Voices from the South

The Impact of the Financial Crisis on Developing Countries

Twenty-one thinkers, academics and policymakers from 14 developing countries present snapshot views of how the financial crisis is affecting their countries

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Compiled and analysed by the Globalisation Team at the Institute of Development Studies

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SUMMARY

'The debate in rich countries about the impact of the global financial crisis has largely ignored its impact on developing countries. But it is vital that policymakers from both North and South understand how this crisis may impact developing countries and the implications for development policy.' Neil McCulloch, IDS Fellow.

This report presents snapshots of the financial crisis as seen by 21 thinkers, academics and policymakers in 14 developing countries. IDS invited them to present their views on the likely impacts and possible responses to the crisis. Most importantly, results show that developing countries cannot be treated as a homogenous block – concerns vary significantly across countries, depending on their current economic situation, exposure to specific impacts and capacity to respond. Isolation from world financial markets will not protect the poorest countries, as the indirect impacts are likely to be severe.

Impacts
The report identifies six main pathways of impact:

1. Exports. Export growth is already slowing markedly in several developing countries. In Bangladesh, orders for ready-made garments from Europe and the US dropped 7 per cent in September. Year on year exports from the Philippines to the US are down by 15 per cent. In Kenya, the cut flower industry is suffering as European customers are hit by the crisis.
2. Foreign investment. Both portfolio and direct foreign investment have dropped dramatically in several countries as investors shy away from markets that are perceived to be riskier. The Ethiopian Electric Power Corporation has indicated that its investment plans will be severely affected due to the crisis.
3. Exchange rate. The sudden withdrawal of foreign capital from several developing countries has caused dramatic falls in their exchange rate. Companies and governments with substantial foreign currency denominated debts may contract or even collapse as a result. The Rand lost 35 per cent of its value between mid-September and mid-October. The Philippine peso was down 12.3 per cent over the year. The Indian rupee hit a record low to the dollar.
4. Interest rates. As foreign investors withdraw, risk premiums and interest rates have risen for developing countries on global capital markets. Philippine sovereign bond spreads and credit default swap spreads widened as of the end of September, the latter to 283.1 basis points from 265 basis points in June.
5. Remittances. A key concern for some countries (e.g. Philippines, Ethiopia) is the decline in remittances from workers in recession affected rich countries. Orders for *Mbuzi ya Jamii* (goat for the family) are down sharply at online stores that allow Kenyans abroad to pay for products and services for their families back home.
6. Foreign aid. Many countries expect that aid from rich countries will decline as governments reassess their fiscal priorities during a downturn. This could have particularly negative consequences for Africa. Private foundations are already scaling down their budget allocations, while contributors from Kenya, Ghana and Ethiopia all believe that there will be a decline in official aid.

Developing Policy Responses
Policy responses must take the following points into consideration:

- Countries will be affected differently by the pathways listed above. Developing a typography of countries will allow for heterogeneity of responses to address their specific needs.
- Within national economies some people will have more exposure to the affects than others.
- There are governance implications at international and national levels.

We propose three specific policies that should be pursed:

- Increase aid flows
- Enhance social protection
- Restructure International Financial Institutions

ANALYSIS ONE

POLICY OPTIONS

Neil McCulloch

Summary

The debate in rich countries about the impact of the global financial crisis has largely ignored its impact on developing countries. But the instability in financial markets around the world is already spilling over to the 'real economy' in poorer countries around the world. It is vital that policymakers from both North and South understand how this crisis may impact developing countries and the implications for development policy.

This briefing examines the causes of the current financial crisis and how it is already affecting developing countries – based on 'snapshot' briefings by key thinkers, academics and policymakers in 14 developing countries. It also examines three key policy implications:

- the impact on aid,
- appropriate social protection measures
- a fairer financial architecture.

Causes of Crisis

Although much attention has been focussed on the problems in the sub-prime mortgage market in the US as the trigger of the current crisis, it is important to recognise that the origin of the crisis lies in the interaction between at least three factors:

1. The extraordinary accumulation of reserves in surplus countries (notably China and the Middle East) – mirrored by huge US fiscal and current account deficits. In effect, excessive saving in a set of developing countries has funded excessive consumption in the world's richest economies.
2. The application of expansionary monetary policies in the OECD, giving rise to low interest rates, helped to create the housing market bubble which has now burst.
3. Financial innovation in developed countries, in the form of securitised mortgages, expanded leverage, and poorly regulated derivative instruments, which allowed some major financial institutions to become dangerously exposed.

While these three factors have played an important role in making the financial system more susceptible to crisis, for many developing countries the seven year period prior to the crisis was one of rapid growth, rising commodity prices, an improved macroeconomic situation and, critically, reduced poverty. The current policy dilemma is how to facilitate a rapid return to this relatively favourable growth pattern, whilst changing global financial governance to minimise susceptibility to crises.

Pathways through which the Crisis affects Developing Countries

The Institute of Development Studies invited key thinkers, academics and policymakers in 19 developing countries to present a brief 'snapshot' of the financial crisis from their own country's viewpoint. Respondents identified seven pathways through which the crisis is affecting developing countries, Table 1 shows how these effects are already being felt throughout the developing world.

Exports:	Export growth is already slowing markedly in several developing countries
Foreign Investment:	Both portfolio and direct foreign investment have dropped dramatically in several countries as investors shy away from markets that are perceived to be riskier
Exchange rate	Sudden withdrawal of foreign capital from several developing countries has caused dramatic falls in their exchange rates. Companies and governments with substantial foreign-currency denominated debts may contract or even collapse as a result.
Higher interest rates	As foreign investors have withdrawn, risk premiums and interest rates have risen for developing countries on global capital markets
Remittances	A key concern for some countries (e.g. Philippines, Ethiopia) is the decline in remittances from workers in recession-affected rich countries
Declining aid	Many countries expect that aid from rich countries will decline as governments reassess their priorities. This could have particularly negative consequences for Africa
Lower growth	Ultimately the crisis will reduce growth in most developing countries endangering the achievement of the Millennium Development Goals

Impact on Aid

A particular concern is that slower growth and recession in rich countries will slow down or postpone increases in overseas aid. The 2002 Monterrey Consensus on Financing for Development urged developed countries to make ‘concrete efforts towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries and 0.15 to 0.20 per cent of GNP of developed countries to least developed countries’. Since then, several countries have set ‘binding’ timetables to achieve this target. In 2005, at Gleneagles, the EU set targets for its 15 established members: 0.51 per cent of Gross National Income (GNI) in aid by 2010 and 0.7 per cent by 2015 (new member states will aim for 0.17 per cent and 0.33 per cent). A few countries have made more ambitious individual commitments (UK 0.56 per cent in 2010 and 0.7 per cent by 2013). The US and Japan have not set targets. Moreover, the Gleneagles Summit saw the G8 and other donors agree on a comprehensive package to double aid by 2010, with an extra $50 billion worldwide and $25 billion for Africa.

Even before the crisis, donors were not on target for achieving these targets. Now with the large additional fiscal costs of rescuing the banking system and additional expenditures to minimise the impact of the downturn, pressure will be placed on these aid commitments. Several developing countries are heavily dependent on aid flows (see Table 2). Almost two-thirds of net capital inflows in Sub-Saharan Africa come from ODA, a significant reduction in these flows would compound the shocks from others pathways forcing the countries concerned to contract sharply. There is therefore a strong case for meeting existing aid commitments to ensure that aid provides counter-cyclical relief to developing countries, rather than pro-cyclical distress. Many countries are already suffering depleted reserves as a result of the global food crisis earlier in the year.

Table 2: Aid matters, particularly to Sub-Saharan Africa

Average Percentage of Net Capital Flows (2000-06)	Developing	Sub-Saharan Africa
Private flows	84.9	38.4
Overseas Development Aid	19.5	65.4
Other official flows	-4.4	-3.9
Total	100.0	100.0

Designing Appropriate Social Protection

In countries hard hit by the crisis, there is a strong case for the expansion of appropriate forms of social protection to minimise the impact on the poor. An external shock of this nature will have different effects – and therefore require a different response – from policies put in place to tackle drought, disasters, or health shocks. However, the need for a fast response means that adapting existing programs may be more effecting than creating new ones.

Fortunately there is useful experience from the Asian Financial Crisis in 1997/98 to draw on. The key lessons from that experience were:

- Expand established safety net programmes rather than creating new ones.
- Protect pro-poor spending (not only health and education, but infrastructure too)
- Learn from other country experience about how to target social protection
    - a work requirement improved targeting in Argentina post-2001
    - food subsidies can help the poor, but are often poorly targeted and therefore expensive, e.g. Indonesia post-1997
    - unconditional cash transfers can be faster to roll out than more sophisticated conditional cash transfers such as PROGRESA in Mexico
- Macroeconomic stability is important for the poor too. Policies to maintain price stability and employment levels are key

The implementation of social protection programs depends on how the crisis affects aid. Much of Sub-Saharan Africa is heavily dependent on aid-funded social protection programs. Reductions in aid could both contract incomes and make populations more vulnerable. In Latin America – where most social protection programs are tax-funded and tax receipts are likely to reduce – it will be important for governments to prioritise social protection and pro-poor expenditures. However, maintaining infrastructure expenditure can also be pro-poor – during Structural Adjustment in the 1980s many governments attempted to protect social sector expenditure by cutting investment and this resulted in slower growth as the capital stock degraded.

Towards a Fairer Financial Architecture

A new financial architecture is needed to reduce the vulnerability of developing countries to macro-economic shocks. The current crisis may be the worst financial crisis to hit the developed countries in 80 years but crises in developing countries are more common. In the last ten years major financial crises have affected Argentina, Brazil, Russia, and the East Asian countries to name only a few. There is a need for both better regulation in the financial sector and better prevention of the accumulation of large and unsustainable macroeconomic imbalances that give rise to crises.

If such a new architecture is to work, it must involve developing country governments in its design and implementation. This will clearly involve more rights (and greater responsibilities) for countries generating large surpluses – but it should not stop at this. Poor developing countries have played no role in creating the current crisis but they are likely to be significantly affected by it. A new system of international financial governance that institutionalises a mechanism for hearing the voices of poor countries, as well as larger and more 'systemically important' nations, is needed. The G20 grouping, although broader than the G8, includes only one country from Africa (South Africa) and not a single low income country.

Crises will still happen, even with a better framework for global financial governance. It is vital that the international community improves mechanisms for responding to crises when they occur. The US Federal Reserve's currency swap scheme has played an important role in providing countries with immediate resources to support their currencies and the IMF has a Short-Term Liquidity Facility with similar aims. But the resources which are available under these schemes are limited and only available to a handful of countries.

For low-income countries the situation is even worse. The IMF's External Shocks Facility provides loans to tackle shocks but resources are limited, there are strict eligibility criteria and high conditionality. The EU's FLEX program attempts to achieve the same thing, but can take four years to disburse funds. Expanding such programs requires new sources of funding. These might come from a new international tax (such as a Tobin tax, to penalise short-term currency speculation); or they could come from higher contributions from large surplus nations. But to buy into such schemes, nations such as China would require a greater say in setting the agenda and mode of operation of institutions such as the IMF. The international community needs to use this extraordinary crisis as an opportunity to radically rewrite the rules of global financial governance to include the voices of the global poor.

Dr. Neil McCulloch *is a Fellow at the Institute of Development Studies at Sussex University. He specialises in the study of the impact of globalisation on poverty and growth in developing countries. As well as his academic work he has lived and worked in both Africa and South East Asia in policy positions within government and international institutions. His current work focuses on the political economy of growth and the impact of the investment climate on firm growth and household poverty.*

ANALYSIS TWO

VIEWS FROM THE SOUTH: AN OVERVIEW

Neil McCulloch

Summary

The global financial crisis is already beginning to have an impact on the 'real economy' in poorer countries around the world. However, the debate in rich countries about the impact of the crisis has largely ignored its impact on developing countries, and the voices of thinkers from these countries are rarely heard.

This briefing represents snapshots of the financial crisis as seen by 21 thinkers, academics and policymakers in 14 developing countries – brought together by the Institute of Development Studies. As growth in these countries begins to slow their key concerns include reductions in exports, aid, remittances and foreign direct investment. They also explore three possible responses to the crisis: counter-cyclical spending, social protection and the creation of a new financial architecture.

The Impact of the Crisis Varies from Country to Country

Contributors from developing countries with relatively developed financial markets – India, Pakistan, Nigeria, Thailand, Brazil, South Africa, and the Philippines – have seen large falls in their stock markets. The Nigerian stock market has lost one third of its market capitalisation since the beginning of March; the Bombay Stock Exchange index is less than half of its previous peak; and the Sao Paulo Stock Exchange dropped by 60 per cent during October.

