ICRIER

REGIONAL INSIGHTS

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Contents

Foreword
Global Economic Slowdown and Stimuli

September heralds the dreary season of winter in the North. September of 2008 heralded a dreary economic period for the world as a whole, which unlike a few months of winter, could last for a few years. Many countries do not expect an economic recovery before 2010, and that too a slow one. According to IMF's World Economic Outlook April 2009, while the world is on average in a recessionary phase, all the countries are not; and notable among the latter are China and India. But all countries are experiencing a slow-down and almost all have put in place stimulus packages to mitigate its effects.

In this issue of 'Regional Insights' we have tried to put together in one place the effects of the global slowdown and the stimulus packages announced by various countries. The immediate problem facing the world is the crisis in the financial system that has blown up to become a global economic crisis. Most countries are facing a banking crisis, falling trade, declining industrial production and rising unemployment, with many countries even in recession. This is the most wide-spread global slowdown since the Great Depression and, in an inter-dependent world, all countries will have to do their bit to get the engines of growth moving again. To achieve this G-20 has called for avoiding protectionist measures and for greater coordination among countries to stimulate the global economy.

Fortunately, the fiscal stimuli seem to be taking effect and the economic slow-down is beginning to be arrested in many countries. Around the world many observers are already looking at the signs of improvement as 'the green shoots of spring'. Let us hope that these 'green shoots' take firm root, because many countries are running out of fiscal space to provide further stimuli.

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The United States and the Financial Crisis – Efforts to Recuperate

Since late last year countries world over have been trying to prevent their economies from slipping into further recession with varying degrees of success. The United States which has been severely affected in the crisis has also been trying to revive its economy. The effort has been three pronged- monetary, financial and fiscal[1].

Monetary Policy

The Federal Reserve has lowered its discount rate to 0.5% and has a target rate for the federal funds of 0% to 0.25%. With the federal funds rate near its floor, the Federal Reserve has taken additional steps to ease credit conditions. To support housing markets and economic activity more broadly, and to improve the functioning of mortgage markets, the Federal Reserve has begun to purchase large amounts of agency debt and agency mortgage-backed securities. The Federal Reserve has expanded its traditional tool of open market operations to support the functioning of credit markets through the purchase of longer-term securities. The speed with which monetary policy in the US has responded to the crisis is laudable. But there is also concern whether the expanding Fed balance sheet as a result of these actions, could in future lead to an inflationary spiral.

The Financial Effort- TARP and the Geithner Plan

In order to strengthen credit flow and put financial markets back on track, the US Congress passed the Emergency Economic Stabilization Act of 2008, also known as the Troubled Assets Relief Program (TARP). TARP empowered the Treasury to purchase or insure up to $700 billion of troubled assets. Following the first phase spending under the TARP which was criticized for non-delivery, Treasury Secretary Geithner has announced a new Public Private Partnership plan .The funds established under this plan will have three essential design features. First, they will use government resources in the form of capital from the Treasury, and financing from the FDIC and Federal Reserve, to mobilize capital from private investors. Second, the Public-Private Investment Program will ensure that private-sector participants share the risks alongside the taxpayer, and that the taxpayer shares in the profits from these investments. These funds will be open to investors of all types, including pension funds, so that a broad range of Americans can participate. Third, private-sector purchasers will establish the value of the loans and securities purchased under the program, which will protect the government from overpaying for these assets[2]. The objective of this plan is to cleanse the balance sheets of the banks holding troubled assets, thereby removing the uncertainty about the value of these assets that may currently impede the banks' operations. It would also ensure that these assets can be held by the government either until maturity or until markets recover and sell them off at a profit. But the plan has been criticized by many including Krugman for leading to subsidization of the troubled assets by the government. In fact Krugman[3] argues that since 85% of the asset purchase is going to be through non recourse loans the private sector not only is being subsidized but also stands to gain irrespective of the value of the asset increasing or decreasing in future from the market estimated value.

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1 Johnson, Simon 'US Foreign Economy Policy in the Global Crisis', Peterson Institute for International Economics

2 Joyner James, Geithner Plan: Tarp 2.0?

3 http://www.nytimes.com/2009/03/23/opinion/23krugman.html?_r=2, http://krugman.blogs.nytimes.com/2009/03/23/geithner-plan-arithmetic/

The Fiscal Stimulus -The US Bailout Plan

Recognising that monetary policy has its limitations in a period of severe recession and that spending via fiscal stimuli is the key to emerging out of the recession, the US government announced a fiscal stimulus package (American Recovery and Reinvestment Act of 2009) worth $787 bn in February 2009. The package was announced amidst unemployment rates at a fourteen year high, falling retail prices, increasing credit card defaults and near zero household savings rates[4]. The package is a mix of tax cuts, unemployment benefits, transfers to states, and long term spending by government on public works projects, education, health care, energy and technology. It is estimated that out of the total funds in the stimulus package 38% of the funds are in the form of tax cuts, 24% in the form of spending including infrastructure construction and modernization and 38% in the form of aid.

Out of the allocated funds only around 50 billion has been spent till the end of May, with the largest allocations being in transfers to states and social security payments[5]. This raises concerns on how much of the spending is actually growth stimulating. The latest unemployment figures released by the Labour department depict that unemployment has increased to 9.5% in June 2009, which is the highest since August 1983. Job losses have been widespread across the major industry sectors, with large declines occurring in manufacturing, professional and business services, and construction[6]. The data on sales is also not too encouraging. The data on retail sales released by the US Census Bureau in June indicates that sales have increased over the previous month by 0.5% but in terms of the previous year have declined by 9.6%. The economy might be in a better situation than probably the last quarter of the previous year but there is still a long way to go.

The objective of the spending under the package is to trigger multiplier effects which would be contained within the economy. This is the cited rationale for provisions such as Buy American which restricts government funding in certain sectors to domestically procured goods. This, though, in the long run might lead to greater losses to the domestic economy as has been depicted in the article on trade protectionism in this issue[7].

Way forward

Thus it can be seen that the US attempts to restore the economy has not been entirely successful. Monetary policy has been quick but has led to concerns regarding inflation and also needs to be supported by strong financial and fiscal efforts. The attempts at resolving the problems within the financial sector have created concerns on the burden on tax payers and raises questions on what extent should the banks be supported . In terms of the fiscal stimulus the concerns are whether the stimulus is sufficient enough to push the economy to growth. There have been demands for a second stimulus. But where would the money for this come from? As a result of the bailout package the budget deficit has already been increasing. In fact according to the latest figures released the current US budget deficit is around 12% of GDP. The increasing budget deficit has become a concern not just for the US but globally as well, with countries such as China voicing their concern on possible devaluation of the US dollar as a result which might adversely affect them. Concerns abound also on consequential inflationary pressures and a possible debt crisis.

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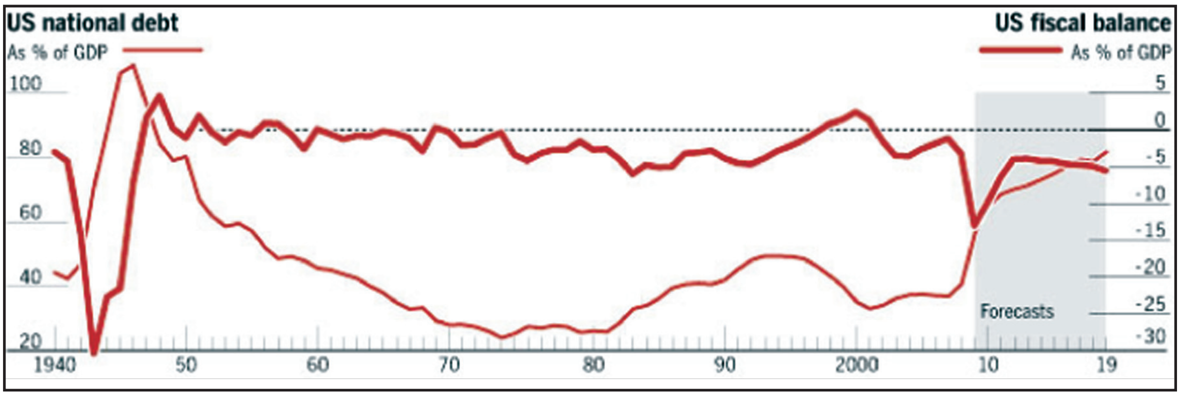
4 The First report of the Congressional Oversight Panel for Economic Stabilization, December 10, 2008

5 Moodys.com

6 http://www.bls.gov/news.release/pdf/empsit.pdf

7 'The Crisis and Trade Protectionism: The Way Forward'

There is also a fear of a reversal in foreign investor sentiment leading to a further deepening of the crisis[8]. In fact a major concern of American policy makers currently is how to curb this deficit.



Source: FT.COM

The US is in a catch 22 situation. The government needs to spend more via stimulus packages to ensure that the economy moves into a growth path. At the same time it is equally important to ensure that the economy does not enter into a severe debt crisis and a situation of hyper inflation which could push the economy into a more severe recession. The government needs to retain confidence both among domestic and international investors. The crucial question is in an age of limited funds what could be the optimal allocation of funds? The government needs to perhaps ensure that the stimulus funding would be more targeted towards infrastructure funding which might lead to long term multiplier effects on growth. Further in order to ensure global support and confidence the concerns regarding protectionist provisions such as 'Buy American' in the stimulus plan need to be dealt with. Also as mentioned earlier no stimulus plan can work without having the right monetary policies in place. The government also needs to ensure that any financial sector revival plan would not lead to an excess burden on the Fed or the tax payers. Any attempt to revive the US economy would have to target on stimulating the economy into a growth pattern by increased spending in those sectors of the economy where the multiplier effects in terms of employment benefits and further growth is highest, resolve the problem of toxic assets and restore the health of banks and financial institutions, ensure the economy does not enter either into a deflationary or inflationary spiral and also set up sufficient regulatory frameworks to restore confidence in the system. This should be the way forward.

