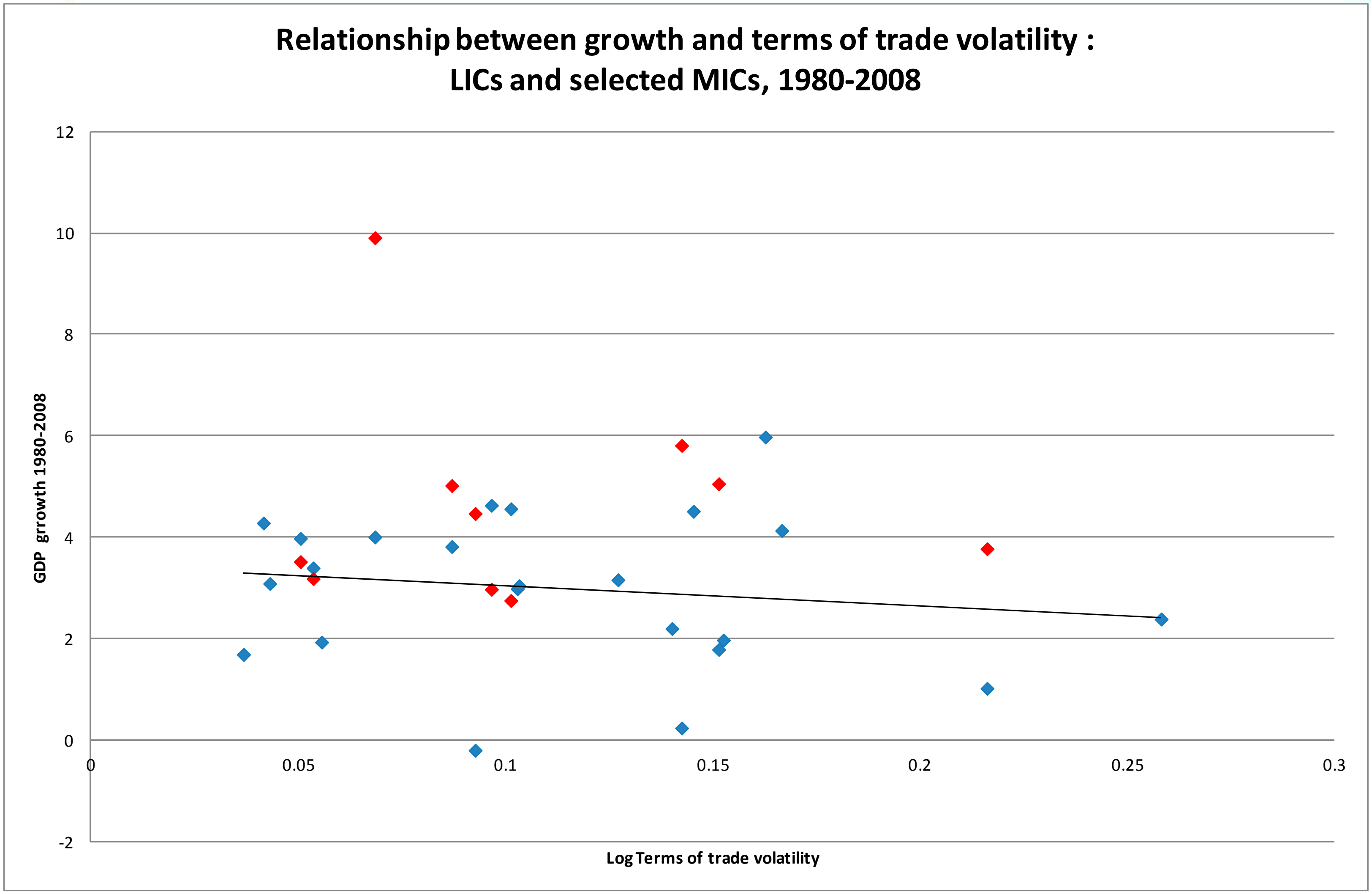
1. Commodity export, volatility, growth and inequality

- Recent literature on growth and growth volatility (Stiglitz and Easterly, Aghion et al. , Hnatowska, Loayza et al. …): *volatility slows down growth*
  - This seems to apply to LICs (see chart) but part of the correlation may be spurious
- Decomposing volatility into exogenous and endogenous (policy caused) components:
  - Little evidence that GDP growth is affected by Terms of Trade volatility (see chart)
  - More convincing evidence that GDP volatility is partly explained by Terms of Trade volatility (see chart)
- Positive effect of Terms of Trade on growth (not shown)