This has partly been caused by foreign investors attempting to repatriate their funds and a general flight to safety away from developing country markets which are perceived to be riskier. The Philippines has seen a reversal of net portfolio inflows of $500 million between January and September of this year, compared to a net inflow of US$ 3.4 billion in the same period last year. Sudden stops and reversals of external funding have affected exchange rates, leading to strong depreciations of domestic currencies: the Rand lost 35 per cent of its value between mid-September and mid-October; the Indian rupee hit a record low to the dollar.

However, despite this turmoil in the financial markets, many contributors state that the impact on their country so far has been remarkably limited to date – particularly those from the poorest countries. The relative lack of development of the financial sector in some countries may shield them from the worst of the crisis. For example, the Prime Minister of Ethiopia, one of the least monetised economies in the world, told Parliament '…we don't expect drastic effects on our economy, [because] our financial structure is not as liberalized as those of affected countries…'. Even some countries with well developed financial markets, such as South Africa, have been able to weather the storm because their government finances and international reserve positions are healthy.

The issue is complicated by the declining price of oil and other commodities. Contributors from Ghana, Sri Lanka, and Kenya – countries dependent on commodity exports – express concern about the impact that this will have on growth. However, the decline in oil prices is seen as a positive factor in most countries, providing space for the authorities to expand domestic demand because of the weakening threat of inflation.

Almost all contributors point to a significant and sometimes a drastic slowing of growth. Brazil was expected to grow 5.2 per cent in 2008, its forecast for 2009 has been repeatedly revised downwards to 2-3 per cent; South Africa's growth rate will fall by slightly less than half; even Vietnam is only predicting growth of 6-6.5 per cent. This is particularly unfortunate since several developing countries had been experiencing their highest rates of growth for a decade prior to the crisis.

Four Common Concerns

Despite the variety of country circumstances, four concerns emerged strongly from almost all contributors.

The concern that exports will decline, or, in many cases already have begun to decline, due to slow growth or recession in the US and some European countries. In Bangladesh, where ready-made garments account for two-thirds of the country's total annual export income, orders from Europe and the US dropped 7 per cent in September, even before the worst of the crisis hit. The weakening performance of electronics and garments industries is a key concern in the Philippines, with year on year exports to the US down by 15 per cent. In Kenya, the cut flower industry is suffering as European customers are hit by the crisis.

Declining revenue from tourism is also a key concern. Both Kenya and Thailand's earnings from tourism have declined sharply in the past year. Political instability may be contributing, but the crisis is likely to exacerbate this trend. The crisis will also impact on the price of exports – the private sector in Sri Lanka is concerned about the falling prices of rubber, tea, coconuts and garments. Vietnamese producers are concerned that price competition will intensify, as large producers such as China increase exports to other developing country markets.

The concern that aid will decline. Contributors, from African countries in particular, anticipate a fall in aid receipts from donor countries as they reprioritise expenditure. Private foundations are already scaling down their budget allocations and contributors from Kenya, Ghana and Ethiopia all expect a decline in official aid.

The concern that remittances will decline. There is strong concern about the impact of the crisis on remittances. The Philippines' target for remittance income was US$15 billion in 2008 – this may be missed as Philippino workers abroad lose their jobs. In Kenya, orders for *Mbuzi ya Jamii* (goat for the family) are down sharply at online stores that allow Kenyans abroad to pay for products and services for their families back home. But location matters – Bangladesh's 5 million expatriates are mostly based in the Middle East and Muslim countries less affected by the crisis, although this also may change as the oil price declines.

The concern that foreign direct investment will decline. In a few countries, the impact of the crisis on Foreign Direct Investment (FDI) is a significant concern. The Ethiopian Electric Power Corporation has indicated that its investment plans will be severely affected due to the crisis and in Vietnam, where FDI accounts for over a fifth of total investment, there is concern that planned investments may be postponed or cancelled.

Responses to the Crisis

Counter-cyclical spending will be key – but not always affordable. A noteworthy aspect of the responses was what was *not* said. Very few developing country governments appear to have given significant thought to how to respond to the impact of the crisis in the real sector, either in the form of fiscal stimulus, or the implementation of appropriate forms of social protection for those most affected. This is not surprising – attention has been focussed on responding to the extreme volatility in the financial and currency markets. But contributor's concerns make it clear that effects on the real economy are likely to be felt soon.

Several respondents call for more government spending on infrastructure, health and education. In South Africa, the accumulated fiscal surplus may allow the government to increase social expenditure whilst continuing to invest in infrastructure. But most countries are not in a position to do this. Data from the Philippines suggests that the deficit is being reduced rather than expanded, and the contribution from Pakistan expresses concern about the implications of receiving IMF financing. From India, there are concerns that increases in social expenditure in the last budget (including the National Rural Employment Guarantee scheme) may not be sufficient to prevent recession in the future.

Developing countries need to implement appropriate social protection mechanisms now. Worryingly, not one of the 19 respondents pointed to efforts by their governments to implement social protection mechanisms to respond to the crisis. It is likely that in each country some groups will be affected by the crisis more than others. From the East Asia crisis in 1997/1998, countries can learn about the types of social protection which are most effective in responding to macroeconomic shocks. But adapting existing social protection mechanisms to tackle a macroeconomic shock takes time, developing country governments need to start this process soon. This may be an area where donors can provide valuable support.

A new financial architecture is needed to reduce the vulnerability of developing countries to macro-economic shocks. The current crisis may be the worst financial crisis to hit the developed countries in 80 years. But financial crises affecting developing countries are far from uncommon. In the last ten years, major financial crises have affected Argentina, Brazil, Russia, and the East Asian countries to name only a few. There is clearly a need, not only for better regulation in the financial sector, but also for improved ways of preventing the accumulation of large and unsustainable macroeconomic imbalances that give rise to crises. If such a new architecture is to work, it must involve developing country governments in its design and implementation. We hope that this report by compiling views from a wide range of thinkers from developing countries, can contribute to building a more sustainable architecture for sustainable growth and development.

Dr Neil McCulloch *is a Fellow at the Institute of Development Studies at Sussex University. He specialises in the study of the impact of globalisation on poverty and growth in developing countries. As well as his academic work he has lived and worked in both Africa and South East Asia in policy positions within government and international institutions. His current work focuses on the political economy of growth and the impact of the investment climate on firm growth and household poverty.*

Mobilising Knowledge for Development

Resources on... the Financial Crisis

Available from Eldis:

The global financial crisis and developing countries (source: ODI)

Many developing countries are still growing strongly despite the current global financial downturn, but forecasts are worsening. This background note from ODI questions how long this growth can persist. There are different channels through which the crisis could spread and some countries are more at risk than others:

www.eldis.org/go/topics/resource%2Dguides/finance%2Dpolicy&id=40764&type=Document

Africa's prospects: opportunity knocks (source: *The Economist*)

This article from *The Economist* suggests there is a reasonable chance that Africa may survive the current world financial crisis in better shape than some other parts of the world. The very factors that have damaged the continent in the past may now be working in its favour:

www.eldis.org/go/topics/resource%2Dguides/finance%2Dpolicy&id=40613&type=Document

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GLOBAL FINANCIAL CRISIS: IMPACT ON AFRICAN ECONOMIES AND POSSIBLE RESPONSES

Olu Ajakaiye, Felix N'Zue and Damiano Manda Kulundu

The current global financial crisis is rapidly spreading and governments are taking measures to prevent possible negative impacts on their respective economies. Countries like the US and Britain have already taken measures to deal with the potential negative impact of the financial crises. Most African countries are yet to take any substantive measures to prevent possible negative impact of the financial crisis on their economies. How does this global financial crisis affect Africa? How have African leaders and economists envisaged dealing with the crisis? These are the questions we would like to address among other things. We will therefore i) analyse the possible impacts of the financial crisis on Africa and ii) look at possible ways of dealing with it now and in the future.

Impact of the financial crisis on African economies

Although it is not clear yet the effect of the current financial crisis will have on the African economies, there is no doubt that it will affect African countries in direct as well as indirect ways.

Direct impacts will be as a result of direct exposure to international financial system. Very few African countries with direct links to the international financial system such as Nigeria, South Africa through their stock exchange, will feel the direct impact of this financial meltdown. Moreover, it is common that wealthy Africans prefer to keep their wealth in perceived safe havens in the developed countries. Such wealth are now at risk and some of them may actually be lost. These are resources that could have been used for productive investment in the continent thereby contributing to fight the increase poverty in which African people are living. Countries that depend on tourism are also likely to face decline in tourism – and the associated drop in foreign exchange earnings

Indirect impacts will results through decline in aid budget, declining demand for export of primary commodities from Africa and reduced foreign direct investment. With this financial meltdown where countries (known as very trustworthy financially) are being bailed out, it is unlikely that the level of aid flows to developing countries will be sustained, and this, despite the call by Ngozi Okonjo-Iweala, Managing Director of the World Bank and Mr. Decressin (an IMF Expert) on Donors to continue supporting African countries during this turmoil period. This will be so because developed countries are obviously more concerned about pressing domestic issues. Private foundations are already scaling down their budget allocations to projects in the developing world including Africa. It is therefore clear that aid flows to Africa will suffer as a consequence of this financial meltdown. The continent's capacity to respond to humanitarian and development challenges will therefore be threatened.

Foreign direct investment will also suffer a hit. Indeed, investment projects in infrastructure, telecommunication, mining and tourism, which depend heavily on foreign capital, will suffer immensely.

This financial crisis will eventually lead to a considerable slow down in production activities. The associated reduction in demand for raw materials, especially oil, solid minerals and agricultural commodities will adversely affect Africa's exports to the developed countries. Falling exports and the associated fall in government tax revenue and foreign exchange earnings will worsen government fiscal posture and external balance. Therefore, the recent growth experiences in the continent's growth will be truncated.

Africa's response to the financial turmoil

From what is happening in the developed world, African leaders and economists should draw one very important lesson which is the need for pragmatism instead of dogmatism in economic policy. Therefore, African governments and their development partners should not repeat the mistake of the 1980s where dogmatic reliance on market mechanism was actively promoted by the Bretton Woods institutions. African governments should therefore be free to pragmatically combine market and government intervention mechanism in addressing the challenges that will confront them as a result of the direct and indirect impact of the current financial crisis. In light of the inevitable reduction in aid and FDI flows to Africa resulting from the financial turmoil, the African Development Bank should be ready to provide support to the RMCs to enable them continue with the implementation of ongoing infrastructural projects and human capacity development projects, especially in education and health sectors.

African leaders should engineer more innovative ways of mobilizing more effectively domestic resources and use the mobilized resources more efficiently through close monitoring of result oriented programmes .

African leaders should urgently call for a Special Summit of African Union (AU) Ministers of Finance and Heads of States to deliberate on the possible impacts of this global financial crisis on African economies and design a common response in addressing them in a pragmatic way this time, Africa should not ask what the developed world can do for them. Instead, they should articulate what they need from the developed world in support of their own efforts. Similarly, Africa should not wait to be told how to address the impending challenges. Instead, they should embark on their own remedial actions and seek assistance of the development partners without dogmatic preconditions.

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FINANCIAL CRISIS OF BANGLADESH

Shib Narayan Kairy

Bangladesh would definitely be hit by the global financial crisis. It will have trickle-down effects across the world, including small countries like Bangladesh.

The global financial crisis has threatened Bangladesh's biggest export sector, ready-made garments which employs nearly 2.5 million people, mostly women, critically dependent on Western markets. Ready made garments including knit and woven fabrics earned Bangladesh US$10.7 billion in the 2007/08 fiscal year, or two thirds of the country's total annual export income.

Buying orders from Europe and the United States dropped 7 per cent in September even before the crisis struck heavily, and buyers would likely to shy away in the coming months as well. If more than 700 chain stores of major U.S apparel brands that outsource to Bangladesh have either wound up or are planning to do so with the financial crisis spreading fast across the continents, then any setback in the single biggest export market (the United states) will push the sector in danger.

On the other hand, panic-striken small investors offloaded shares heavily on Bangladesh's main Dhaka Stock Exchange over the last few days. A fear syndrome is tearing down market confidence after the benchmark General Index posted its biggest fall in four months, shedding 80.63 points or 2.74 per cent to finish at 2,855.93. But we hope our capital market will not be hurt as we have only 2.5 per cent foreign investment in the stock markets. Moreover, our economy is agri based. Most of the people directly or indirectly related to agri production and agri business. So, the stock market may not impact on our economy.