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8 Deficit disorder, Financial Times, Published: June 25 2009 19:53

Financial Crisis in Mexico and Canada

Canada and Mexico sell 80% of their exports to their NAFTA neighbour US, making them highly vulnerable to the American recession. Although the Canadian economy has remained strong compared to other developed economies, Mexico was among the Latin American countries hit hardest by the crisis.

Macro-economic performance and Impact of the Crisis

Canada entered the crisis marked by strong growth, price stability, fiscal and current account surpluses, low unemployment, financial stability and a low debt/GDP ratio (lowest in the G7). The economic downturn started in late 2007 through slowing exports, and turned into a full-fledged recession in the fourth quarter of 2008. In the last quarter of 2008, GDP declined at the fastest rate since 1991 (-3.4%), and the current account balance registered the first deficit in 10 years. Unemployment rate rose to 7.2% in January 2009, while inflation was down to 1.4% from 3.5% last year. Despite the downturn, the Canadian economy was comparatively stronger than rest of the developed world in 2008, as the high commodity prices in the past few years had helped it achieve current account and fiscal surpluses that cushioned it against the worldwide credit crisis.

Mexico's GDP shrank by 1.7% in the fourth quarter of 2008—the worst performance since the 1995 Tequila Crisis. A decline in remittances (particularly from the US) and lower international oil prices (Mexico being a major oil exporter) also weighed on the country's prospects. The Mexican peso depreciated 37% in seven months, after having risen to a six-year high against the Dollar in late 2008. The increasing size of the current account deficit (1.5% of GDP in 2008) and falling FDI (-16% in 2008) have generated some fears of the peso getting overvalued and eventually creating a crisis similar to the 1990s. However, this is unlikely as Mexico is in a much stronger position today than it was ten years ago.

Macro-indicators (figures in %)

Indicator	Canada			Mexico		
	1997-2007	2008	2009	1997-2007	2008	2009
GDP Growth	3.7	0.5	-2.4	3.6	1.4	-4.4
Current A/C	1.2	0.6	-2.7	-1.5	0.8	-1.5
Budget Balance	1.01	0.5	-2.8	0 (2007)	-0.1	-5.9
Unemployment	7.8 (1995-07)	6.2	8.4	2.8 (1995-07)	4.1	5.1
Avg. Inflation	2.2 (2002-07)	2.4	0.8	4.2 (2002-07)	5.1	5

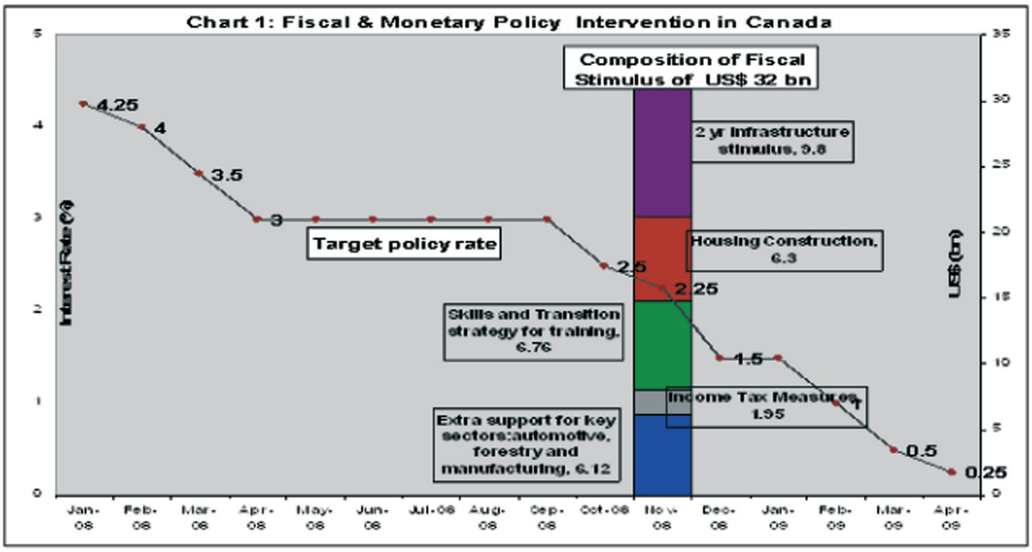
Source: EIU, IMF, WEO 2009, Bank of Canada, Banco de Mexico, WDI 2009

Both the Canadian and Mexican economies are hurting via their exposure to trade, especially with the demand slump from the US, Japan and the EU. The recession in the two economies deepened largely because of a vanishing automobile trade, since motor vehicles comprise 20% of total trade –most of which is with the US. As a result of bankruptcy and restructuring in the Big Three automakers in the US, both economies suffered a drop in manufacturing employment, with layoffs in their vehicle and auto-component manufacturing plants.

Response Measures to counter the Recession

The Canadian Government brought out an "Economic Action Plan" in its Budget 2009 that set out spending of C$40bn (US$32bn) over five years (2% of GDP). The Conservative Government had to face stiff resistance to get the backing of the opposition party which is scrutinising every stage of implementation. The plan incorporates spending on infrastructure and social housing; tax measures; worker training and benefits; and aid for struggling sectors (see Chart 1). It also includes trade facilitating measures like eliminating tariffs on some imported machinery and equipment, clarifying conditions pertaining to cargo containers and modifying tariff treatment of milk protein substances.

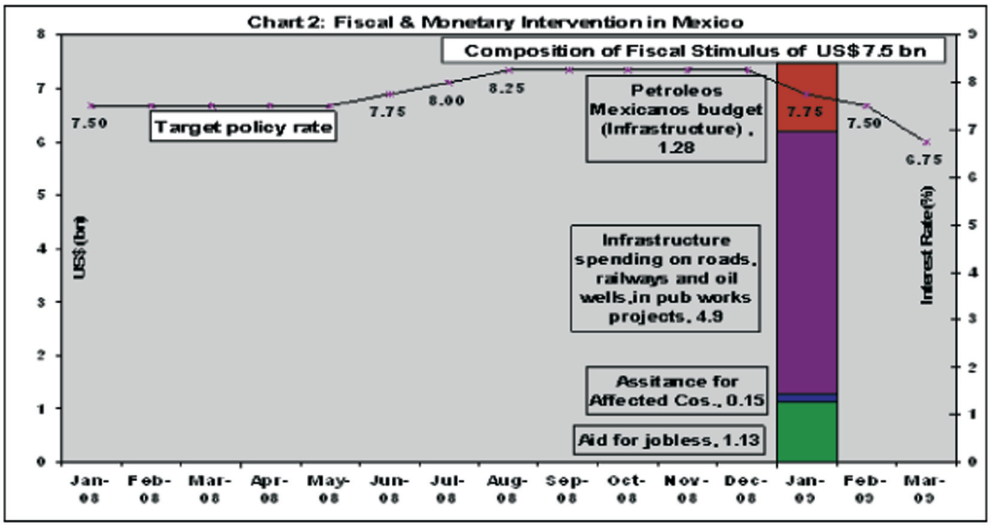
Additionally, Bank of Canada's aggressive monetary easing measures saw the policy rate cut by 400 basis points since December 2007 (Chart 1). The Bank also expanded facilities (longer terms, greater variety of collateral) to bolster liquidity and pledged to continue to provide exceptional liquidity to the financial system as long as conditions warrant. With the credit intermediation mechanism working more smoothly than in other countries, the monetary stance was expected to impart a significant boost to demand.



Source: Bank of Canada; Department of Finance, Canada

Mexican crisis response included a 25-point stimulus program amounting to 570 billion pesos (US$ 42.5 billion) over 5 years, of which 120 billion pesos or USD 7.5 million (1% of GDP) has been allocated (Chart 2). Other measures include freezing of Gasoline prices for 2009, 10% cut in LPG prices, increased benefits for unemployed, support for SMEs, increased development bank lending and guarantees to support stressed financial markets. These were on top of an expansionary budget 2009 and a fiscal stimulus last October.

The Bank of Mexico also cut its benchmark interest rate by 1.5%, and has been defending the Peso to moderate the inflationary impact of devaluation. In addition, Mexico has applied for $47billion from the IMF under its new Flexible Credit Line (FCL), which it



Source: Banco de Mexico, The News

intends to use as a precautionary line for any future liquidity tightening. This would be the first time Mexico has sought financing from the Fund since the 1995 Tequila crisis. Mexico also has a US$30bn currency-swap line with the US Federal Reserve which it might soon activate with the hope of assuaging concerns in financial markets about the reserves shrinkage and thereby stabilising the currency.

Prospects for the near future

Strong linkages of the Canadian and Mexican industries with the US will remain the crucial determinant of investment, exports, employment, wages and private consumption in the near future. The IMF had shown support for the timely and well targeted stimuli to address liquidity and demand constraints. However, in both countries, analysts predict defeat of the ruling Governments in forthcoming elections, following the sharp slowdown of the economies and inadequate budget measures to address the downturn.

After financing the fiscal stimulus, Canada will face fiscal deficit of 2.8% of GDP in 2009 while Mexico's NFPS[1] deficit will widen to 5.3% of GDP from a balance in 2008. The Fiscal measures are expected to create around 150,000 jobs in each of the two countries, although unemployment will rise due to receding migration to the US.

Weakening exchange rates and even weaker external demand in 2009 will create current account deficits amounting to 2.4% and 3.5% of GDP in Canada and Mexico respectively. Automobile trade will continue to be on the decline bringing down trade growth. The weak US economy and a fall in oil production will cut crude exports from the two countries. Deterioration in US real estate market will affect Canada's exports of timber to the US. Mexico has to additionally deal with the challenge of offsetting declining oil-related revenues.