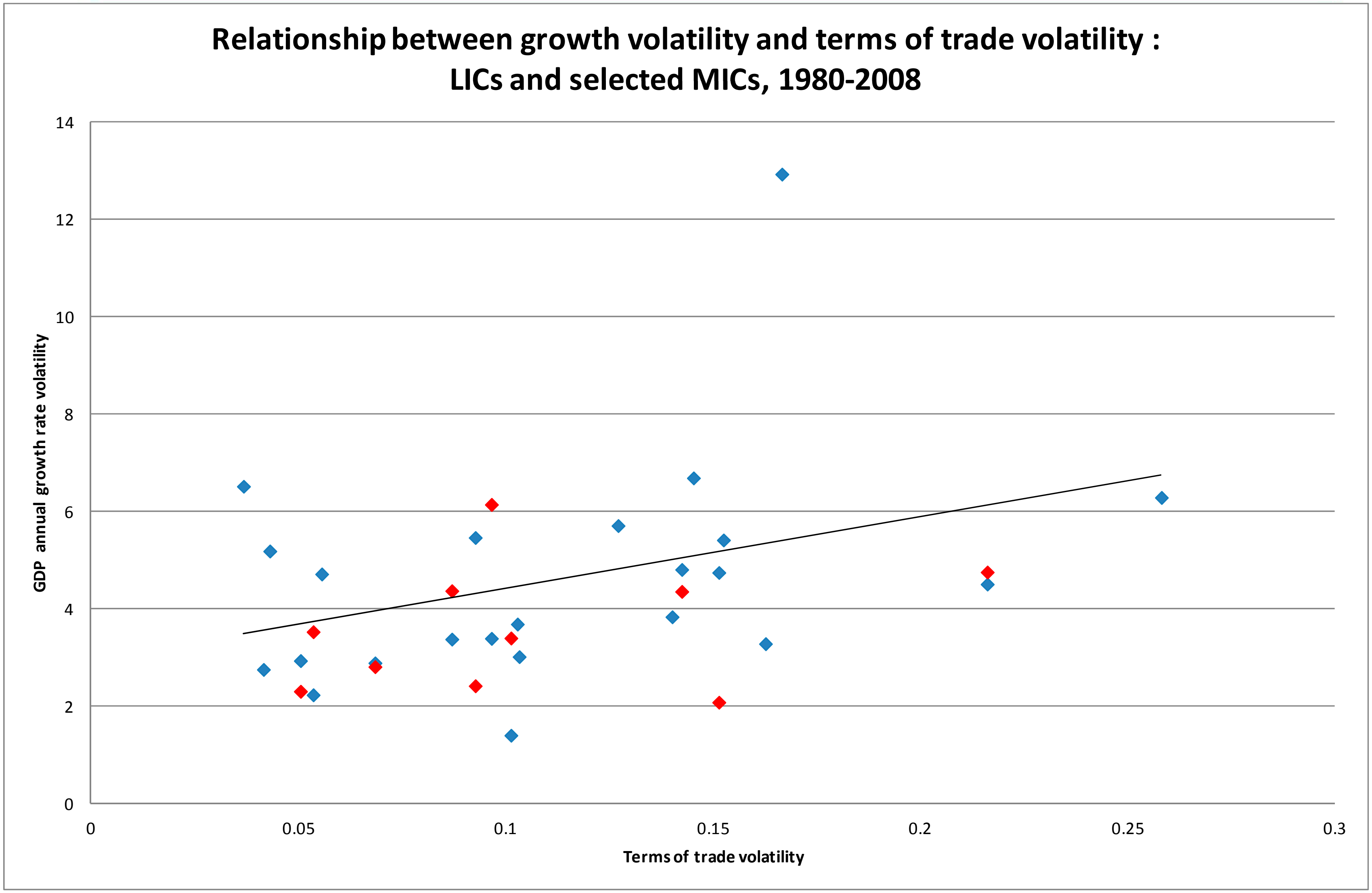
Growth and volatility



Growth and terms of trade volatility



Growth volatility and terms of trade volatility



Volatility and poverty

- What was found for growth should apply to poverty (?)
- No general relationship between volatility and inequality
- Inequality increased in a number of LICs at a time of increasing commodity prices (see table): meaning?
- Standard inequality measurement partly misses the impact of commodity prices
- Likely relationship between commodity price volatility and vulnerability to poverty for some commodities

Evolution of income inequality and poverty elasticity in selected African LICs

	Early 1990s	Late 1990s	Mid 2000s	Poverty growth elasticity
	(Gini)	(Gini)	(Gini)	
Ghana	38.1	40.8	42.8	-0.97
Kenya	42.1	42.5	47.7	0.05
Mozambique		44.5	47.1	-0.33
Niger	41.5		43.9	-0.43
Nigeria	45.0	46.5	42.9	-0.69
Senegal	41.4	41.3	39.2	-1.70
Tanzania	33.8	34.6		-0.69
Uganda	37.1	43.1	45.8	-2.06

Source: Povcal data base

2. Instruments to cope with the effects of volatility

- **Micro**
  - Social protection instruments oriented towards minimizing income risks or volatility: CCTs, employment guarantee schemes, minimum pension schemes, micro-credit, …
  - Not always insurance instruments per se, but channels to transfer income in case of systemic risk
  - Those instruments are little developed in LICs despite renewed emphasis on social protection (ERD, 2011) and numerous experiments
  - But main issue is more macro than micro

Instruments …

- **Macro**
  - *Prudent fiscal policy*:
  - smoothing spending through reserve accumulation strategies
  - Yet, adjust partially to shocks (mean reversion may bevery long)
  - Appropriate instruments to *spread* commodity price *risk* over the whole population –e.g. flexible exchange rate, real wage flexibility, …
  - Example of 2008-9 crisis: moderate shock and quick recovery

3. Role for the international community and donors

- *Alleviating the liquidity constraint* on LICs facing a sequence of negative commodity price shocks:
  - Credit facilities (of the SCF (IMF) type
  - Commodity price contingent aid flows (aid flow partly based on change in a moving average of commodity prices)
- Helping commodity-dependent LICs *diversify* their economies
  - Trade oriented infrastructures
  - Preferential market access (in HICs and some MICs) for manufacturing exports from LIC
  - Regional integration ('true' custom unions)

- And smoothen the global economy.

… But this is another story!

END