But the experts felt other crucial earning sectors – such as remittances from expatriate workers who send home almost the same amount that textiles earn annually – were safe. As a majority of its more than 5 million expatriate workers are employed in the Middle East and other Muslim countries which are away from the crux of the crisis. According to the central bank official, the expats sent home a record US$7.91 billion in the 2007/08 fiscal year, and were likely to remit more in the current year to take the total to nearly US$10 billion.

Moreover, this financial crisis shows a positive impact in our economy. As the fuel price has decreased in the world market Bangladesh, who used to import fuel from foreign market, can get the advantage of that. We have found that the market price of the essential commodities also be dropped off which in returns increase the buying power of the locality.

As BRAC cover 110 million population of Bangladesh, in which 7.05 million are directly involved in our microfinance activities who act as borrower of BRAC who used to invest those loan mainly in agro-business, small and medium enterprises in their locality which have a very few negative impact due to this financial crisis.

On the other hand, construction materials' prices also decrease for this financial crisis as we import it from the foreign market and we get previlage as Dollar declines; which almost have a positive impact on our infrastructure development specially for establishment of private buildings; as well as public ones.

But for pre-caution of the crisis, it is being discussed and characterised by policymakers, in the media and in the research community as well. Policy makers and media professionals become more committed to critical issues related to global financial crisis and its impact in Bangladesh. They already conduct round table meeting, dialogue, and TV talk show with government, industrialist, business professionals, economist and various business alliances. Moreover, there is a huge coverage of the issues in printed and electronic media as well.

Shib Narayan Kairy*, Director Finance & CFO of BRAC, was born in 1957. Immediately after completing his M.Com. in Accounting from Dhaka University, he joined the Accounts Section of BRAC in April 1982. Mr. Kairy has worked at BRAC at various positions – he progressed through the roles of Chief Accountant, Finance Manager and Head of Finance and achieved his current position on September 01, 2006. Since July 2003, Mr. Kairy has also been serving as the Secretary to the BRAC Governing Body. Mr. Kairy supervises the overall financial control and management over the sources and applications of funds for BRAC activities, both development and commercial. His responsibilities include ensuring effective financial control, transparency and accuracy of financial data & financial reporting. Mr. Kairy is actively involved in designing and developing new products and operating system for BRAC Micro Finance.*

IMPACTS OF THE FINANCIAL CRISIS ON BRAZIL

Otaviano Canuto

As the global financial crisis entered its acute phase in mid-September, Brazil suddenly faced a negative shock in its foreign capital flows. Portfolio equity outflows and carry trade unwinding abruptly accelerated the pace at which they were taking place in previous months. Even low-risk trade credit lines vanished. As a result, not only domestic stock markets dived, but also the local currency underwent a sharp depreciation in a matter of days, while both EMBI and CDS spreads also rose substantially.

The hasty run to the exit was triggered by external reasons, such as the cover of losses and margin calls elsewhere, foreign banks preserving liquidity, or simply as a response to the systemically heightened risk aversion. Nevertheless, it was rapidly followed by a halt in the domestic interbank market and of credit in general.

Domestic credit conditions deteriorated as a peculiar form of the credit freeze happening at the core-advanced economies. Notwithstanding the small proportion of foreign sources in the total of both banking and non-banking funding, a spurt of uncertainty regarding local corporate health, both in banking and non-banking sectors, was sparked after the sudden drought of foreign finance and local-currency devaluation. News of an unexpected vulnerability to exchange-rate depreciation by corporations and smaller banks due to exposure through derivatives immediately led to a local version of doubts about hidden 'toxic assets' and financially fragile balance sheets.

The Brazilian public sector had availed itself of the current-account surpluses and foreign-capital bonanza of the last few years to reduce its foreign debt and retire dollar-denominated domestic debt, up to the point of acquiring a negative dollar-exposure in its accounts. Indeed, the recent exchange-rate depreciation has even contributed to a shrinking public-debt-to-GDP ratio. Conversely, in the private sector, confidence in a strong local currency had become so entrenched as to lead, for instance, some corporations to accept providing dollar put options to banks in exchange for lower funding costs. The fact is that the reversal of the theretofore-downward dollar trend was followed by a surprising revelation of – realised and unrealised – corporate losses and a domestic generalised credit squeeze.

The response by monetary authorities has been twofold, on both foreign exchange and domestic credit fronts. As of November 6, the Central Bank has sold US$5.2 billion (2.6 per cent of international reserves) in the spot market; combined with derivative sales of US$25.8 billion through currency swaps. Additionally, temporary dollar liquidity has been provided through repo agreements both at the spot market ($4.8 billion) and abroad ($3.3 billion). The war chest for interventions received the confidence boost given by the inclusion of the Brazilian central bank in the U.S. Federal Reserve's network of currency swap lines. Trade credit lines have returned to a level equivalent to half of the one prior to mid-September, whereas the exchange rate receded from the peak and has hovered around non-dramatic levels. The latter has mitigated fears of a deeper corporate financial stress, as well as of rising credit risks for those counterparty banks that were at the other side of corporations in structures of currency derivatives.

At the domestic credit side, besides extending its rediscount policies, the Central Bank has eased on its long-held stiff reserve requirements, in a series of moves that according to estimates may end up liberating an amount of liquidity potentially superior to 5.7 per cent of GDP and 5.6 per cent of total bank assets. The government has also announced the intention of resorting to public-sector majority-owned banks to fill in the blanks in the cases of credit to agriculture, automobiles and others, as well as to acquire partnership shares in Brazilian-based companies.

The phase of panic and financial absolute freeze seems to have ceased, nonetheless leading to several consequences. Preliminary figures for domestic credit in October point to a steady reversal of the long path of expansion previously in course. Most leading indicators of industrial production and demand, as well as business and household confidence surveys, are also suggesting a sharp economic deceleration in the last quarter of the year. The fusion of two large domestic private banks (Itaú and Unibanco) can become a first move of a forthcoming wave of mergers and restructuring in the Brazilian financial sector.

The macroeconomic landscape for 2009 has become more challenging, and not by chance GDP growth projections have been trimmed to the range of 2–3 per cent, a substantial slowdown after a rhythm expected to end up above 5.2 per cent in 2008. Global deleveraging is still to continue affecting local asset markets and the balance-of-payment capital account. Together with weaker foreign demand for exports, softer commodity prices and less favourable terms of trade, that will imply a tighter external environment in the near future. Domestic absorption was running above potential GDP growth prior to the credit crunch and doubts remain on whether the current consumption and investment deceleration will be enough to counteract the inflationary effects of the now prevailing more depreciated levels of the exchange rate. On the other hand, the Brazilian government still retains an arsenal of monetary, foreign reserves, and fiscal and quasi-fiscal instruments to be used in case new external shocks occur and/or the domestic demand deceleration becomes too deep.

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IMPLICATIONS OF THE GLOBAL FINANCIAL CRISIS FOR THE BRAZILIAN ECONOMY

Ruy Quadros

The most immediate and severe impacts of the global financial crisis in Brazil were felt in the currency, financial, and capital markets, and have gone much beyond the worst economists' and practitioners' predictions. In the "real economy", immediate and harsh implications occurred for demand (of firms and consumers), as result of the credit squeeze provoked by the crisis. This in turn has already implied a substantial revision of private investment in the next years. The seriousness of the slow down varies between sectors, but the effect on the reduction of GDP growth next year is likely to be large.

Following the most significant events of the liquidity crisis, the US dollar appreciated from R$1,55 in early September to R$2,15 in late October, with the peak at R$2,48 in early October. The depreciation of the Real is due to a combination of factors: the squeeze in credit from foreigner lenders to Brazilian banks, with emphasis on the virtual collapse in export credits for some weeks; the panic of foreign institutional investors in the São Paulo Stock Exchange (Bovespa), whose selling movement dropped the Bovespa index by almost 60 per cent in the period; and the – also panicking – buying operations of hard currency by Brazilian large, export corporations in order to close hedge operations built to compensate for the until then long term Real appreciation.

Some of the largest exporters had gambled against the dollar much beyond their need of export revenue protection and therefore have faced enormous financial losses. Aracruz (US$2.5 billion loss), Votorantin Pulp&Paper (US$1.2 billion loss), Sadia (US$500 million loss) are the most commented examples in press, but the extension of the problem is much larger; practitioners reckon that such losses may sum up from US$10 to 20 billion. The exposure of large firms to hedge operations and the foreign credit crush have led major Brazilian banks to initially paralyse consumer and corporate credit lines, a movement which has been partially circumvented after the intervention of the Central Bank. Lines of credit to medium-sized firms have become very selective and dropped by 20 per cent, whereas annual interest rates in such operations went up from 20 per cent to 50 per cent annually. Consumer interest rates are at the level of 140 per cent annual, and the time span for credit to consumer has been dramatically reduced. The large Brazilian private banks seem to be under low exposure to the problems related to the financial system. Yet, the third largest Brazilian Bank (Itaú) has just merged with the fifth (Unibanco), creating the largest Brazilian bank (Itaú-Unibanco).

The global financial crisis and the effects commented above have hit a Brazilian economy in its most prosperous moment in 30 years. This is important to emphasise in order to grasp the actual implications of the crisis. Before the crisis GDP was expected to grow 6 per cent in 2008. Formal employment had been growing steadily in the past three years, and the unemployment rate dropped by 20 per cent in the first half of this year. The substantial appreciation of the Real in the past three years had caused some damage in the export of manufactured goods, but the rocketing internal market and corresponding pouring FDI had compensated for some of the bad dynamic effects of appreciation. Most importantly, the Investment-to-GDP-ratio rose by 15 per cent in the first half of 2008, confirming the 2007 trend of investment growth leveraging GDP growth.

In face of such optimistic prospects in the real economy (for Brazilian standards), the immediate and most dramatic effects of the crisis have been selective in the short run, but will certainly be more widespread in the next year. The maxi currency devaluation and the credit crush have already affected some important segments of consumer demand.

The civil construction industry is perhaps the one which has most felt the effects of credit restrictions on the consumer demand and on its own credit needs. Many construction firms catering for the growing housing market have financed the expansion on the basis of foreign loans in hard currency. The effect of output reduction on employment, in the construction industry, can be very severe. In manufacturing, the electronic industries have been virtually paralysed, as they heavily rely on imported components. With the difficulty of projecting the value at which the dollar will stabilise, many firms have suspended manufacturing activities – laying off workers or giving them collective vacations.

Something similar is occurring in the automobile industry, due mainly to the decrease in lines of consumer credit lines and increasing interest rates. After two years of Chinese growth rates in sales and output (at 25 per cent annual), October 2008 will show the first reduction of car sales in years. All major OEM have given 20 to 30 days collective vacations in all major plants. Thus, the output in the automotive industry is expected to drop 30 per cent. The fall in commodity prices have already affected output in some segments. Vale, the largest Brazilian mining company has announced a reduction of 10 per cent in planned output for the next months. The effects have also been felt in investment plans, though these are more difficult to identify. Revision of investment plans have been announced in the energy industry (oil and ethanol), the automotive industry (postponement of Hyunday's entry plant in Piracicaba), the chemical industry and the food industry. GDP growth in this year has been revised downwards to 5 per cent. For 2009, GDP growth has been revised from 4.5 per cent (average estimate) to 4 per cent (federal government), to 3.5 per cent (IMF) and to 3 per cent and less (market prospects). However, given the widespread implications for investment, including government investment, no surprise would be caused by a much smaller growth.

How is the crisis being discussed and characterised by policymakers, in the media and in the research community Brazil?

It took a few weeks, from early September, for the government to understand the actual and potential impact of the crisis on credit and capital markets and on the real economy. Both monetary authorities and the mainstream press tried to sell the idea that the Brazilian economy was shielded against 'their crisis'. The jump in the price of the US dollar and the choking of export credit rapidly taught policy-makers and the press that there is no possible shield which would be able to protect a very internationalised economy from a global crisis (even if the trade balance/GDP ratio is not large by international standards, as some analysts have essayed).

When the government started to act, the first movements have been quite timid. The Central Bank has reduced the rate of compulsory deposit from banks in the expectation that they would supply the additional money to smaller banks and to the civil construction. But the banks have run to use this money to buy government bonds. It was then necessary to call the State. The Federal Banks – Banco do Brasil, Caixa Econômica Federal (the Federal Savings Bank) and the BNDES (Bank for Economic Development) have become the cornerstones of the emergency credit lines opened for exporters, the civil construction, for helping small and medium-sized banks and even to supply credit for financing car purchasing by consumers. An unprecedented law has been adopted and proposed to the Congress which allows both Banco do Brasil and Caixa Econômica to buy out assets of Brazilian financial institutions. This seems an additional legal protection for the monetary authorities in case they are faced with the decision of capitalising banks.