The two economies are expected to contract in 2009 by 2.4% and 4.4% respectively, recovering to around 1% growth in 2010 (EIU).

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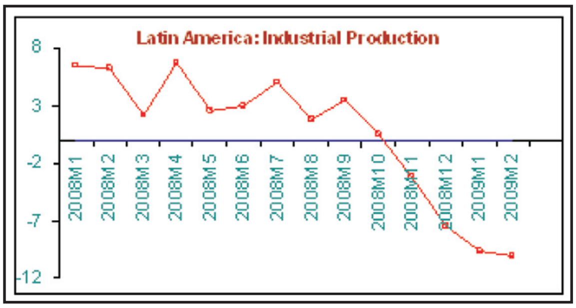
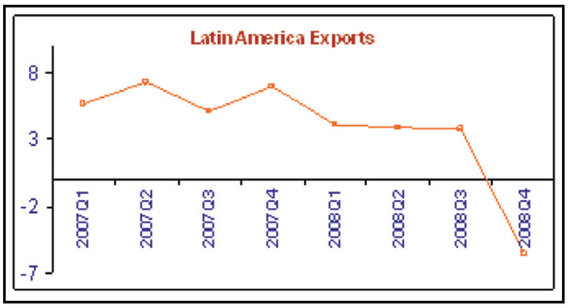
[1] Non Financial Public Sector

Latin America and the Global Financial Crisis[1] :

Impact of the Crisis

The financial crisis of developed markets unfolded into a global recession, and world output will see its first fall in over six decades. While the effects of the financial crisis ripple across the globe, for Latin America, this reflects a confluence of global credit crunch, weaker external demand, and lower commodity prices. As policies failed to dispel uncertainty, employment, industrial production and trade has fallen, decreasing the momentum of economic activity. In Brazil, production tumbled in credit-sensitive sectors, such as the automobile industry and other consumer durables. Relative to a year before, industrial output fell by 15.1 percent in Argentina, 6.2 percent in Brazil and 5.7 percent in Chile. The Brazilian Foreign Trade Association (AEB) claims that the value of the country's exports will shrink by 17.7% this year, to $163 billion, marking the first decline in export levels since 2000[2]. In Chile, the world's biggest exporter of copper, export income in March 2009 has plunged 66% compared to 2008. With 49% decline in oil prices since July 2008[3], Venezuela's oil export earnings (amounting to 90% of total exports) will plummet by 63% from $87 billion in 2008 to $32 billion in 2009. Argentina's export-oriented agricultural sector is severely hit with soybean, cereals and oil seeds exports forecasted to drop to US$ 13.8 billion in this 2008/09 crop year which is 56% less compared to the 31.9 billion in 2007/08. The sharp decline in export prices and the deterioration of the region's terms of trade are eroding the trade surplus; Latin American region is projected to have a current account deficit of 1.9% of GDP in 2009 from about 0.75% in 2008.





Source: IMF World Economic Outlook, Crisis and Recovery 2009

The value of currencies dropped during the first quarter of 2009, as heightened risk aversion prompted foreign investors to pull capital out of Latin America and at the same time the supply of U.S. dollars in the region declined as a result of lower export revenues. The Argentine Peso, Chilean Peso and the Brazilian Real depreciated at 16%, 17% and 9% against the US dollar since September 2008[4]. The outlook for private capital flows to Latin America has deteriorated substantially in the recent months as the investment climate has worsened. Net flows to the region are expected to decline 75% from the record net flows of US$ 183.6

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1 For the purposes of the article, I am taking into account the following countries in Latin America: Brazil, Chile, Venezuela and Argentina

2 The Brazilian trade balance recorded in January 2009 the first monthly trade deficit in almost eight years-to U.S. $ 524-million.Exports closed the year 2008 with growth of 23.2%, while imports were high at 43.6%, exports grew only at 6.9% and imports were 20.1% higher in comparison to with the same quarter of 2007.

3 $43 a barrel in 2009 com pared to $150 a year ago.

4 IMF Report April 2009

billion in 2007 and US$ 89 billion in 2008 to US$ 43 billion in 2009 (IIF[5] , 2009). Crisis resulted in depressed stock markets in Latin America with registered losses ranging from 17 to 50%. Apart from this, there is a significant drop in commodity prices which led most of the Latin American economies to contract. Unemployment rates are rising as companies fight the crisis defensively and eliminate jobs to cut costs and deal with declining demand. By late 2008, the unemployment rate in Argentina had reached 7.3%, matching the level of October 1992, that is, the lowest rate in the last 16 years. Brazil, Chile and Venezuela had reached unemployment rate of 9%, 9.2% and 6.3% matching similarly low levels of employment in the region.

Policy Response

The initial response to the crisis from Latin American governments and central banks has been to limit the damage from the collapse of the credit bubble. To grapple with the crisis, fiscal measures such as temporary tax cuts, hikes in spending on social protection and public investment, and capital injections into government-owned banks have been announced. Monetary policy began to be relaxed in January 2009[6] , and additional rate cuts were announced by mid-year[7]. The central banks in this region refrained from cutting rates until December 2008 as the region is a high inflation zone faced with negative shocks to capital flows and demand pressure on exchange rates. As inflation started to decelerate, the central banks[8] gained cover to cut rates aggressively in the first quarter of 2009. The Central Bank of Venezuela cut the interest rate[9] to 6% from 13%. Simultaneously, the Chilean Central Bank slashed its benchmark interest rate to 2.25% by 5.0 percentage points, the sharpest reduction in 15 years;[10] whereas Brazil reduced its prime interest rate to 11.25 % from 12.75 %, the steepest cut in 5 years. The Central Bank of Argentina reduced the interest rate by 1.8 percentage points in December 2008 to boost liquidity.

Adequate ground for fiscal policy to mitigate the adverse effects of the external shocks differs across countries. IMF's call for countries to put in place fiscal stimulus of around 2% of GDP each year for 2009-10, depending on the specific needs and circumstances of each country hasn't been fulfilled except for Chile. The largest fiscal stimulus package in Latin America has been announced by Chile worth $4 billion along with a 10.7% increase in government spending amounting to 2.2% of GDP designed to create 100,000 jobs. In addition, $1 billion has been allocated for Codelco, the state-owned copper company to finance investment. Other measures announced are allocation of $700m for infrastructure projects, temporary tax cuts for small businesses, employment subsidies for low-wage young workers, as well as additional cash transfers to low income households. Brazil has announced fiscal measures worth $ 8.6 billion amounting to 0.5% of GDP. The tax on financial transactions will be cut from 3% to 1.5%, while personal income tax rates were lowered for those who earn up to US$875 per month. Brazil has focused entirely on tax cuts whereas Argentina and Chile have focused upon public spending as well.

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5 Institute of International Finance, Capital flows to emerging market economies. Washington, DC: January 2009

6 Except Argentina, Brazil, Venezuela and Chilean Central Banks cut their prime interest rate only in Jan 2009

7 If Inflation continues to decelerate rapidly then the banks might cut rates further during the year.

8 Their central banks have earned sufficient credentials as inflation fighters, and many have enough reserves, to cut interest rates without prompting a dangerous weakening of their currencies.

9 The Central Bank of Venezuela cut the interest rate on 28-day deposits to 6% from 13% and on 56-day deposits to 7% from 12%.

10 Central Bank of Chile cut its monetary policy rate by 100 basis points from 8.25% to 7.25% on 8 Jan 2009, further cut the rate by 250 basis points to 4.75% on 12 Feb 2009 and finally on 12 March 2009 to 2.25%, this time by 250 basis points

Argentina announced a stimulus package of US$4.4 billion amounting to 1.3 percent of its GDP for a large public works plan. Also, the government plans to launch another stimulus package to boost car sales and provide tax incentives for companies willing to repatriate capital. These measures are intended to promote employment and production and increase consumer confidence. The government of Argentina nationalised 10 private pension funds, worth $30 billion (€23 billion), in October 2008. The government presented this asset-grab to the public as a way of protecting contributors from alleged mismanagement amid the global financial crisis. But it is clear that an important motive was to replenish the government's coffers at a time when large repayments of public-sector debt and also provide funds to cover their financial needs for 2009 and 2010.[11] Therefore, given that the stimulus package is entirely based on shocking nationalization of domestic pension savings, the effectiveness of the policy is questionable.

Economic Outlook for Latin America

Despite wide-ranging policy response by Latin American governments, financial strains remain acute, pulling down the real economies of the region. The adjustments in spending and taxes appear to be inadequate to offset the recession. According to the UN Economic Commission for Latin America, developed and developing countries must coordinate macroeconomic steps and bolster intraregional trade and integration to manage the crisis. It also recommends that international agencies sufficiently finance counter-cyclical measures and that regional financial bodies inject liquidity into the global financial system. Past growth in the region owed much to the outside world, cheap money and high commodity prices. With the world economy facing slow growth, the region will have to look inwards for growth, by raising its productivity.

The governments will have very limited access to credit in 2009; the Latin American Shadow Financial Regulatory Committee (LASFR) fears that Latin American borrowers will get crowded out of the credit markets as the US and other major powers attempts to fund their fiscal deficit. The region needs in excess of $250 billion for 2009-2010 and therefore in the absence of credit, countries may be forced to choose between painful pro-cyclical fiscal adjustment and highly distortive measures to avoid it. In the light of challenging external environment, the relative importance of domestic funding will rise and therefore the need is to facilitate the flow of credit and maintain stable funding conditions.[12] Moreover, both domestic demand and exports in these countries are expected to remain weak through 2009. Ongoing policy easing along with improvement in credit conditions, are, therefore, necessary to enable recovery towards year-end and in 2010. GDP growth will contract in a climate of negative global trade growth, low commodity prices and weak domestic demand and recover slowly from 2010 onwards. The global financial crisis has come to affect Latin America after a period of exceptional GDP growth. The region grew at a strongest pace in the last three decades with an annual rate of 5.3 percent over 2004–08. It is estimated that Venezuela will advance at 0% growth rate in 2009-10 while the other countries such as Brazil, Argentina and Chile will achieve growth rates between 1 - 2% in 2009-2010.