In the currency front, although the hard currency reserve of the Brazilian Central Bank is at its highest and unprecedented level (in absolute terms and in relation to the deficit in the balance of payment), the Central Bank has had a hard time to stabilize the Real by selling huge amounts of dollars. In this connection, what seems to have contributed substantially to calm down the currency crisis is the US$30 billion swap line (Reals for US$ dollars) announced by the US Federal Reserve.

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THE GLOBAL FINANCIAL CRISIS AND CHINA

Mingtai Fan

The year of 2008 is a year of rising expectations and crushed hopes for China as well as the advanced economies. While China is enjoying the success of the 2008 Olympic Games held in Beijing, it is also experiencing pressures, both from expectations of high inflation as well as shocks from the global financial crisis driven by the subprime mortgage crisis in the United States. What impact will the current financial crisis have on the Chinese economy? The answer depends on the underlying transmission mechanisms and the structure of China's economic exposures to the global economy.

Although the transmission mechanisms are complex, the main pathways through which the current global financial crisis is likely to be transmitted to the Chinese economy are the financial wealth channel and the real trade balance. The impact of the crisis is also giving rise to fluctuations in China's stock market because of the portfolio linkages between China and the advanced economies. In addition, the declining trade surplus is causing bankruptcies of some medium-sized private enterprises that are highly dependent on exports.

The pass-through of stock price fluctuations from advanced economy stock exchanges to Chinese stock exchanges is now extremely fast. While it is generally believed that the banking sector in China is not heavily exposed to Western financial markets – and hence the Chinese banks appear to be have been less affected by the global financial crisis – the reality may be quite different if banks have disclosed faulty information. What has happened in the United States warns us that a balance should be struck between state and public interests in terms of banking exposures and suggests that regulation of both banking and markets should be more prudential.

The impact of the global financial crisis on the real economy will be felt through the decline of China's aggregate trade surplus. This can be clearly seen in the fall of the ratios of the balance of trade to total trade and to GDP, although this resulted mainly from the shift to a floating market-based Renminbi exchange rate regime linked to a basket of currencies in July25, 2005, and from the updating of export rebate rates. However, the current global crisis is already spilling over to the real sector in the advanced economies resulting in a slowdown of foreign demand for China's exports of goods and services. Given insufficient domestic demand within China, China has to find ways to face the real impact of this global financial instability.

Within China, the financial crisis is being discussed and characterised as something that will have limited direct impact on the country. However, both policy makers and the research community are aware of its indirect impact and its potentially alarming consequences for China. In the media, new developments are reported and analysed continuously. These debates reflect some scepticism about whether China should continue its reforms from a banking based system towards a market based system or a universal financial system, as well as discussion about what China should do to support international efforts to ensure global financial stability.

It is generally believed that China should continue with its financial reforms by encouraging the development of private and publicly listed banks so as to promote banking commercialisation. Similarly there is a consensus on the need to boost domestic demand through more active fiscal policies. GDP growth slowed to 9.9 per cent up to the third quarter of this year, compared with 12.2 per cent in the same period last year. Slowing economic growth in China might provide the government the opportunity to carry out some fiscal policy reforms that had been postponed in the past because of inflationary concerns. Reforms could be seen in areas such as the value-added tax, income tax and resource and environmental taxes as soon as next year. And some proposals are on agenda to encourage active budgetary spending programs such as tax expenditure and direct subsidies to weak groups in society as well as labour intensive enterprises to boost domestic demand, although there are some doubts concerning the potential inflationary impact of these kinds of active fiscal policies. Given that property prices in China had been stable, the Chinese government was in a difficult position, because allowing prices to decline would pose problems for the banking sector.

There are also several controversial debates concerning China's role in the global financial rescue. Dealing with a large number of domestic problems, as seen in recent serious social conflicts, no doubt remains the first priority for China. China should nevertheless participate actively in the global financial rescue, not only because of the increasing calls on China to play a bigger role, but more importantly, because such engagement makes sense for China's longer-term global strategy. In particular, the global governance framework that has hitherto been led by the developed countries should be restructured to give China more rights and a bigger say. Tackling the problems arising from new and complex financial markets cannot be satisfactorily addressed without reforms to the current system of global financial governance.

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GLOBAL FINANCIAL CRISIS IN CHINA – IMPACTS AND INTERPRETATIONS

Lan Xue

Unlike financial sectors in most developed economies, the Chinese financial sector has been mostly unscathed in the short run by the global financial crisis – despite reported losses by some Chinese banks in their overseas investments. This is partly due to the fact that China's financial system is still relatively closed and therefore, its direct risk exposure is limited. However, the indirect negative impact of the global financial crisis in the mid-term can not be ignored.

As the global market slows down, Chinese domestic market confidence has also been affected. China's stock market, indexed by the Shanghai Stock Market Composite, has been hovering around 1700 points in recent days from the peak of 6124 points last year. While Chinese consumer demand has stayed relatively robust by most measures so far, analysts worry that the slumping stock market, weakening property prices and signs of rising unemployment will trim spending quickly. Retail banking will suffer, in addition to slow downs in banks with credit risk exposure to export-driven enterprises and real estate development loans.

At the macro-economic level, the global financial crisis also hit the Chinese economy at a bad time. While China has maintained an economic growth rate at around 10 per cent in recent years, forces had already begun to slow down the pace of growth prior to the global financial crisis. These include the appreciation of Chinese currency, rising labour and raw material costs, the tightening of the environmental regulations, and policy measures that begin to temper exports. Many hoped that these forces could help the Chinese economy make a transition from being resource-intensive and export-driven to more sustainable and consumption-driven. However, as consumer demands collapse around the globe, particularly in the US, the pressure on the Chinese economy is mounting and the possibility of a soft-transition is diminishing. There are already reports of thousands of manufacturing firms closing down in Southern China in recent months.

The Chinese government has been active in taking measures to address the impact of the financial crisis. Chinese leaders have taken opportunities to call on people to maintain confidence in the economy and vowed to cooperate and coordinate with leaders from other countries to deal with the impact of the financial crisis. China's Central Bank has already reduced interest rates three times in the last few months and eased some credit controls.

China went ahead with its land reform in October which allows farmers for the first time to lease or transfer their land-use rights. Many believe the measure will help to improve rural economy in the long run. But the most dramatic policy initiative came on November 9 when the Central Government announced a major economic stimulus package that amounts to $586 billion spending by the end of 2010, which includes major spending on transportation and rural infrastructures; health, low-income housing, education and other social welfare programs; and tax incentives for technology upgrading, and so on. Close to $150 billion of this package will be spent before the end of this year.

In the popular media and the Internet, there are various interpretations of the root cause and the long term consequences of the crisis. Many have blamed the American economy over-leveraging its economic power at the cost of the global community and questioned the fairness and the usefulness of current global financial institutions. Some believe that American financial institutions have used financial tools to transfer about one third of their losses to the global financial market. Others see this financial crisis as evidence of the fundamental flaws of global capitalism and the need to rethink the spread of capitalism as we know it in developing countries.

With regard to how China should respond to the crisis, some have argued that China should take this opportunity to play a leadership role in reforming the current global financial order. Others have encouraged Chinese companies to take this opportunity to invest in Western markets. Still, there are many who argue that Chinese financial market and institutions are still too young and inexperienced to play the global giants.

Most mainstream economists initially down played the potential impact of the global financial crisis but cautioned on the long-term impacts on the global economy. As the crisis has evolved, most of them have become concerned and called on the government to adopt active fiscal policy to maintain the momentum of China's economic growth. They also encourage the government to play an active role in various international initiatives in rescue the troubled global economy. They characterise the financial crisis as the failure of government regulation on financial institutions and argue that the crisis should not be used as an excuse to slow down China's financial sector reform or to stifle financial innovation.

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THE IMPACT IN ETHIOPIA

Amdissa Teshome

In what ways is the global financial crisis being felt in Ethiopia?

The Ethiopian Economy is one of the least monetised in the world with over 85 per cent of the population having little access to banking and financial services. From this perspective it might appear that Ethiopia has little to fear from the current global crisis. The Ethiopian Prime Minister told Parliament 'In general, we don't expect drastic effects on our economy, our financial structure is not as liberalized as those of affected countries and the economy is not intertwined to Western economies to face a crisis.'

There are three areas in which the global financial crisis might affect Ethiopia – reduced aid, investment and remittance.

Ethiopia relies on the outside world to finance many of its development programmes. The funds come in a form of aid or investment from countries hard hit by the crisis. Therefore, the crisis is likely to reduce the flow of aid and investment as countries strive to solve the domestic financial crisis (e.g. the numerous bailout programmes launched in North America, Europe and Asia). The Ethiopian Prime Minister has acknowledged that this situation might affect aid and investment flow during his address to the Parliament.

The Ethiopian Electric Power Corporation, the only provider of electricity in Ethiopia, has indicated that its investment plans will be severely affected due to the crisis (www.ethiopiareporter.com). According to the Chief Executive Officer, giant international banks such as Morgan ING and others have started to invest in the power sector in Ethiopia. Since these banks are affected by the market turmoil, the Corporation expects a knock on effect – a reduction in investment.

Finally, there are hundreds of thousands of Ethiopians leaving abroad mainly in Europe and North America who transfer money to their relatives back home. As the financial crisis bites, the ability of these people sending remittance will be severely affected. This will have negative effect on the livelihoods of those who depend on remittance.

Ethiopia is not as isolated as one would expect after all!

How is the crisis being discussed and characterised by policymakers, in the media and in the research community in Ethiopia?

As indicated above, the Prime Minister briefed the Parliament on the current global crisis and the former debated the issue. The local media provides regular reports on the crisis. The government has been revising fuel prices every three months in such a way that the price fluctuations do not have immediate effect on the economy. That is, a given price stays for thee months regardless of what happens to global fuel prices during that period. During the next three months, the government increases oil price even if the price starts to come down globally with a view to recouping the subsidies during the previous three months. The government had a plan to supplement fuel with a locally produced ethanol in order to reduce fuel price. The plan came into force during the current crisis and it is expected that consumers will enjoy the benefits of reduced petrol prices in the long run.

In addition to these local debates on the inflationary situation and the financial crisis, there are exchanges over the Internet on the potential and actual effects of the financial turmoil on Africa in general and Ethiopia in particular.

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THE GLOBAL CREDIT CRUNCH – IMPLICATIONS FOR GHANA

Ernest Aryeetey and Charles Ackah

While the long-term growth prospects for the Ghanaian economy appear to be generally favorable, recent developments in the global financial markets are likely to have some impact on the near-term growth prospects. Among recent developments are the widely held expectations of a global recession that will affect largely Ghana's trading and investment partners. There is some degree of growing uncertainty as to how long Ghana can maintain a strong pace of economic growth in the face of sluggish demand in the major developed markets emanating from the rapidly evolving global financial crisis. This is amply reflected in the statement made by Robert Zoellick, President of the World Bank that 'The stark reality is that developing countries must prepare for a drop in trade, capital flows, remittances, domestic investment, as well as a slowdown in growth.'

Commenting on the recent global financial crises, President Kufuor was glad that it had not yet affected the country directly and assured the nation that 'government (was) keeping a watchful eye on the unfolding events in order to anticipate and forestall any danger to the economy.' Meanwhile, bureaucrats at the Ministry of Finance and Economic Planning have already indicated what to expect. They expect that, to the extent that donor support to developing countries would decline, the global financial crisis will hit Ghana's economy badly. They have therefore made urgent calls for the country to strengthen its domestic revenue mobilisation and its management.

The Monetary Policy Committee of the Central Bank has recently reviewed the possible channels of transmission of the crisis to the economy of Ghana. From their assessment of the recent performance of the economy, the Bank maintained that the effect of the turmoil has so far been limited. On the financial sector, the Bank notes that outstanding external borrowing by banks as a source of funding for their activities, as well as the composition of existing credit lines and the industry's low net open position indicate that the banking system is not over exposed.

The Central Bank, as indeed other economists, is less optimistic about the odds in containing most of the external shocks despite the current strong economic fundamentals. One of the channels of transmission identified by the Bank is the weakening commodity markets as aggregate demand slows down with the global recession. As already mentioned, other expected sources of problem include a possible tightening of donor flows and remittances, as well as expected drops in foreign direct investment. Ghana relies heavily on the EU, US and Asia for its export markets, remittances, tourism, and development aid. A steep decline in these sectors will seriously affect the rest of the economy.

Most analysts believe that the most damaging potential effect will be from reduced remittances and capital flows. Inward remittances into the country have been a powerful anchor for the Ghanaian economy. In 2007, remittances received by individuals and households amounted to about $1.6 billion. But the flow is starting to slow, and fingers have been pointed at the global crisis.

Furthermore, international investors are likely to delay their commitment to commercial projects in the country. The Ghana Investment Promotion Centre (GIPC) has already warned that this fourth quarter could be tough for the country's investment climate. While the third quarter investment figures showed impressive gains in spite of the global crisis, the GIPC doubts that this will be the case in the last quarter.

Another area to consider in Ghana's case is with respect to the decline in crude oil prices. Ghana is currently an oil importer, and should ordinarily be happy about the sharp drop in oil price. But Ghana also expects to begin exporting crude oil very soon and officials have made a number of macroeconomic projections into the future based on high revenue expectations driven by high oil prices. That is where the long term effects of the current global crisis will be most felt.

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IMPACTS OF THE GLOBAL FINANCIAL CRISIS ON INDIA

Benny Kuruvilla

The pronouncements from the ruling United Progressive Alliance (UPA) Government on the implications of the global financial crisis on India have been typical and opportunistic. Both the Reserve Bank of India (RBI) and UPA representatives have repeatedly stated that India is likely to escape the worst consequences of the crisis because of a) strong internal drivers for growth and b) limited liberalisation of the banking and insurance sector and therefore limited exposure to the USA's mortgage market and c) Lack of capital account convertibility. They have not lost any opportunity to claim credit for this. This is ironic and hypocritical because since assuming power in 2004, the Manmohan Singh Government has consistently tried to further deregulate the financial sector and liberalise sectors such as industry, agriculture and services. The UPA Government's dependency on the Left parties to retain a majority in the Indian Parliament prevented the UPA from proceeding as fast as it wanted on its liberalisation agenda, although some damage has already been done.

The events of the past month have belied the UPA's initial optimism. The adverse impacts of the UPA's (as well as previous governments') policies which followed mostly the prescriptions of free market economics on preserving macroeconomic stability and private sector confidence, boosting exports and greater integration with the world markets with little attention to local/national development will be more evident in the coming months, as the impacts of a global recession start manifesting itself in the real economy in India.

The mass media in India has concentrated on stories such as the Bombay stock market being down by over 50 per cent from its previous high and credit getting increasingly tight (and therefore expensive) as banks are hesitant to lend to businesses. The real estate sector is facing a severe downturn because of the credit squeeze, falling housing prices and demand. Many of real estate development companies (including majors such as DLF) are borrowing money at exorbitant rates from financial markets to sustain their debts and prevent defaults. If the credit and demand crunch continues several of these companies will be forced to fold.

The services sector, heralded till recently as the new sunrise sector of the Indian economy, will also be hit in the coming months. Since the accelerated economic reform process began in 1991 government policy has been directed towards rapidly transforming India from a primarily agrarian economy to a services oriented and export oriented manufacturing economy. This has led to a near complete neglect of a vast majority of the population that lives in rural areas and depends on agriculture. The impact of this myopia is already being felt hardest in sectors that are most integrated with and dependent on the world markets. In other words firms that export goods or services will have to deal with negative shocks to prices and revenues, which are likely to result in job losses.

Take for instance, the textile sector. Textile ministry officials have already admitted that the sector will be hit hard by the crisis and have revised the target of $50 billion in textile exports. Import orders from USA and Europe have gone down and media reports indicate that an export house in Mumbai has temporarily shut down two factories and laid-off 2,000 workers. More lay-offs are expected in the coming months in textile centres such as Tirrupur in South India. The aviation sector also has shown signs of shedding jobs with the state owned Air India announcing that it is considering a plan to give 3–5 years leave without pay to about 15,000 of its staff, but it would be voluntary action on the employees' part.

Reports from the ILO indicate that in emerging economies such as India job losses will occur in sectors such as construction, real estate, financial services, information technology and the automobile sector. This list is only the beginning of a flood and if the crisis aggravates into a depression, several other sectors will be affected – many of which will not be reported by the mass media.

As economists and policy makers in the country try to understand the gravity of the crisis and offer solutions, the response of the ruling UPA Government has been discouraging so far. False choices are already being made. Many of the ongoing Government initiatives have been directed towards big business and pumping money into the economy to enhance the liquidity level but with dubious results so far (it is estimated that some Rs.270,000 crores have been injected into the national economy but despite this, banks are reluctant to give credit or cut down interest rates). Prime Minister Manmohan Singh recently stated that the Government would spare no efforts to implement fiscal and monetary policies to protect 'India Inc.', i.e. the Indian corporate sector. Writing recently in the Hindu newspaper (November 4 2008) economist Utsa Patnaik argued that the crisis demands a fundamental departure from neo-liberal economics and a renewed focus on agriculture – on which over 65 per cent of the population depends – by urgently implementing a 'grow more food' campaign complemented by large scale public investment that would lead to jobs and add to the supply of basic necessities.

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HOW DOES THE GLOBAL ECONOMIC CRISIS AFFECT THE INDIAN ECONOMY?

Sunanda Sen

With a rising level of integration with the world economy India today faces a considerable risk of a severe downturn as a consequence of the on-going global economic crisis. One can identify the following four factors which explain the potential threat:

- First, the free play of FII investors since 1993 when India's stock markets were thrown open to such investors. Flow of FII to India's stock markets were responsible for the speculatory flows in uncertain markets which pushed up stock price indices in the Bombay Stock Exchange by 5.3 times between 1992-93 and 2007-08.
- Second, there remain the derivatives which have been officially at par with equities since 1992 in security exchanges and OTCs in the country. An extensive use of these was reflected in the value of BSE stock futures rising by more than 10 times between 2002-03 and 2005-06 and even further in following years. Derivative trading in the stock market has been 3.85 times the turnovers in spot trading at National Stock Exchange, the country's biggest stock exchange, during 2007. As estimated by CitiGroup the stock of 'mobile' capital (short term debt plus foreign holdings of stocks and bonds') as proportion of forex reserves have of late been as high as 59 per cent in India, contributing to recent turbulance in stock market with added problems in managing the exchange rate of rupee.
- Third, banks and corporations today are interlocked with the financial market with a considerable exposure in the equity market. Thus share of financial investments was about 40 per cent of aggregate corporate assets during 2005-06.The balance sheet of these financial and industrial units are thus exposed to the vicissitudes of the global financial melt-down.
- Finally, there remain the direct impact of recessionary forces in advanced nations on the real sector of the Indian economy which today is closely integrated with advanced country markets, with the latter of late absorbing more than 40 of the country's exports. A second round impact on exports may also come from possible contractions in other countries, especially in Asia which today provide another 30 per cent of export earnings of the country. The expanding income from services as are related to software exports and the outsourcing of jobs by foreign companies at the Business Processing Organisations (BPOs) have exceeded similar earnings from commodity exports. Thus in 2006-07 earnings from these sources were 1.1 times those from merchandise exports.

Facts as above indicate the gravity of the emerging scenario in terms of a possible impact of the current global economic downturn on the Indian economy. One can witness the unfolding of the crisis with job cuts in private sector and demand shortfalls in major industries which may assume much greater proportions if they remain uncontrolled. There is already a liquidity crunch in the financial sector with scarcity of credit and steep increases in call money rates which soared up to 25 per cent at the beginning of November 2008. There has also been sharp declines in the stock prices, as can be seen in the current BSE index at less than 10,000 as compared to its previous peak of 20,000 last financial year. The rupee rate also has touched a record low of Rs50 to a dollar, as compared to Rs43.3 and Rs45.6 in 1999-00 and 2000-01.

Policies so far announced include monetary measures with several rounds of cuts in the interest rate, Cash Reserve Ratio, the repo rate and even the Statutory Liquidity Ratio. Recapitalisation of financial institutions like Mutual funds to the tune of Rs 20000 crores is also announced. Official circled believe that these would stabilise the banks as well as the financial sector.

But compensatory fiscal measures as are urgently needed are still awaited. Debt relief measures (Rs250 crores) and additional expenditure on social sector (like National Rural Employment Guarantee Scheme) as in last budget are officially claimed as measures to revamp demand. These however may not suffice to stall the onset of a recession in coming days. Simultaneously efforts are made, rather inadvertently, to attract credit from abroad by raising limits of FII bonds to $6bn from the existing limit at $3bn and allowing FDI investments in insurance sector to 49 per cent (instead of the current 25 per cent) and reintroducing the practice of Participatory Notes by FIIS which was earlier banned.

What Indian economy requires at the moment is a strict vigil of speculatory finance (derivatives in stocks, commodity markets and currency, Participatory Notes by FIIs) along with fiscal expansion to create demand, both with jobs and public capital as well as social expenditure.

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THE IMPACT IN KENYA

Betty Kibaara

Mostly documented are the expected effects of the crisis

- Reduction in Tourists.
  Tourism earnings have fallen by 30 per cent. From KSh49.3 billion to KSh34.5 billion over the same time last year, caused by increased fuel prices and the Global financial crisis. Slowed activity in tourism has also contributed to shilling loosing value to the dollar.
- Reductions in purchase of Kenyan Export produce mainly Tea, Coffee and Flowers.
  As early as August this year some flower companies in Kenya were feeling the effects of the crisis. The Dutch auction house Floraholland through which most Kenyans export flowers said that flower exports were in a decline. More than 90 per cent of flower exports are sold to the European markets and demand has been slumping with the crisis.
- The expected economic growth would therefore have to be driven by the Kenyan population who are already hard pressed by hard economic times.
  Already flower sellers at the city market in Nairobi are complaining about loss of business. Customers who used to buy flowers for different occasions are dropping such luxuries to meet the basic needs as inflation bites deep into pockets.
- The expected laying off of workers abroad to imply reduced remittances to Africa/Kenya.
  Most recent activities at the Stock exchange have been driven by the foreign investors hence expected negative effects.
  The bourse has been performing badly for the past three months. The negative swing in the Nairobi stock exchange is being blamed on the panic selling by foreign investors.

Counters that experienced the heaviest sell off in September

	Foreign buy	**Foreign sales**	**Net foreign Position**
Company	**Shares 'million'**	**Shares 'million'**	**Shares 'million'**
Mumias	1.79	84.71	(82.92)
BBK	3.89	152.68	(148.79)
Access	7.35	225.20	(217.85)
KQ	3.85	11.22	(7.37)
EABL	232.05	473.18	(241.13)
Equity	91.94	177.34	(85.40)
Safaricom	492.40	793.24	(300.84)
Source: CFC Financial Services			

- Reduction in foreign aid
  The report card on the Millennium Development Goals says that pledges to help developing countries with stepped-up aid are faltering. United States of America which is the greatest benefactor had declined

by 10 per cent and that from European Union by almost 6 per cent. The global crisis will definitely make it more difficult for these donors to meet their pledges.

- Quite some amount of Kenya's budget was to be raised from external sources but now that prospect is uncertain.
  As at October 08 Statistics from treasury indicated that the government had a budget deficit of KSh127 billion. Also the Kenya revenue authority missed its target for September by KSh10 billion. The sovereign bond was meant to net KSh33 billion from international markets but has since collapsed mainly due to strains caused by the global crisis.
  In the June 07 budget the government planned to raise 633 billion from tax and external financing (grants and loans).

Effects being felt

- Reduction in remittances. Forex bureaus and money transfer firms have indicated that there is a slump in the inflow of remittances. For example orders for *Mbuzi ya Jamii* (goat for the family) are down sharply at Mama Mikes, an online store that allows Kenyans living abroad to pay for a range of products and services which are then delivered to their families back home. These include goats, medical check-ups, supermarket shopping vouchers, school fees and others gifts.
  Customers are cancelling orders saying times are hard and so they can't do it anymore.
- Shilling loosing value.
  There has been an increase in demand for the dollar against reduced supply due to poor performance of sectors like tourism and flower exports.
- Psychological effects e.g. lending institutions being more specific and shying away from those who cannot show ability to pay. In a case of learning from others' experience lending institutions want to avoid any action that would bring them in the same situation that triggered the financial crisis.
- Firms with foreign lending having to rethink their lending terms and priorities. More firms are changing tact and investing locally where the risk and volatility is perceived as minimal.
- Donor priorities being redrafted. Naturally donor countries would divert money meant for foreign aid to first fix problems at home.