Sukanya Natarajan
Brazil, Chile & Venezuela Desks

11 The last time Argentina sought to tap into workers' savings was just before that 2001 default

12 Improved financial safety nets and bank resolution frameworks

Global Economic Downturn and Australia: The Impact and Responses

The Australian economy has been exhibiting an impressive growth during the past eight years. The main source of this growth has been rapid improvement in its terms of trade, primarily due to booming commodity prices. Over the five years to 2008, a period of exceptional strength in the world economy, the terms of trade rose by about 60 per cent, yielding a gain of about 12 per cent of a year's GDP in additional annual income. Having inherited a booming economy and riding on sizeable budget surplus along with sound macro fundamentals, the Australian Prime minister was till recently, of the view that the economy will weather away the impact of global financial crisis. But as the crisis has deepened he has been forced to change his opinion because the Australian economy is already in recession.

Australia was growing at 3 per cent on average during 2000-07 but has slowed down from 4 per cent in 2007 to 2.1 per cent in 2008. However, the positive growth in the economy has come to a halt as GDP growth in the fourth quarter of 2008 has contracted by 0.5 per cent, and it is most likely that contraction will continue at least in 2009. Other major economic indicators also seem to have been affected by the crisis. Both the value of exports and imports that have been growing till October 2008 started declining afterwards but both have shown some upward movement in February and March. The decline has been mainly due to decrease in demand for, and prices of fuel and mining products that constitute more than 51 per cent of total exports. In foreign exchange market the manifestation of the crisis has been in terms of significant depreciation of Australian dollar which however has provided some strength to its export flows. As economic activities have been shrinking the unemployment rate has also started increasing after September 2008 and reached 5.7 per cent, which is the highest in the last five years. Due to minimal exposure of Australian financial institutions financial markets have not witnessed as much disruption as other developed markets. However, along with other equity markets, Australia has witnessed considerable volatility during the fourth quarter of 2008 and share prices have declined by more than 30 per cent during the last six months.

In a bid to stop the country from slipping into its first recession in nearly two decades the government has taken a number of fiscal and monetary measures. In fact, according to the IMF, stimulus spending in Australia (excluding the automatic stablizers like unemployment benefits) exceeds that of most G20 countries as a proportion of GDP. In the last six months the government has introduced several stimulus packages and another is expected as part of the next budget. So far, the government has announced packages worth of more than 82 billion Australian dollars (around 7 per cent of GDP) most of which will be spent on infrastructure and social sectors.

The monetary measures include extending Repo operations, easing rules on collateral substitution, swap arrangement with the US Fed worth US$30 billion. Also, the central bank has continuously been slashing the key policy interest rate. Since September 2008 the benchmark cash rate has been cut from seven to three per cent, which is the lowest since March 1960. The inflation rate has also declined from 5.0 per cent in September 2008 to 2.5 per cent in March 2009. This has resulted in decline in real interest rate from 2 per cent to 0.75 per cent during the same period. Further, the RBA chief has hinted that rates can be further reduced if required. The government has also provided guarantee to all depositors for three years and temporary guarantee to inter-bank debt. Besides, the government has also extended its ban on short-selling of shares to prevent volatility in the market.

Although there have been some positive signs of initial stimulus measures as home-loan approvals rose in January due to government handouts and interest-rate cuts that spurred record demand among first-time property buyers, sustainability is doubtful. This is because it would be difficult for the government to sustain some of the measures as budget will be in deficit and until economic activities in its major trading partners like, China, Japan, US, etc., picks up demand for and prices of its exports would decline more and that will further stifle economic growth. The latest forecast by IMF shows the economy will contract by 1.4 per cent in 2009 before turning positive in 2010.

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Australia & New Zealand Desks

Italian Economy and Recession: Gladiators in the Arena?

In the duel between Italian economy and looming recession, the latter seems to have overpowered the former. Italy plunged into a recession starting with the second quarter (Q2) of 2008. Gross Domestic Product (GDP) growth was negative in three consecutive quarters with (-) 0.3 percent in Q2, (-) 0.5 percent in Q3 and (-) 1.9 percent in Q4 of 2008. This is the largest drop since 1980. The crucial question is whether 2009 will see a recovery or a further worsening of the recession. Who will emerge as a winner in the gladiatorial combat?

A bleak future and a weak response:

The recession in Italy is projected to deepen in 2009. The Organisation for Economic Co-operation and Development (OECD) cut its forecast for 2009 GDP saying the economy will contract by 4.2 percent. This projection reflects the disappointing results of 2008 when unemployment rate reached 6.7 percent; private consumption decreased 0.9 percent; investment declined by 3.0 percent and exports plummeted 3.7 percent. Italian business confidence index* fell to a record low of 59.8 in March 2009, on fears that the fourth recession in seven years will dampen orders more than offset lower oil prices and borrowing costs.

Italy has had three stimulus packages to date. The first package, announced in November 2008 for 80 billion euro, highlighted tax stimulus. The second package, announced in February 2009 for 2 billion euro, targeted assistance to car and household goods industry, while the third package, announced in March 2009, includes building a bridge to the island of Sicily and increasing welfare aid. Its stimulus plans amounting to 0.4 percent of its GDP have been modest as compared to those of its competitors like France (with stimulus package of the size of 1.3 percent of its GDP) and Germany (with stimulus package of the size of 3.25 percent of its GDP). This has put pressure on the Italian government to offer a forceful fiscal response to the problem, but Italy's large public debt (an estimated 105% of GDP in 2008 and rising) leaves little room for manoeuvre.

Despite the modest fiscal stimulus by Italy, the measures adopted are targeted and temporary in nature. They aim at supporting low-income households and accelerating the implementation of infrastructure investment.

In addition, Italy has taken some discreet measures on the financial side which go beyond the dimensions of usual banking packages (capital injections and guarantee schemes on deposits, newly issued liabilities and assets). These include:

- €40bn securities swap facility (announced in October 2008) whereby Banca d'Italia (the central bank) will swap government bonds or other high quality securities for lower quality assets held by banks and not accepted by European Central Bank (ECB) in its operations.
- €12bn bank recapitalization package (announced in February 2009) enabling the country's banks to raise money by selling bonds to the government on the condition that they continue lending to small and medium enterprises (which are the backbone of Italy's economy), and at the same rates as in 2007 and 2008.

* ISAE Institute's Business Confidence Index (created in 1986).

- Refinancing facility through which the Treasury provides a state guarantee, on market terms, for liabilities of Italian banks issued after 13th October 2008 and with a maturity of up to 5 years.

According to the International Monetary Fund (IMF), Italy 2008 Article IV Consultation concluding statement, these responses are prudent and systematic as they reduce systemic risks, ease liquidity and funding strains, and set the legal framework for other actions as needed.

Though the global downturn has severely hit the Italian economy, it is still in better financial shape as compared to many of its European Union (EU) partners mainly due to two factors:

a) *Resilient banking system:* Italian banks are far less prolific in their use of complex credit-risk products than those in the US or UK. They rely more on retail deposits and bonds for their funding and have limited exposure to complex securitized toxic assets.

b) *Low level of private-sector debt:* Level of private debt in Italy is among the lowest in Europe. In the third quarter of 2008, household debt was about 49 percent of disposable income, compared to about 100 percent in the euro area and about 150 percent in the US. Though the level of financial debt of the corporate sector has increased over time, it was about 75 percent of GDP in 2008, which is still 10 percentage points below the euro area average. (EIU's country data)

Price of profligacy:

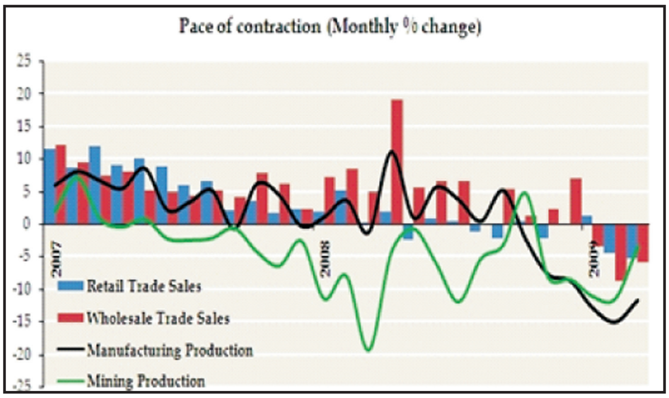
Italy's fiscal deficit for 2008 was 2.6 percent of its GDP. OECD projects it to reach 5 percent of GDP this year and 6 percent of GDP next year which is way beyond the EU set deficit limit of 3 percent of GDP. It is further expected to return to just below the 3 percent threshold only by 2011. Hence, more than the fear of continuing recession, there is fear of state bankruptcy, which according to Italian welfare minister; Maurizio Sacconi "is an improbable, but nevertheless possible hypothesis".

Finally, the near-term outlook for the Italian economy is bleak and the recovery will also be weak as per IMF. Once the economy recovers, Italy can pursue budgetary consolidation and make efforts to improve the quality of public finances by focusing on spending efficiency and composition. The recovery process may be slow but the recession will eventually be vanquished.

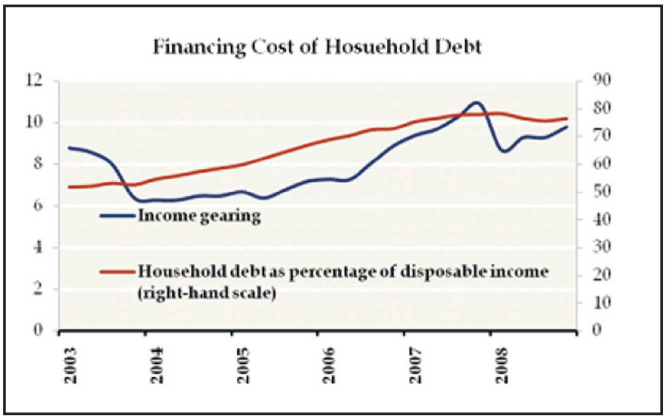
Sirjjan Preet
France, Spain, Greece & Italy Desks

The Global Financial Crisis: Is South Africa in dire straits?

The global financial and economic crisis has not spared emerging markets, with some economies looking increasingly vulnerable as export demand falls and capital takes flight. It is expected that domestic demand weakness and global recessionary conditions will weigh heavily on the South African economy in 2009; with real GDP growth projected to contract to 0.3 percent this year (WEO, April, 09). With falling commodity prices and reducing forex earnings, it faces a growing current account deficit. The following section, attempts to explain the channels through which the crisis has impacted the economy and what has been the response?



South Africa's economy contracted at its fastest pace at – 6.4 % in the first quarter of 2009, since the third quarter of 1984. This is the first time since 1992 that two consecutive quarters of contraction have been recorded, confirmation that the local economy is in a severe recession. The high frequency data[1] indicate that the manufacturing sector in particular remains under pressure. Recent data from Statistics South Africa show that manufacturing output plummeted by a further 22.1% following its 21.8% contraction in the previous quarter, while mining production plunged by 32.8% as weak global demand and low commodity prices continued to hurt the sector. Quarter-on-quarter declines were seen in retail and wholesale trade sales, while motor vehicle sales, domestic and exports also continued to contract significantly. The Quarterly Labour Force Survey (QLFS)[2] shows that employment decreased by 1.5percent between Q4, 2008 and Q1, 2009. A total number of 208,000 jobs were lost between the two quarters, with most job losses recorded within the informal sector (96,000), followed by the formal sector (88,000). Though compared to the same quarter in 2008, there was an annual increase of 0.1percent in employment. The rate of unemployment has increased to 23.5 percent from 21.9 percent in the last quarter of 2008



The South African economy has been primarily driven by domestic consumer demand (61.4percent of GDP in 2008 consist of household consumption expenditure demand). The substantial changes in equity values and the value of residential real estate over the past three quarters have contracted the household

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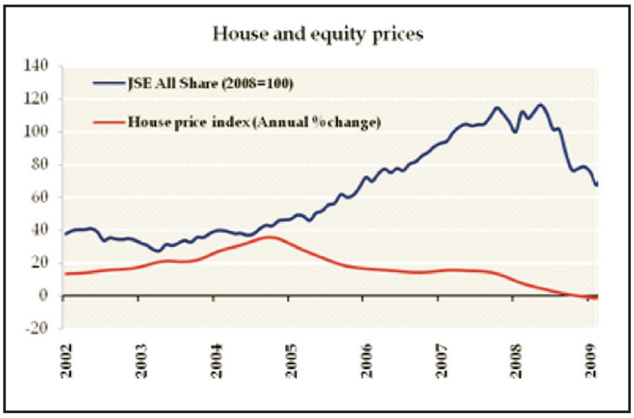
1 All data in the note are seasonally adjusted and are from Statistic South Africa (http://www.statssa.gov.za)

2 The Quarterly Labour Force Survey (QLFS) is a household-based sample survey conducted by Statistics South Africa (Stats SA). It collects data on the labour market activities of individuals aged between 15 and 64 years.

financial assets and net wealth. Household wealth has declined to 265 percent of personal disposable income in the last quarter of 2008 from a peak of 364 percent in Q2, 2007. This was primarily due to the plummeting local equity market by about 44 percent by mid March-2009 and retreating house prices. In almost a decade, household consumption spending posted its first contraction (-0.9 percent) in Q3, 2008, with the pace of contraction increasing in the final quarter of last year when it contracted by -2.7 percent.



The indebtedness of the household sector represents a potential channel of contagion through which an external shock can affect the financial system. The year-on-year growth rate in household debt moderated in the fourth quarter of 2008. As a percentage of disposable income, household debt increased slightly during the same period. Furthermore, there were slight increases in the financing costs of household debt (income gearing), reflecting relatively high borrowing costs. With household sector under distress, there is a serious need for policy inducement for demand in the economy. Although borrowing costs were reduced in December 2008 and in subsequent Monetary Policy Committee Reviews, credit to households has become less readily available due to the tightening of lending standards by banks and other authorised credit providers.

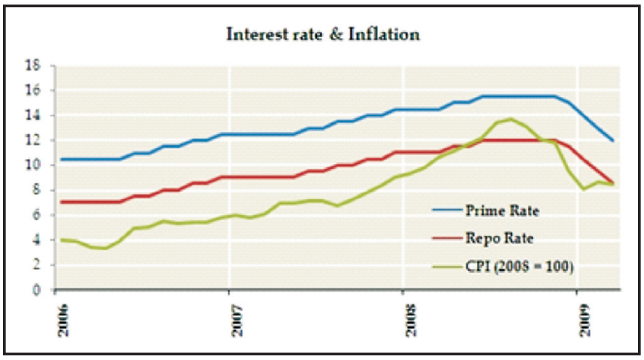
South African banks have been largely protected against the direct effects of the global financial crisis. Banks have primarily felt the impact indirectly through higher funding costs and increased impairments due to retrenchments and the negative impact of lower real economic activity by corporate borrowers. In January 2009 impaired advances[3] increased by 118 percent compared with a year earlier, and have increased by 47 percent since July 2008. On banking sector soundness, the capital adequacy ratio[4] has increased from 9.72 percent in July to 10.23 percent in Dec, 2008.

The policy response of the government has been by way of a stimulus plan based primarily on fiscal measures. Finance Minister, Trevor Manuel in February, 2009, tabled a decidedly expansionary or "countercyclical" budget. The government announced a Rand787 billion ($81bn) package aimed at building infrastructure and creating jobs, including preparation for hosting the 2010 World Cup. The budget makes available R6.4 billion for public transport, roads and rail networks; R4.1 billion for school buildings, clinics and other provincial infrastructure projects; R5.3 billion for municipal infrastructure. Personal income tax relief for individuals amounted to Rand13.6bn. A further Rand10 billion over the next 3 years has been allocated as part of the National Jobs Initiative targeted at saving jobs in sectors showing signs of early job losses such as clothing, textiles and footwear and the mining and automotive industry.

Tax revenues are projected to decrease considerably and the country's budget balance is expected to reach -3.9 percent of GDP in 2009/10 (it was -1.2 percent in 2008/09 and 1 percent

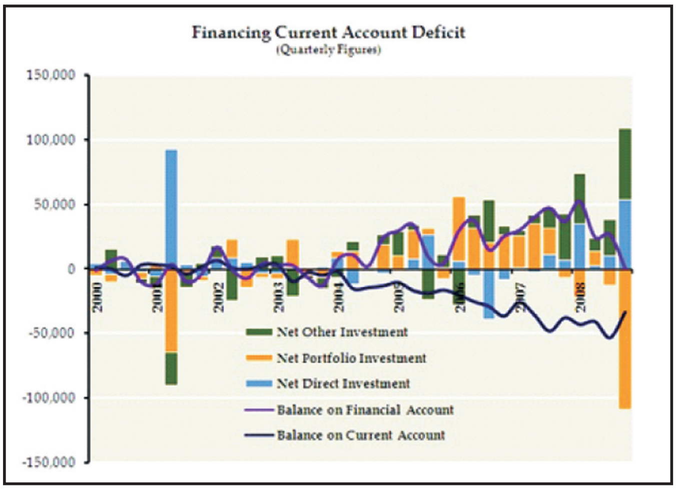
[3] Under Basel II, the term 'non-performing loans' was replaced with the term 'impaired advances'

[4] Regulatory Tier 1 capital to risk-weighted assets



in 2007/08). The South African Reserve Bank (SARB) has used the tools within its remit to respond to falling demand. Since December 2008, the repo rate has been brought down by 350 basis points bringing it down to 8.5 percent per annum in April, 2009 as inflation fears abated and the economic slowdown became a greater concern.

Despite the improvement in the final quarter of 2008, the major source of discomfort for monetary policy and markets remains the country's external accounts. In 2008 the current account deficit narrowed to 7.8percent of GDP, with the Q4 deficit narrowing to 5.8percent from 7.8percent a quarter earlier. The impact of the global recession on South Africa's export performance was clearly visible as not even an improvement in price competitiveness owing to currency weakness was able to prevent exports posting a noticeable decline. The contraction was however, more than offset by a fall in imports due to fall in global oil prices and the moderation in the demand for imported manufactured goods.



The current account deficit till now has been funded by strong investment in South African equities. With global credit crunch, as the investors are deleveraging, there is a major risk associated with sudden reduction of FDI and portfolio inflows. But looking at certain sets of numbers, the external sector outlook does not seem very vulnerable. The Guidotti ratio (GR), which is the ratio of foreign-exchange reserves to short-term external debt, improved in the fourth quarter of 2008 to 1.16 after deteriorating since the first quarter of 2008. This means available foreign-exchange reserves were above the country's short-term foreign debt by about 16 percentage points. The augmented Guidotti ratio (AGR)[5] also improved during the same period and was at 0.77, suggesting that existing foreign-exchange reserves were about 23 percentage points below the country's total external financing requirements. With African National Congress (ANC) coming to power in the recent election and Jacob Zuma sworn in as president, there is considerable nervousness among investors, who fear a leftward shift in economic policy. There appears to be very little breathing space for the recovery of the manufacturing and mining sectors given their heavy export focus. Immediate attention is needed for boosting household consumption demand which will require relaxation in the National Credit Act. This would have positive impact on falling retail and wholesale trade sales.