Policy Makers Action

- Formation by the Government of Kenya of a Task force to look into ways of cushioning Kenya's economy from the effects of the Global crisis
  The task force comprising ministries of finance and planning and central bank officials is to look into ways of cushioning the economy against the risk of suppression in a turbulent global economic environment.
- Central bank governor and Equity bank CEO maintain that Kenya's financial sector will only be affected indirectly. This view is based on the analysis that Kenyan financial system has weak connections with the western money or financial system.
- Kenya's financial market is far more open now, but it is still not comparable to those in the United States, Europe, or Asia. According to National Economic and Social Council lagging behind the others may now prove to be an advantage for the country.
  The Kenyan economy is not connected that intricately with the U.S. economy or the European economy because it does not have derivatives in this market. Also Kenya does not have asset-backed securities. The effect will therefore be secondary.

- Have basically assumed a wait and see attitude and continue to watch the events at the world/ American markets.

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She has a wide experience in Monitoring and Evaluation. In particular, she has coordinated baseline and monitoring surveys for Tegemeo Panel data, Kenya Agricultural Productivity Project (KAPP), Integrated Rural Development Program, Market Assessment for High Value Crops in Siaya District for the World Economic Forum (WEF) under the Business Alliance Against Chronic Hunger (BAACH) among others.

At the policy level, she has been appointed to various agricultural commodity related Task Forces and also participated in preparation of the agricultural chapter for the Kenyan Medium Term Plan 2008-2012. She serves as a resource person to the Parliamentary Committee on Agriculture in Kenya. She is currently involved in research work on Comprehensive African Agricultural Development Program (CAADP) and African Peer Review Mechanism (APRM).

IMPACT OF THE FINANCIAL CRISIS ON KENYA

Dorothy McCormick

The global financial crisis appears to be hitting Kenya in both the short and long terms. The most immediate impact has been the depreciation of the Kenya shilling relative to the US dollar. The shilling fell 3 per cent in September and another 9 per cent in October. From an exchange rate of approximately 65 to the dollar for much of 2008, the shilling briefly fell as low as 79 to the dollar in late October. Close observers attribute the change to speculation as to what economic conditions abroad will mean for Kenya in the longer term.

According to one journalist:
"Clearly speculative pressures by dealers are at play. Taking advantage of the uncertainties of the turmoil in international markets – and the self-serving predictions that remittances from the Kenya Diaspora are likely to dry up …, currency dealers would appear to be prepared to buy high to justify their doomsday predictions."

The East African, 19 October 2008

Another journalist gives some practical examples:
"How, exactly, is the speculation taking shape? If you are a manufacturer who knows that you will be importing intermediate goods or raw materials from Europe six months from now, you will be advised to buy as many dollars as you can now and to deposit them in your forex account for future use. If you plan to import a car from Japan, traders will tell you to stock the dollars now. Currency dealers and traders have speculated that the price of the dollar will rise higher and higher, and are consistently sending the message to their clients to 'fly to safety'".

The Daily Nation, 28 October 2008

As these articles suggest, there are long-term concerns about the fallout from the financial crisis. They fall broadly into four categories: remittances from the Kenyan Diaspora, tourism, aid, and exports of horticulture products, coffee, and clothing. Many people expect remittances to drop as Kenyans abroad struggle to weather the credit crunch and its implications for their personal finances. Tourism in Kenya had been badly hit by the political violence that broke out following the disputed elections at the end of 2008. Then in the middle of the year, high fuel prices reduced demand for long-haul destinations from Kenya's major source markets. The financial crisis is merely the crowning blow for a difficult year for Kenyan tourism. Overall, officials expect 2008 tourism earnings to be 23 per cent lower than last year (Reuters, 1 November 2008, www.alertnet.org/thenews/newsdesk /L189776.html).

A third long-term concern is the level of aid. Although Kenya is not highly aid-dependent when aid intensity is measured as a proportion of total GDP, the government does depend on aid for most of its development budget. A major reduction could result in loss of funds for infrastructure, health care, free primary education, and various other projects. Western donors, faced with reduced tax revenues and the need to spend to help people at home, are bound to look to the aid budget for funds. United States President-elect Barack Obama, when questioned during the campaign about what items of his economic plans he might adjust as a result of the financial crisis, named the foreign aid budget as one area for scrutiny.

Finally, many observers expect exports to drop as financially strapped Americans and Europeans look for ways to cut expenses. Imported fruits and vegetables and expensive specialty coffees are likely candidates. Kenya's clothing exports go mostly to US importers under contract from mass retailers such as Target and Walmart. They benefit from duty-free access to the US market under the African Growth and Opportunity (AGOA) programme. The items tend to be basic cheap garments bought by low to middle income consumers who are being hit hard by the financial crisis. Although horticulture, coffee, tea, and clothing exports may benefit, at least temporarily, from the depreciated shilling, in the longer run sales of these items in their traditional markets seem likely to fall.

This brief analysis is far from the final word on the impact of the financial crisis on Kenya. For one thing, the path of many variables is still unknown. Oil prices have begun to come down. This may ease the impact on of the crisis on tourism. Kenya's low-end garment manufactures may actually benefit as foreign consumers try to reduce their clothing budgets. Aid appears to be less tied to the donors' economic considerations than was previously thought. Nevertheless, the analysis suggests that countries like Kenya that are somewhat removed from the global financial system and have a fairly conservative banking system are not immune from the problems of the rest of the world.

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NIGERIA: SEEING NO OBVIOUS EVIL

Simon Kolawole

The consensus on the streets of Nigeria is that the country is insulated from the global financial meltdown, but behind closed doors, the policy makers and market regulators are very worried about its possible devastating impact on the financial health of the country. In the media, there is an obvious lack of enthusiasm to decode the dynamics, whereas in the intellectual community, there is some disquiet on official pronouncements that Nigerian economy is immune to the crisis. Government officials maintain that the global crisis is the child of the mortgage mess – and, Nigeria, being a country where mortgage is virtually non-existent, has nothing to worry about.

Nigeria is an oil-producing country: petrodollars account for between 70-80 per cent of foreign exchange earnings and account for nothing less than 60 per cent of national spending. Manufacturing, once on the rise, slumped in the grip of Dutch Disease in the 1970s and has never really recovered as Nigeria hops from one economic crisis to another, adopting all sorts of first-aid and intensive care measures that have not been too effective. In 2005, however, the new governor of the central bank came up with what he saw as a masterplan to put Nigeria on the global financial map: he asked banks to consolidate, re-strategise and play a major role in financing Nigeria's industrial development.

In one year, the number of banks shrank from 89 to 25, capital base and deposits shot up astronomically (funded mainly by a booming crude oil market), and a lucrative stock market emerged as virtually every bank became listed to raise capital. Foreign investors flooded the market; stocks boomed beyond belief; profit margins for speculators went as high as 500 per cent in less than six months in some instances. But nothing lasts forever. The stock market has been on a sharp fall ("self-correction", the experts call it) since March 2008. The capitalisation fell from a historic value of over N12.6 trillion (US$106.7 billion) in the first week of the month to close at N11.43 trillion (US$96.8 billion) in the first week of May. That was N1.17 trillion (US$9.9 billion) or 9.3 per cent shed in roughly two months. In the first week of November, capitalisation was N7.969 trillion (US$67.5 billion).

So what went wrong? Several reasons are cited, but significantly, foreign investors, under intense heat as a result of a failing market back home, began to sell their stocks, take profit and return home. The unending selling activities depressed the market as a result of a glut: demand consequently fell and prices began to tumble. Banks, seeing the value of shares flushing down the drain, began to panic. Their exposure to 'margin loans' (loans advanced to customers to buy shares) was extensive. Share certificates, used to secure the loans, were daily losing value.

In the money market, foreign financial institutions, which had invested in Nigerian banks or had entered into partnerships and strategic relationships with them, also had to revise their dealings following the global financial meltdown. To avoid a crisis of confidence, much of the information is kept secret. There is no official confirmation of the impact of this on the banks. But the CBN governor has re-assured Nigerians again and again that all is well. The measures adopted in 2005, he said, pre-empted the global crisis. Banking consolidation and an indirect restriction of wholesale foreign ownership of Nigerian banks, he said, had effectively insulated Nigeria from the global crisis.

He could be right, but events in the stock market tend to suggest that there is more than Nigerians are being told.

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THE IMPACT ON PAKISTAN

Tehzeeb Zulfiqar

Pakistan has been hit hard by the global financial crisis. Power cuts; high fuel costs, rising food prices and the falling value of the rupee have led to a sense of emergency. For the poor man it has become very difficult to make the ends meet. The present government increased the limit of the lowest salary to 6000 Rs which at that time equalled to about US$90 and now at present its value is equal to US$72. Even before the global financial crisis made its full impact on the world's economy, the people of Pakistan has started feeling its effects. The already small middle class of Pakistan is fast moving to the other side of poverty line. Almost every week the prices of the common food commodities increase almost double, the power tariff was raised twice in the past one month to almost 61 per cent, and the gas prices are also up by 30 per cent. With the rapidly falling US dollar rate situation has gone from bad to worst.

Terrorism in Pakistan has also contributed to the financial crisis, as the people who have money are fast moving their businesses and money to foreign banks abroad. After 9/11 when the Pakistani community faced the backslash of the terror attacks in the foreign countries, most of the Pakistanis moved their assets and families to Pakistan which lead to a fast inflow of foreign currency and lead to economic stability. Now after the continuous series of terrorist attacks in major cities of the country, everyone is in a state of tension and wants to move out of the country as soon as possible, for the fear of their lives as well as property. As the government seems unable to cope with the terrorism as well as with other issues which the common man is facing, the people are escaping to safe horizons before it is too late.

Just at the beginning of the global crisis, the stock markets had a massive plunge and had to be locked at a certain level to control the imminent crash. This lead to a state of panic at all levels and led people to withdraw all their money from the banks which further led to the instability of banking system in the country. People withdrew the foreign currency as well as rupees from the banks and emptied their bank lockers in fear of rumours that the government is freezing their money as well as lockers.

It has been reported by the print and the electronic media, both locally as well as internationally that Pakistan is on the brink of bankruptcy; however the government of Pakistan denied it earlier. Ironically as the people have no trust in the government therefore they believe what they see in media but not on the words of government. The policymakers at the moment are blaming the previous government and the global financial crisis for the national crisis, but on ground the common man blames the government for mismanagement in view of no serious effort by the government. The loan process from IMF is also considered as a very bad option, because the people have very bad memories of the IMF loans in the past. The media is projecting the true picture of the crisis, the reasons, the solutions, the risks involved and the policy issues faced by the government, however there is no such communication from the government which will educate the people about the situation. On the 27 October an ex Finance minister (who was an ally of the government) revealed to the parliament that 70 per cent of the people are living below poverty in Pakistan now, against the previous figure of 40 per cent just a year ago.

The economists and the research community have advised the previous as well as current government to invest in education, agriculture, and industry and to cut down the defence budget, luxury housing, and civil administration. Unless this is done, and until this is done we in Pakistan feel that life has become a long struggle with no hope for relief.

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THE EFFECTS OF THE GLOBAL FINANCIAL CRISIS ON ASIA AND ON THE PHILIPPINES

Maria Socorro Gochoco-Bautista

Thus far, the effects of the global financial crisis on Asia, including the Philippines, have not been as virulent as the effects in the US or in Europe. No banks or financial institutions have needed to be nationalised or recapitalised. The Asian economies are still growing, although many of them, including the Philippines, have started to exhibit signs of slower GDP growth. Countries in the region are experiencing slower export demand from large markets such as the US and Europe, a reduction in capital inflows and a withdrawal of credit lines from abroad necessary to finance investment, as well as a withdrawal of US investment from the region. The ratio of investment to GDP in Asia remains at levels below that prior to the Asian Financial Crisis. This situation is certainly going to be aggravated by the ongoing global financial crisis, with dire consequences for growth. In some countries like the Philippines, insufficient investment is a particularly acute problem and a major constraint to growth.

While the full effects of the global financial crisis on Asia are not expected until next year, some effects are already being felt by countries in the region. Whether unilateral or coordinated measures adopted in the US and in Europe will work to resolve the financial crisis, and whether China can continue to grow to counter the deflationary effects from the US and Europe on the region remain unresolved issues. So far, countries in Asia have responded unilaterally to the global financial crisis. They have not adopted a coordinated regional response – notwithstanding proposals of an US$80 billion regional standby credit facility and the expansion of the US$84 billion swap facility under ASEAN + 3.

The global financial crisis has increased the risk of financial contagion and recession in Asia. There is a growing lack of dollar liquidity in financial markets in Asia as capital retreats from countries in the region to safe havens abroad. As a result of the ongoing global financial crisis, there has been a significant increase in risk aversion against emerging market assets and bond spreads have widened. There has been a flight of capital to safe havens elsewhere. Both of these have drastically reduced the values of assets held by banks in Asia, although by how much exactly is unknown. Credit has become tighter and economic growth in many economies is beginning to slow down.