Gunajit Kalita
South Africa (SACU) Desk

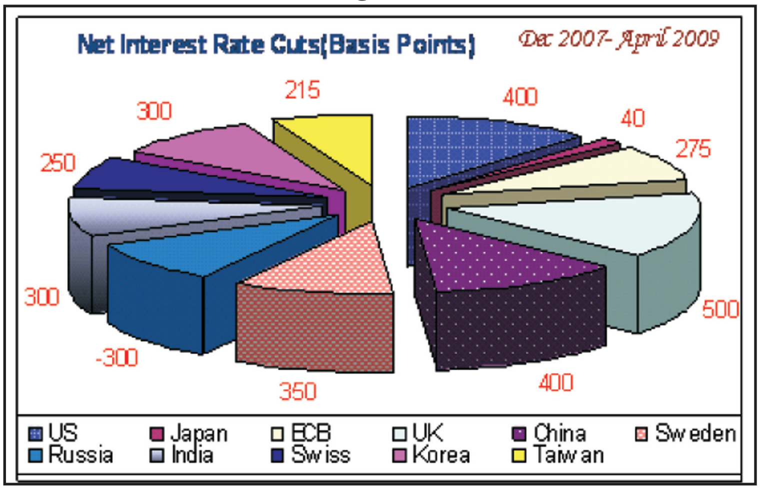
[5] The AGR is obtained by adding the annualised current account deficit to short-term external debt to provide a measure of a country's total external financing requirements.

Monetary Stimulus: Is the panacea working for the crisis?

The current financial turmoil which is the most synchronized global recession since the Great Depression has prompted governments to take urgent measures to stimulate their economies. This uncertainty driven crisis has led to wiping out liquidity across the globe. To enhance liquidity in their economies, governments across the globe have announced monetary and fiscal stimulus packages. Past crises experience shows that expansionary monetary and fiscal stimulus measures turned out to be the main panacea for ending the crises. Present governments have been swift in undertaking such stimulus measures. But we have to wait for the effectiveness of such measures to be seen or felt. In the case of fiscal stimuli, government is the main supplier of credit whereas in the case of monetary stimuli, the main suppliers of credit are the Central Banks/banks.

Monetary stimulus undertaken by the Central Banks consists of key interest rate cuts, quantitative easing, qualitative easing[1], reduction in reserve requirement by banks and other discounts provided by the Central Bank to increase and ease the flow of credit in the economy.

Figure 1



In the present financial crisis, the first series of monetary stimuli were undertaken when the Central banks across the world went for a series of interest rate cuts. From Figure-1 it can be seen that main policy rates in US, UK, China, Sweden, India and Korea have been cut in the range of 300-500 basis points between December 2007 and April 2009.

One of the gravest mistakes during the past crises including the Great Depression and Japan's lost decade was the sluggishness shown by policymakers in cutting interest rates (Keynes 1930, Orphanides 2004)[2]. In the present crisis, interest rates were brought down to near zero level in 21 months (US) which was quite a swift slashing of rates as compared to the Great Depression (4 years) and Japan's crisis (8 years). But interest rate cuts have limitations as interest rates approaches zero interest rate floor. This leads to a situation of liquidity trap where monetary policy losses its traction. The swiftness in policy action is essential because the way of getting out of the liquidity trap is raising expectations of future price levels (Svensson 2006; Krugman 2008)[3]. Swift action can help in raising the inflationary expectations.

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1 Qualitative easing happens by shifting the composition of the asset side of the balance sheet of the central bank by accommodating for less liquid and riskier assets.

2 Keynes, M., 'Treatise of Money (1930); Orphanides, A. "Monetary Policy in Deflation: The Liquidity Trap in History and Practice (2004).

3 Lars Svensson (2006), "Monetary Policy and Japan's Liquidity Trap"; Paul Krugman (2008), "Macro policy in a liquidity trap". Paul Krugman's Japan Page

As Svensson has asserted "Increased expectations of a higher future price level are likely to be much more effective in reducing the real interest rate and stimulating the economy out of a liquidity trap than a further reduction of already very low expectations of future interest rates". Many countries like the US, UK, Sweden with interest rate hovering around 0-1.5 % range are approaching the limits of monetary policy action as was seen in Japan during the 1990's.

With conventional monetary policy becoming ineffective, the only weapon left in the arsenal of the Central banks are quantitative easing and qualitative easing (Willem Buiter 2009)[4]. During the Great Depression the recovery during the mid 1930's was accomplished in a way when gold inflows from Europe expanded the US money supply (Orphanides 2004). However the inflationary situation created due to the rapid growth of money supply (1934-1936) led to one of the biggest policy mistakes by the Federal Reserve of tightening the monetary policy (1937) which prolonged the Great Depression. In the case of Japan's lost decade in the 1990's, the monetary policy stance was too slow to react to the deflationary stance with monetary base just growing around 6-8 %(1991-1999) with the growth of money supply just being in the range of 2-4% annually (1991-1999).

During the present credit crisis, the increase in narrow money (Base money) in some of the countries after October 2008 has been quite impressive as compared to past crises.

But is the Monetary Stimulus working?

US seemed to have learned from its past mistakes and has been printing money in huge amounts during the present crisis. As has been reiterated earlier that during the Great depression there was sort of a recovery seen during mid 1930's when the monetary base started growing at 20% annually (1933-1936). This helped in fueling the economy with GNP registering average 10% (1934-1936) annual growth. In the present crisis, US monetary base has been bulging and growing from October 2008 onwards in the range of 75-100%, which can be seen in the Figure 2b below. However the aggressive monetary expansion done by the Federal Reserve is not really working effectively which can be deduced from the plummeting money multiplier since September 2008. The money multiplier (Broad money/monetary base) which is a measure of the money expansion in the economy has dropped in the US from 8.3 in September 2008 to 4.8 in March 2009. This can also be substantiated by looking into disbursement of bank credit by the Fed which saw its growth rate sliding from 12.4 % seen in the month of March 2008 to 1.4 % in March 2009. In UK quantitative easing seems to be working more effectively than in the US. The monetary base has been growing around 8 % (Nov 2008-April 2009) from average growth of 5-6 % as was seen before the October 2008 credit freeze. Till September 2008 the UK-money supply (M4) growth rate was hovering around 11% but after the credit freeze in October 2008 it has been growing around 18 %. In the case of India, money supply (M3) growth which was above 21% for a long time has come down to around 18 %. This is consistent with the reduction in the growth of non-food credit growth which saw a fall in average growth of about 6 % (Nov 2008-April 2009) after the October freeze.

In China monetary stimulus seems to have worked as its money supply saw a sharp rise

[4] Willem Buiter (2009), "Quantitative and qualitative easing again"

in growth from November 2008 onwards. The M2 growth rate has risen to 25 %(April 2009) from just 15 % as was seen in the month of October 2008. China's bank credit also has seen a rise from January 2009 onwards and has been growing at around 25% (January-March 2009) as compared to just 15 % average in the pre crisis period (January to November 2009). The effectiveness of quantitative easing in China can also be supported by the positive news of other macroeconomic indicators seen in recent months. In Japan policy action doesn't seems to be that effective. There has been a slight rise in its money supply in the month of January and February 2009 but this seems to be not that effective as its monetary base grew at very high rate of around 30 % during this period as compared to negative growth some months back.

Figure 2A

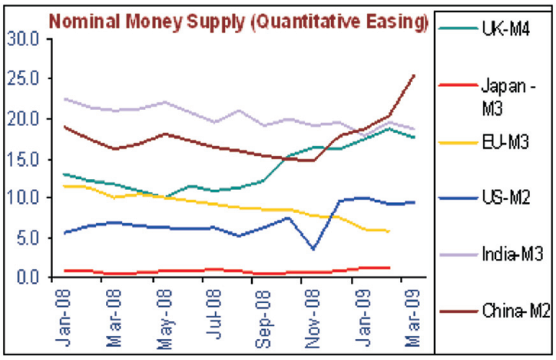
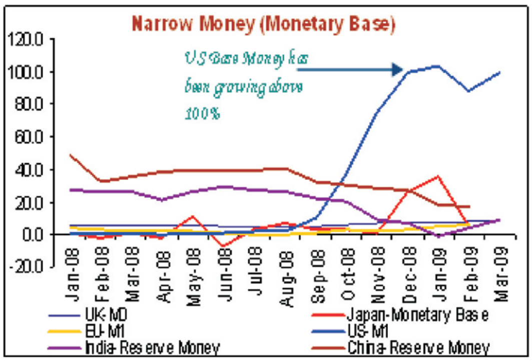


Figure 2B



Having a glimpse of the major economies it seems that the central banks across the world are somewhat pushing on a string. The monetary policy doesn't seem to be working that effectively bringing back the scenario reminiscent of Great Depression and Japan's Lost Decade. But the Great Depression taught us that central banks should not give up on quantitative easing and should be swift in using their policy options. Fiscal stimulus would play the major role in the present crisis as the main catalyst in bringing economies back to near normal conditions but without monetary policy action it would not be optimally effective.

Dony Alex
Scandinavia, Germany, Belgium,
Netherland & Luxemburg Desks

The Global Downturn and Singapore Economy

Singapore happens to be one of the most open and globalised economies in the world. After years of high growth experience, it is the first Asian economy to fall in to recession due to the global financial crisis. The Singapore economy went in to early recession by the end of the third quarter of 2008, primarily because of the fall in exports of manufactured goods. This was due to deteriorating economic conditions of the US and EU. During the third quarter of 2008, Singapore's GDP growth dropped to zero percent and experienced negative growth in the fourth quarter. It is expected that Singapore's GDP is likely to contract by 6 to 9 percent in 2009. Compared to the same period last year, the 2009Q1 GDP is expected to contract by 11.5 percent.

Although it is an export dependent economy, the exports are less diversified and mostly concentrated on certain items like electronic products. Total trade of Singapore declined by 24 per cent in March 2009, year on year. Exports declined by 21 per cent, where as total imports declined by 28 per cent. The non oil domestic exports declined by 17 per cent mainly due to contraction in electronic and non-electronic domestic exports. This led to decline in the current account position. During 2008, the current account balance as percentage of GDP declined from 23.5 per cent in 2007 to 14.8 per cent. The balance of payments relies heavily on foreign direct investment, which accounts for about 60 per cent of the total fixed investment. Consequently, the overall balance of payments deteriorated in the third and fourth quarter of 2008. However, the foreign exchange reserve has been almost stable. The foreign exchange reserve declined marginally to US$163.54 billion in February 2009 from US$171.735 billion in February 2008.

The index of industrial production slowed down by 24.4 per cent in February 2009. The reason for the slowdown of economic activity is the falling external demand, which resulted in the contraction of the manufacturing sector by 29 per cent in 2009 Q1. The slowdown in manufacturing is due to huge decline in activity in the electronic, chemical and bio-chemical manufacturing clusters. In the same quarter, the service industries contracted by 5.9 per cent year on year. The financial markets have also been affected. The market capitalization of Singapore Exchange Securities Trading Ltd declined to almost half in the February 2009 compared to the same time of the previous year. The market capitalization of Singapore stock exchange declined to 358.76 billion Singapore dollars during February 2009 from 689 billion Singapore dollars during February 2008.

The global slowdown has severely affected the Singapore labor market. Singapore's manufacturing sector shed 7000 workers in the last quarter of 2008. Though the employment in services grew in 2008 in comparison to the previous year, the growth slowed in the last quarter. As per the IMF economic outlook, about 3.1 per cent of the labor force is likely to be unemployed in 2009 and may increase further to 7.5 per cent in 2010.

Singapore unveiled a resilience package (stimulus package) of 20.5 billion Singapore dollars (US $ 15 billion), which is 6 per cent of the GDP (estimated at US$227 billion in 2007) to revive its economy out of recession. The resilience package, announced in the January 2009 budget, aims to save jobs, help companies to stay afloat and facilitate the economy to recover. The government plans to spend 5.1 billion Singapore dollars to sustain jobs for Singapore citizens by introducing 'job credit scheme', enhancing the upgrading programmes, providing the workfare income supplement special payment and expanding recruitment across the public sector. The government also plans to spend 5.8 billion Singapore dollars to stimulate bank lending to ensure credit availability and 2.6 billion Singapore dollars to enhance business flow and global competitiveness. The corporate tax rate has been reduced to 17 per cent from 18 per cent, a 20 per cent income tax rebate for the current year and a 40 per cent property tax rebate has been applied. The Singapore government will spend 4.4 billion Singapore dollars to make Singapore a global city by providing better infrastructure and upgrading education and health infrastructure. The Monetary Authority of Singapore shifted its policy from a gradual appreciation of Singapore dollar nominal effective exchange rate to a zero per cent appreciation of Singapore dollar nominal effective exchange rate in October 2008 to stabilize the economy.

Even though the government is making every effort to minimize the impact of global downturn, the future of the Singapore economy largely depends on the economic conditions of the US and the EU since they are the major destinations for Singapore's export. The resilience package may lead to excess capacity because of lack of both domestic and external demand. The IMF economic outlook predicts that the current financial year would be the most difficult time for the Singapore economy and predicts the real GDP growth is likely to contract by 10 per cent during this time period.

Santosh Kumar Das
ASEAN (Singapore, Thailand & Vietnam) Desk

Crisis and 'Jugaad'[1]

Realization that Pakistan was in crisis came in September-October 2008, with the near-default by the government. Closer investigation also revealed liquidity crunch in the economy. Since then, in line with slowing world demand, exports and industrial output in Pakistan have fallen, resulting in lay-offs. Although, a remedial approach and foreign aid has saved the economy for the time being, economic slowdown has just about begun.

Like other Asian economies, it was the indirect global impact, through rise in prices of oil and food, that threatened the financial situation in Pakistan in early 2008. Almost 80% of the external account deficit in FY08[2] was equivalent to the oil import bill, and a large increase in the deficit was on account of delay in pass through of international retail price hike. These led to continuous rise in deficits; the financing of which, through borrowings (PKR689 billion for FY08) from State Bank of Pakistan (SBP) on the one hand resulted in reduced credit availability in the economy; and on the other hand, raised inflation through monetary expansion. SBP adopted monetary tightening, and recommended that the Government retire PKR 21 billion of SBP debt in each quarter of FY09.

By July 2008, political instability was high and financial confidence was low in the economy. Government borrowings from SBP continued despite warnings. To make things worse, CPI inflation was at a high of 25% in the month of August 2008, and the currency was fast depreciating against the dollar. Not to mention structural problems like power shortages that hampered economic activity. Finally in September-October 2008, strains were seen on domestic liquidity, while trade deficits led to depletion of forex reserves. Current account deficit had widened by 1.5 percentage points of the GDP only in the months of May and June 2008. In October 2008, Pakistan's forex reserves equaled $6.7billion, only about two months of import cover. The country was stricken and left seeking aid.

To ease financial strain SBP injected money into the economy through open market operations (OMOs), CRR cuts and exemption from SLR for time deposits of 1 year. SBP also relaxed Advances to Deposit Ratio (ADR) for banks, and announced 100% refinancing to banks for export financing. To boost exports, among other measures, provision of one-yr moratorium on loan repayments was provided under Long Term Financing for Export Oriented Projects (LTF-EOP). On the external front, IMF in November 2008 released the first tranche ($3.1billion) of the 23-month Stand-By-Arrangement of $7.6billion for Pakistan; tied with stipulations of fiscal deficit reduction (in phases, to 3.3% of GDP in FY10), elimination of SBP financing of government, and tightening of monetary policy; to contain inflation and strengthen reserves.

The Government claims its monetary policy measures in October 2008 released PKR360billion into the economy. Since the receipt of the IMF aid, the reserves position has also improved (from $6.7billion in October 2008 to $11.3billion in mid-April). Other sources like Japan, World Bank, ADB, Islamic Development Bank and 'friends of Pakistan' have also committed financial assistance (totaling more than $6billion). And, Pakistan having successfully met IMF's first review standards for macroeconomic stability, received the second tranche of $848million in April 2009. Structural reforms have been initiated to

1 Contrive to make ends meet

2 Financial year is July 1 – June 30

increase the tax base, reduce poorly targeted subsidies (especially that of electricity) and grant more autonomy and effectiveness to the central bank..

Affected by the slowdown of external demand, exports have been falling yoy since October 2008; but the sharper fall in imports since November 2008, is fortunately, reducing trade deficit since the peak of October 2008.

Remittances into the country are still strong and growing ($5.7billion in July 2008-March 2009 showing growth of 19.2% yoy). Although USA remittances have seen a decline, those from Saudi Arabia and UAE have compensated. Inflation has finally slowed down to 17.2% yoy in April 2009. And on the expectation of further decline, the central bank lowered its discount rate. Fiscal deficit for H1-FY09 has been contained at 1.9% of projected annual GDP, and the government commits to cap it at 4.3% for the full year. This is a significant success as last year's deficit was 7.4% of GDP. The government has also successfully been retiring debt from SBP.

Policy in Pakistan shifted from monetary tightening in the first half of 2008 to monetary expansion in October 2008 and back again to restraint on the advice of the IMF in November 2008. Since April 2009, monetary policy has again reversed to easing liquidity in the economy. After a lowering of its discount rate the SBP also lowered the minimum paid-up capital requirements (MCR) for banks. Even the IMF, following the successful containment of fiscal deficit and government borrowing by Pakistan; has since its second review of the Stand-by-Arrangement in early May 2009, eased the fiscal deficit target and allowed the government to increase spending to boost the economy.

It may seem that things are tending toward restoration. But GDP growth forecasts by the central bank have been revised down to 2.5-3.5% for FY09 (last year's growth was 5.8%), and real effects of the global slowdown have not yet had full impact. FDI inflows in July 2008-March 2009 show a decline of 8% yoy. Disbursement of credit to the private sector has seen deceleration[3] since November 2008, reflecting slowing economic activity. The banking sector has seen declining profits by about 24% yoy during Jan-March 2009. The large-scale manufacturing sector saw negative growth of 5.7% during July-February 2008-09 (as against 5.3% positive growth in the same period last year) even though growth expectations from agriculture and services are positive. Revenue collection is a crucial concern with slowing economic activity.

Remittances also will soon reflect the negative trend of growth in world demand. One reason why the effect on remittances is not yet visible may be the fact that the UAE does not allow immigrants to continue residing after they cease to be employed there. So the growth in remitted amounts may very well be the severance/relocation packages with which Pakistan nationals are returning back from the UAE. The external impact in that case could only get worse. But meanwhile the country can focus on restructuring and developing its domestic economy.