Since the beginning of October, monetary authorities in China, Hong Kong, India, Korea, South Korea, and Taiwan have been easing monetary policy. They have reduced policy interest rates and/or reserve requirements, and generally adopted measures to increase liquidity in financial markets, such as expanding the types of eligible collateral for repurchase agreements with the central bank. In some of these countries, policy rates were reduced by over 100 basis points in only a 3-week period (Liu, 2008, p1). Singapore has eased monetary policy by shifting to zero appreciation in the Singapore dollar NEER on 10 October from a policy of gradual appreciation since 2004. As of October 2008, monetary authorities in the Philippines and Thailand have maintained their policy rates, but there are indications that the authorities are also prepared to end the monetary tightening stance they adopted earlier in the year to quell inflation generated by high oil and food prices in the world market. Some countries have also extended sovereign guarantees on the external debts of banks and/or inter-bank liabilities for a limited time period to increase confidence in the financial system. Many countries in the region have also announced that fiscal policy would be more expansionary to cushion the impact of the global financial crisis on economic growth.

In the case of the Philippines, the US dollar, already a relatively scarce commodity under normal conditions, has become even more so. The current very large demand for dollars is due to several reasons. First, there has been a flight to safe havens due to increased risk aversion attached to holding Philippine sovereign bonds and emerging market bonds, in general, following the collapse of Lehman Brothers. Both Philippine sovereign bond spreads and credit default swap spreads widened as of the end of September, the latter to 283.1 basis points from 265 basis points in June. When the risk of holding these sovereign bonds rises and they are sold off, their values drastically decline. Since Philippine banks are required by law to maintain a 100 percent reserve cover against foreign currency deposits, they need to hold a dollar worth of liquid assets as reserves for every dollar of deposits held in their foreign currency deposit units. The latter typically hold dollar-denominated Philippine government bonds as reserve cover. The drastically-reduced value of these dollar-denominated sovereign bonds means that banks have suddenly found themselves with insufficient reserve cover for their dollar deposits. This has led them to scramble to buy dollars in the spot foreign exchange market called the Philippine dealing system and/or sell these dollar-denominated bonds even at huge losses in order to acquire dollars to help meet deficiencies in their foreign exchange cover. The sell-off of these bonds further reduces their value, raises interest rates and steepens the yield curve.

Second, the global financial crisis has also led to a greater degree of uncertainty in the Philippine financial market that has made banks reluctant to lend. The viability of banks and the health of their balance sheets given much reduced asset values, the level of exposure of local banks and other domestic financial institutions (such as the government pension system) to structured products of problematic financial institutions abroad and other foreign assets etc., are not known precisely by the public nor by banks themselves. Much reduced bank asset values increases counterparty risk, which is difficult to assess correctly given the ongoing financial turmoil. Banks have become reluctant to lend even to each other. Bank depositors' confidence tends to waver, forcing the Philippine Deposit Insurance Corporation to propose that Congress raise the amount of deposit insurance to P1 million (about US$20,000) from the current level of P250,000 per depositor. In light of the blanket guarantee on deposits adopted by other Asian countries, however, it is unclear whether a measure such as this will be effective in maintaining the public's confidence in the banking system and preventing capital flight even to other countries in the region. In addition to domestic financial institutions, some abroad, especially those that have been adversely affected by the ongoing global financial crisis, have also began to liquidate their assets in emerging markets like the Philippines in order to raise needed funds. The stock market has been experiencing record losses. Based on data from the Philippine central bank, there was a reversal of some US$503.99 million of net portfolio inflows in local stocks, bonds and bank products between January and September 26 of this year. In contrast, the country had experienced net inflows of US$3.4 billion in the same period last year.

The very large demand for dollars and capital flight to safe havens has made the peso, which appreciated by 19 per cent and was the region's best performing currency in 2007, depreciate by 12.3 per cent by 30 September 2008 since the start of the year. It is now among the region's worst performing currencies in 2008 (along with the Indian rupee and the South Korean won). In turn, the depreciation of the peso raises the cost of servicing the country's external debt. The government, for example, spent a little over US$3 billion (P 161.69B of its P535B debt service) to settle its obligations in foreign currency in the period between January to September this year, an amount larger than that in the same period last year. While the share of interest payments has declined from a high of 30 per cent of government's total expenditures 8 years ago to 23.3 per cent in 2007, it is unlikely that a further reduction to the target of 21.9 per cent for 2008 will be met in the face of higher interest rates as global and domestic credit markets tighten (Remo, 2008, B3). Even as the government's deficit rises with the depreciation of the peso, the only expenditure that clearly increases is debt service while spending necessary to stimulate the economy may not. The central bank has incurred a sizable reduction its holdings of foreign reserves, as it sold dollars in the spot market for foreign exchange in an effort to prevent a very rapid and large depreciation of the peso.

The central bank's stock of foreign reserves declined by US$870 million in September alone. The central bank has made available about US$10 billion from foreign currency swaps, an amount equivalent to about 25 per cent of its total stock of foreign reserves, to increase the supply of dollars in the spot market or to service some of its liabilities (Dumlao, November, 2008, pB1). It has also essentially suspended the mark-to-market rule until 31 March 2009 so that bank losses on foreign assets will temporarily not be booked by banks and they will therefore not need to source additional dollars for foreign exchange cover in the meantime. There have been some suggestions for the government to issue Treasury warrants to convert dollar-denominated sovereign bonds into peso-denominated sovereign debt. This is intended to restore confidence in the face of falling asset values of sovereign dollar-denominated debt and reduce the pressure on the peso to depreciate. In any case, it is unwise for the government to continue its proclivity to borrow abroad rather than domestically given the current global financial crisis.

As was the experience during the Asian Financial Crisis of 1997, a financial crisis tends to spill over to the real economy. Although US data are only now beginning to confirm a recession there, the effects of the financial crisis there that began in August 2007 have begun to be felt in the real sector here. Data from the Philippine central bank show that real GDP grew more slowly at 4.6 per cent in Q2 2008 compared with 8.3 per cent in the same period last year. There has been spending compression as household spending and capital formation slowed down, while government consumption declined. The latter declined by 5.1 per cent in Q2 2008 after expanding by 11.9 per cent in the same quarter last year. Energy sales and electricity consumption fell in Q2 2008.

Except during election years, fiscal policy in the Philippines has not been as expansionary relative to that in neighbouring countries, relative to the government's own targets for the year, and relative to the previous year. Given the widespread level of poverty and now, the need to cushion the adverse effects of the global financial crisis on economic growth, and therefore, on poverty, there is a need for government to spend more, particularly on infrastructure such as roads and irrigation, health, education, and larger cash transfers to the poor. Yet, data from the Department of Finance show that while cumulative expenditures for the first semester of 2008 grew by 6.7 per cent to P588 billion compared with the same period in 2007, this amount was P14.1 billion lower than the program for Q1-Q2 2008. Furthermore, the deficit of the National Government for the first semester of 2008 stood at P18 billion, less than half the P41 billion deficit for the same period last year. This was also lower than the programmed deficit for Q1-Q2 by P23 billion.

Part of the reason for anaemic government spending is that the government has always been fiscally-challenged by persistent deficits and a low tax to GDP ratio of about 12 per cent. Despite an improvement in the fiscal position with the imposition of the expanded VAT Law in 2006, tax revenues have been plagued by poor collection and poor tax administration. Some academics also conjecture that appropriated amounts are deliberately not spent today so that they may be reallocated to election-related spending in 2010.

Merchandise exports fell by 11.1 per cent in Q1 2008 led by the general slowdown in the electronics industry and the decline in garments exports. Electronics exports account for 60 percent of total Philippine exports. They contracted by 2.8 per cent year-on-year in August 2008 to US$2.53 billion. Exports to the US declined by 14.9 percent in August 2008 from a year ago and amounted to US$652.77 million compared with US$766.7 million in the same month last year. Merchandise imports in Q1 2008 fell by 7.4 per cent due to the decline in the importation of raw materials for electronics manufactures. This caused total imports to fall by 6.6 per cent. While the Philippines' BOP is still in surplus, largely due to the enormous amounts of remittances from overseas workers (US$14 billion in 2007), this kind of import compression will neither promote nor sustain growth. The target for overseas workers' remittances for 2008 of over US$15 billion may not be met as many of them may be laid off as a result of the global financial crisis and recession abroad. While remittances typically surge in the last quarter of the year in the face of the Christmas season, thus far, they have not prevented the peso from depreciating as it has.

Policymakers have generally tried to project an image that they are in control of the situation and have largely downplayed the gravity of the effects of the global financial crisis on the Philippine economy. They emphasise that there is no crisis in the economy at the moment and the idea that while the country has to be prepared, the expectation is that the effects on the economy will not be as severe as elsewhere. They characterise as 'unwarranted' the recent depreciation of the peso by the economy's 'good fundamentals' citing for example, the surplus in the BOP, strong overseas worker remittances, and the low level of NPLs in the banking system as a result of measures put in place after the Asian Financial Crisis (Dumlao, October 27 2008, p B1). They have also sought to assure the public that there is an adequate supply of dollars in the financial system, attributing apparent shortages to a ‘distribution problem (Philippine Daily Inquirer, 30 October 2008, p1).

The print media have largely relied on press briefings of officials to report on the measures being contemplated or undertaken by government. In this respect, they have been able to effectively communicate the position of government and the steps being taken to address specific problems. However, there does not appear to be a broader perspective of the problem, with only ‘sectoral’ reporting on monetary policy from the central bank and fiscal policy from the Department of Finance. Outside of the newspapers, however, there is hardly any news or commentary on how external shocks are affecting or likely to affect the domestic economy in the media. There is no careful analysis of the crisis and measures adopted.

Academics, on the other hand, are beginning to question whether government has correctly described the nature of the ongoing crisis and how it will affect the Philippine economy as well as the likely effectiveness of proposed measures to be adopted. However, the views of academic economists on the economy are not usually sought by policymakers or by the media. In part, this has to do with the historical mistrust between policymakers and academics as well as the relatively basic understanding of complex economic issues by media and the public at large.

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THE 2008 GLOBAL FINANCIAL CRISIS AND SOUTH AFRICA

Don Ross

A theme in some commentaries on the current global financial crisis that began in mid-2007 is that emerging markets have been 'innocent victims'. This is truer in some cases than in others. Those, like Zambia, that are suffering mainly because looming world recession has taken the shine off commodity prices, can reasonably claim to have been caught in a cross-fire in which they had no active involvement. But others, such as Hungary, are in trouble primarily due to large current-account deficits that, in the context of the capital crunch, have caused sudden depreciations of their currencies and saddled them with unsupportable debts. A country's current-account balance is arguably a variable that is under its policy control.

When the financial tsunami struck in September 2008, South Africans braced both for a soaking and for a round of our usual self-abuse. We could see multiple sources of potential vulnerability. We have been carrying a large current-account deficit for years. Our small currency is heavily traded. Our financial institutions are sophisticated – and hence fully capable of dealing in the sorts of new-fangled instruments that have turned out to be (unsurprisingly) dangerous in the hands of the imprudent. Our investors have been enjoying asset appreciation fuelled by inflows of foreign capital attracted by high nominal interest rates. If our currency, stock market and financial institutions were now collapsing, we could all be saying we knew it, we knew it, and we were asking for it. Several of our more prominent commentators would be able to simply pull old columns from their hard drives and adjust the dates.

But it isn't happening. True, our stock market has fallen and (to a lesser extent) risen with world averages. The Rand had lost about 35 per cent of its mid-September value against the US Dollar as of mid-October. Our Finance Ministry, in its mid-year forecast, predicted that our growth rate would fall by a bit less than half over the coming 18 months. We are, then, taking some lumps. But they are comparatively mild. The currency has already recovered significantly, and it never did fall seriously against those of our largest trade partners, the Euro-zone and the UK. The reduction in growth we expect is not a recession. Our inter-bank lending market never froze and our commercial and even investment banks remain profitable. While others panic, we are beginning to wonder if we should be enjoying a feeling of smugness we are used to reserving for occasions that directly involve Nelson Mandela.

We should not get carried away. Much of our good fortune is an unintended consequence of policies we adopted or persisted in for reasons that weren't good economics. These included currency controls, encouragement of over-conservative monetary policy and restrictions on lending to the poor. The latter two have stifled the broadening of entrepreneurship, causing a drag on our development that will continue to afflict us while less inhibited emerging markets roar into recovery later. Still, these are our discretionary policies and they are partly sheltering us from the storm. Furthermore, our extremely competent and alert National Treasury has shown itself to be a national treasure, having accumulated a fiscal surplus that allows it to now run counter-cyclical debt while continuing to raise net savings through infrastructure investment. Those with capital in flight from rotten securities have plenty of good buys available in depressed first-world equity markets, of course – but there also continues to be excellent value available from investing in South Africa, and this has not been lost on the market. We are pleased to be a port in the storm.

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THE IMPACT OF THE FINANCIAL CRISIS IN SOUTH AFRICA

Nicola Viegi

The Economic Impact

The financial crisis has taken sometimes to reach South Africa. Shielded from the financial turmoil by a relatively rigid regulatory environment, the Johannesburg All Share Index reached its peak on May 2008, driven by good performances of mining and commodity stocks. For the whole of 2007-2008 the main problem confronting the South African Reserve Bank was the control of inflationary pressures coming from raising oil and food prices.

The situation has changed radically in June-July 2008. A sudden stop of international capital flows has produced a collapse of share prices and exchange rate. The JSE stock exchange has devalued almost 20 per cent in the past three months and in the same period the Rand had depreciated 37 per cent against the US dollar. The contemporaneous collapse of commodity prices has hit particularly hard mining and commodity industry, with Anglo American losing 35 per cent of its Rand value. The effects of the crisis are rapidly spreading to the real economy, with a dramatic contraction of the mining sector particularly affected by the slowing down of OECD economies.

The international credit crunch is affecting investment plans of para-statal and private sector. The sudden difficulty and increasing cost of accessing international source of financing has slowed down infrastructure investments, especially in the energy and mining sectors, with long term negative consequences for the development of growth capacity. On the other hand government finances and international reserves are very healthy and are providing a buffer stock against the most extreme effect of the crises.

Impact of the Economic and Political Debate

The financial crisis is producing a change of tone in the economic and political debate. The prospect of a slowing down of economic growth for the next few years has reinforced calls for a move towards a more expansionary economic policy framework. Consider, for example, the last paragraph of the "Statements of the Alliance Economic Summit" released 19 October by the ruling party (ANC) and its allies that reads as follows:

> 'Macroeconomic policy needs to support economic development and employment creation. Interest rate policy, while continuing to be directed at containing inflation should also be sensitive to its impact on the productive economy and employment. The priority [..] is to create decent jobs and combat poverty and unemployment.
>
> It was agreed that the systemic crisis in the global economy could have serious short-term repercussions for South Africa but could ultimately mark a watershed in the world balance of forces, and close the chapter of the 'Washington Consensus'.'

In particular there is increasing pressure to abandon inflation targeting, to be substituted with a more eclectic monetary policy. At the moment both the National Treasury and the Central Bank have enough political capital to resist the call. The situation might change if economic conditions worsen, especially on the employment front.

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THE IMPACT ON SRI LANKA

Keiju Mitsuhashi

The impact of the Lehman shock on the local stock market is rather marginal in the short term, as experienced in many other developing economies with a relatively closed capital market. However, in the medium term, the decreased asset value in the West and other emerging economies will see a gradual reduction of capital flows, both in terms of portfolio investment and foreign direct investment.

The increased cost of funding from overseas markets will make it more difficult to ensure stable balance of payment and to finance development projects in the country, with an implication of growth slow-down. On the other hand, rather than solvency, liquidity will soon become more of an impending matter, if growth and investment were to be kept at a higher rate.

The drastic appreciation of Japanese yen, relative to US$ and EUR, and hence, to Sri Lankan Rupee, may increase the foreign debt burden, if the yen remains appreciated for some time.

The future of private foreign investment to this country is uncertain. The drop in the asset value implies increased risk exposure, and hence, more risk-averse behaviour and operation, by the private sector. On the other hand, the global economic slowdown takes off the demand-side pressure on the global price of oil, metal, etc., which may become an incentive for some to aggressively expand their business operation overseas.

The fall in the oil price etc. is indeed a relief for oil importing developing countries such as Sri Lanka. The local private sector are concerned with the reduction of global demand and the downward trend of the price of their exports, such as rubber, tea, coconuts, and garments, which may increase the current account deficit, unemployment, etc.

How is the crisis being discussed and characterised by policymakers, in the media and in the research community? The central bank claims that the relatively small impact of the global financial crisis felt in the local financial market is due to their prudent and stringent regulation. Whether the tight regulation is due to the inability to open the market or conscious efforts to regulate the market considering the risks is, however, questionable to me.

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IMPACTS OF THE GLOBAL FINANCIAL CRISIS ON THAILAND

Jacques-chai Chomthongdi

The impact of the financial meltdown has not yet struck Thailand's economy at the same magnitude as it has on many other countries around the world. Even though the balance of payment is in the negative zone, other macro indicators remain, so far, outside the dangerous area. External debt in August was at US$66,703 million (65 per cent long-term), while the international reserve was at US$101,249 million. No banks have shown signs of distress as yet, and no official major intervention in the banking system by the government or the Bank of Thailand has happened to date.

Up to mid-October, the focal point of the government and the established media were on the Stock Exchange of Thailand (SET) which saw its index plummet to the similar range as during the 'Tom Yam Kung' Crisis of 1997. The scene at the Stock market, however, did not create much anxiety among most of the population, considering that only less than 300,000 Thais out of 64 million actively engage in this market.

In the longer term, indirect effects will be felt by larger group of the people. This is because increasing number of saving schemes such as pension funds are now investing in global equity markets. The most prominent one is the 'Government Pension Fund' which has more than 1.5 million officials as members. Its capital reduced by 14 per cent compared to one year ago. The national 'Social Security Fund' also invests significantly. But still, the loss is not yet known to the public. On this matter the Thai Government came out with number of measures, mainly tax incentives to stimulate the market. Moreover, the Deputy Prime-Minister in charge of economic matters, indicated that the government should mobilise large amount of resources, possibly as high as US$2,000 million, to shore up what are believed to be under price stocks in order to pull up the SET Index.

On the other hand, less effort was seen in assisting the real sector and the poor and vulnerable population. It does not mean that the real economy and the poor people would not be negatively affected by the current crisis. For the industrial sector, the textile and apparel industries have seen their orders from both the United States and Europe declining over the last months. This trend has already led to the reduction of working hours and overtime in many factories. If it continues like this, the Ministry of Labour and Social Welfare, anticipates that large number of companies will resort to reduce their employees in the near future.

Regarding the service sector, the tourist industry is also experiencing rapid contraction. This is due to both the financial crisis and the domestic prolonged political turmoil. Currently, there are in total 550,000 unemployed persons, which account to 1.5 per cent of the total workforce in Thailand. Several experts, however, believe that this number could easily exceed one million by next year. Furthermore, the agriculture sector will not be able to escape this tragedy. Starting with rubber and cassava, for which external demands are dropping sharply, the prices of these two produces have plunged drastically. Other agricultural products such as corn and rice are also beginning to see a decrease in their prices.

In the second half of October, more voices began to criticise the Government regarding the lack of investment in helping workers and farmers. Demonstrations and other events in protest are increasing, particularly among farmer groups. Very recently, positive signs are emerging from the government on this front. The Minister of Finance announced publicly that he does not agree with the plan for the government to be investing further in the stock market in order to help investors, and insisted that money would be better spent if used to help people at the grassroots.

However, apart from the financial sector where the Bank of Thailand continues to resist external pressure to liberalise further, the mindsets of most Thai policy makers have not departed from mainstream thinking, where exports and foreign investment remain the driving engines for economic growth, and market mechanisms are considered the best mean to allocate resources.

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IMPACTS OF GLOBAL FINANCIAL CRISIS ON VIETNAM'S ECONOMY AND RECOMMENDED POLICY RESPONSES

Vo Tri Thanh

Amid the context of deepening global financial turmoil and economic slowdown, Vietnam's economy, including its financial system, has been unable to avoid certain ‘seismic’ impacts, notably through three key channels of (i) trade, (ii) investment; and (iii) capital mobility and financial market.

Firstly, financial crisis and economic recession in the U.S. and other major trade partners of Vietnam (e.g., EU, Japan) will possibly continue to restrain its export growth rate to a considerable extent. In fact, Vietnam’s export growth rate has decreased since September and October compared to previous months.

Secondly, Vietnam is likely to find more difficult in mobilising external fund; capital inflows such as remittances, FDI, Foreign Indirect Investment, and commercial loans, may continue to decrease. There is a high possibility of postponement, even cancellation, in the implementation and disbursement of FDI.

Thirdly, foreign investors may possibly change their behaviours in Vietnam’s capital market, where they hold a significant proportion of value of shares and bonds. They may realign their investment strategy and restructure investment portfolio, not excluding a withdrawal of capital out of Vietnam. Their movements, plus with psychological effects of the world financial turbulence, may trigger considerable fluctuations in the capital market of Vietnam. These troubles, combined with difficult mobilisation of external capital and high trade deficit, will put considerable pressures on the exchange rate regime and the financial and banking system as well.

Although Vietnam's macroeconomic situation showed some positive signs following implementation of eight policy packages issued by the Government in April 2008 (month-on-month inflation and trade deficit seemed to decline, particularly since September 2008; plus with improved BOP and the liquidity of the banking system), nevertheless, the level of overall macroeconomic instability is still quite severe. YoY inflation remains high, even ex-food and foodstuffs inflation; BOP is still of questionable stability. Meanwhile, difficulties facing enterprises, particularly small and medium enterprises, social pressures and bad debts of the banking system have become more problematic – because many enterprises fell in troubles and real estate loans accounted for a relatively high share in total outstanding loans and many loans were actually of ‘subprime’ lending nature. Public confidence is low. Risks and challenges of macroeconomic stability have not yet to come

In addition to possible impacts of the world economic developments, Vietnam’s economic outlook is also subject to its policy responses. Taken these factors together and with the use of statistics data accessible to September 2008, a macro-econometric modelling team of the Central Institute for Economic Management (CIEM) has estimated some basic economic indicators of Vietnam for 2008 and forecasted for 2009. Accordingly, Vietnam will find it hard to achieve the growth rate of 7 per cent in 2008. Forecast for 2009 is mainly based on the assumptions that Vietnam’s major trade partners would experience lower growth rate, world prices of major commodities would reduce compared to 2008; meanwhile, Vietnam would pursue a cautious tightening of macroeconomic policy. Given the current context, Vietnam’s economy is most likely to follows the ‘pessimistic scenarios’ in 2009, i.e., economic growth rate is around 6 per cent and YoY inflation is in a range of 13-14 per cent.

It is also noted that import reduced both in terms of quantity and value but trade deficit remained very substantial. In addition, together with unpredictable volatilities of the world economy and national economic slowdown, state budget revenue as a share of GDP may reduce significantly, while budget expenditure demand is hard to restrain, even faces rising pressures. Many nations such as China and ASEAN countries also face mounting difficulties, and thus they will step up for export expansion to markets other than developed countries, including Vietnam. As a result, Vietnam’s enterprises will be exposed to more fierce competition.

Broadly speaking, international organizations and financial institutions such as Economist Intelligence Unit and CitiGroup also agreed that Vietnam's economy in 2009 would be equal to or even lower than its economic growth rate in 2008, i.e., in a range of 6-6.5%.

The choice of policy at present is multi-faceted (economic, financial, social and political aspects), complex and sensitive. Vietnam, thus, faces both internal and external mounting pressures. Externally, Vietnam's economy experiences a very high level of openness (total two-way trade turnover accounting for 160 per cent of GDP, FDI accounting for over one-fifth of total investment, foreign investors holding shares worth of 25 per cent of market capitalization and bonds worth of 35 per cent of total bond value) and exposes to considerable macroeconomic stability. Domestically, Vietnam faces huge pressures to continue strengthening the macroeconomic environment and to ensure social and political stability as well. At the same time, macro-policies would find difficult to have impacts on different objectives and social groups in the same direction.

Recommended policies for the time being and for 2009 still needs to rely on the most basic ideas of eight policy packages that the government issued in April 2008, including the following:

- to take macroeconomic stability to be on top of priorities and attention (inflation control might be of lesser attention);
- to strengthen joint efforts of comprehensive coordination and flexible implementation of macroeconomic policies (considering a gradual and cautious loosening of monetary policy in consideration of with market responses and forecasted fluctuations of the financial and banking system and BOP – within the two recent weeks to early November 2008, State Bank of Vietnam (SBV) announced two times of cutting benchmark interest rate from 14 per cent a year to 12 per year a year to starve off economic slowdown) together with implementation of measures of reforming state-owned enterprises, supporting enterprises (particularly small and medium enterprises), and guaranteeing social security; and
- to select some essential fields for providing continued supports, thereby creating necessary fundamentals for assurance of high and sustainable growth in the long term.

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