Sneha Bakshi
Pakistan Desk

3 Net increase of PKR55.4billion during July 2008-April 18, 2009 as compared with that of PKR359.7billion in comparable period last year

Nepal and the Global Financial Crisis

Like most developing countries Nepal too managed to avoid the full impact of the financial crisis transmitted through the financial channels, as its banking sector and stock market are not globally integrated. However the crisis has damaged Nepal's growth prospects as its real economy has begun to feel the impact of global demand slowdown. The sectors that have been affected are exports, tourism, overseas employment and remittances.

Nepal grew at 5.3% in FY2008 (ended mid July 2009) compared to 2.7 in FY2007. While agriculture and services growth showed an improvement, industrial growth slackened from 3.9% in 2007FY to 1.9% in 2008FY. On the external front current account turned around to a surplus of 2.6% of GDP from a deficit of 0.1% the year before. While export picked up to 12.8% (compared to 1.9% in 2007FY), there was also a surge in imports leading to a trade deficit. Large inflow of workers remittances and improved tourism together offset the widening trade deficit. As aid flows increased, the overall balance of payments surplus grew to 4.1% of GDP.

The impact of the crisis began to be felt in the second half of the current fiscal year (2009/10) and can be seen from the fact that Nepal's total export y-o-y growth has come down to 17% in February-March 2009 from 30% in December-January. The traditional exports of Nepal –textiles and woolen carpets- have taken a tremendous hit due to the recession in the US and Europe, and were down by nearly 59% and 50% respectively in the first quarter of 2009. The other sector which saw a sharp downturn in the first three months of 2009 is tourism. Data released by Immigration Office, Tribhuvan International Airport (TIA) reveal that tourist arrivals in March 2009, compared to the same month last year, have decreased by 17.6%. Arrivals from USA and Europe were down by 19.8% and 10.5% respectively. However data for the month of April shows that tourist arrivals by air have increased by 15.8%. The growth was seen in tourists arriving from India, Europe as well as the US.

As the favoured destination of Nepal's labour has been Qatar, Malaysia, UAE and Saudi Arabia, all oil exporting countries, the decline in oil price has led to a fall in demand for Nepal's labour there. According to the Department of Foreign Employment the number of Nepali job-seekers abroad has declined by 17% during the first eight months of the current fiscal year as compared to the same period last year. Though the remittances have not fallen, their rate of growth has slowed down. In the period December-January 2009 remittances were growing at 65.8%. This growth rate stood at 58.9% in February-March 2009.

The Central Bank of Nepal has been concerned about inflation (which had gone up to 14% in the first half of the current fiscal year and is expected to hover around 11% in 2009-10) and therefore followed a tight monetary policy. The Nepal Government has adopted a sector-wise approach to counter the impact of the global slowdown. A task force was appointed to monitor the impact of the global crisis on Nepal. It is expected to make policy-level recommendations so that the government can take timely action to reduce the fallout. To counter the adverse impact of falling tourist numbers from US and EU, the government recently came out with a policy to attract tourists from China and SAARC nations. Since remittances are extremely important for Nepal's economy, the government also organized a conference of Nepali ambassadors stationed in the Middle East to discuss labour migration and to examine remedial measures. In pursuance of these, a delegation comprising representatives from the government and the private sector led by the labour minister visited the Gulf countries.

The growth projections for Nepal have been revised to 3.6 % (2009) and 3.3 % (2010)[1] by IMF as a protracted global liquidity crisis is expected to slow down the reforms process in Nepal and affect foreign direct investment, grant assistance by the donor countries as well as capital expenditure projects like power generation. Though remittances are still growing there is a concern that if the remittances fall the savings, investment, growth, consumption and poverty reduction programmes in Nepal, will be affected severely .Remittances account for 17 percent of the GDP and are a major source of foreign exchange. Fall in remittances could also impact the balance sheets of the financial institutions as they had provided loans for real estate based on the earlier high market value of land and houses as collateral. Average loan exposure of the top three banks in terms of investment in real estate is almost 31 percent of their total lending volume[2]. The decrease in remittances could lead to default on repayments to Nepali banks.

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Nepal Desk

1 World Economic Outlook, April 2009

2 Pyakuryal B.(April, 2008), "A Matter of Life & Debt", eKantipur.com

Impact of Financial Crisis on Bangladesh

Bangladesh's protected financial system has helped to avoid the first round effect of the global financial crisis. The financial crisis had limited impact on equity market as foreign equity investment accounted for only around 3% of market capitalization. Also, banks and financial institutions had very limited exposure to the US and Europe. However, Bangladesh got affected when the financial crisis turned into real economic shock. Although, the impact did not show in the numbers in the first half of 2008-09[1], it is expected to have some impact in the later half.

Since 2004-05 the economy has been growing at around 6% annually, and GDP growth in 2007-08 was 6.20% over previous year. Total trade stood at US$ 35 billion in 2007-08 and grew by 21% over previous year. This increase in total trade was mainly on account of imports which grew by 26.07%, while exports increased by 15.87% over the previous period. As a result trade deficit had increased substantially from US$ 5.0 billion in 2006-07 to US$ 7.5 billion in 2007-08. The economy also suffered from high inflationary pressure, CPI inflation was 9.94% in 2007-08.

Economic development in Bangladesh is largely dependent on exports, remittances and foreign aid. Export performance in 2008-09 was robust (42%) in first quarter of 2008-09, but declined in the second quarter by 1.6% over the corresponding period last year. On cumulative basis performance in 2008-09 was robust in first six months compared with growth in the corresponding period last year, mainly on account of readymade garments (RMG). RMG industry is 100% export oriented and accounts for more than 75% of total exports of Bangladesh. Export of RMG increased by 19% in first half of 2008-09 due to low-end products and market access to new markets such as Brazil and Mexico. However, the exports of readymade garments had declined by 18% and 5% in February'09 and March'09, respectively. This decline is partially because of shift of buying orders to cheaper goods offered by China and Pakistan and by decline in purchasing power in the EU and the US.

Second major source of earning of foreign exchange is wage earners remittances which was 10% of GDP in 2007-08. Remittances in the first three quarters stood at US$ 7.02 billion, an increase of 24% over the same period in the last year. However, the average monthly growth during first three quarters in 2008-09 has declined to 1.7% from 5.4% in the corresponding period of last year. This was mainly on account of decline in remittances from the EU. Net receipts of foreign aid have also declined from US $ 824 million in July-February 2007-08 to US $ 732 million in the same period of 2008-09. Hence, it is clear that except foreign aid, the other channels of transmission performed well in first three quarters of 2007-08, but the sign of global economic slowdown has been clearly reflected in the monthly changes in the beginning of the third quarter.

In order to mitigate the impact of the crisis on the economy the government has provided

[1] Fiscal Year in Bangladesh is 1st July-30th June.

fiscal and monetary support. Government unveiled an interim fiscal package of US $ 489.14 million, which is 1% of GDP, in the last quarter of 2008-09 to recession-hit exporters including agriculture, power and other export sectors. Under the fiscal package the rates of export subsidy have been raised for three sectors by 2.5 per cent including jute, leather and frozen food. Bangladesh banks have agreed to charge maximum of 13 per cent on term loans, working capital, and trade financing for agriculture and housing without slashing the interest rate on deposits. To provide strong support to agriculture sector, government slashed prices of non-urea fertilizers by almost half.

Given the nature of the Bangladesh economy and support provided by the government, the impact of global economic crisis may not have a severe impact in 2008-09 and 2009-10. As per the IMF forecast, the estimated growth of GDP in 2009 is 5.0% and 5.4% in 2010, despite global economic slowdown. This is on account of two reasons. First, the global economic crisis has opened avenues for exporters of low end RMG to access new markets. In the second and third quarter of 2008-09, RMG exports have declined in two major exporting countries- the US and the EU, but increased in new markets such as Canada, Mexico, Sudan and Brazil. Second, inflow of wage earners remittances in Bangladesh have a tendency to move countercyclical with the economy, implying that as the economy goes down remittances increase. This was witnessed in the third quarter of 2008-09 when the inflow of remittances increased with the decline in exports. It is, therefore, expected that remittances in 2008-09 will maintain the same trend.

However, exports of RMG to the US are under threat from China, which is a major competitor of Bangladesh, and that could be one of the reasons for decline in exports. In case price competition remains the same and purchasing power declines further in the US and the EU, there are chances that the RMG sector may loose its grip in the two major exporting countries in 2010. This is because the manufacturers in Bangladesh are operating at break-even point. However, the shift in exports to new markets may, to some extent, off set the loss incurred in the US and the EU.

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Impact of the Global Financial Crisis on Sri Lanka's Economy

The Sri Lankan economy was initially thought to have remained unscathed by the crisis because of its limited exposure to the global financial markets. However, with the global economic slowdown, the effects of the turmoil are being felt strongly by the real sector of the economy. Almost all important indicators of economic activity, such as GDP growth rate, exports, employment, have witnessed a decline in the past few months. Though the economy recorded a real growth rate of 6 percent for 2008; growth decelerated from 6.5 percent during the first 9 months of the year to 4.3 percent in the last quarter as a consequence of the global financial crisis. The rate of growth in 2008 for industry and services sectors also decelerated to 5.9 percent and 5.6 percent respectively, from the level of 7 percent recorded for the previous year. Moreover, the economy's accumulated balance of payments surplus of US$ 515 million at the end July 2008 turned into a deficit of US$ 1.2 billion by the end of 2008. However, the main channel through which the global downturn has got transmitted to the economy is through the decline in exports[1] and remittances inflows[2], which have also resulted in deterioration of its foreign reserves.

Transmission of the Global Economic Slowdown to Sri Lanka

Transmission Mechanism	Impact
Trade	Exports have declined since the last quarter of 2008. Tea and rubber exports have been adversely affected due to depressed demand and lower prices in international markets. Garments exports have so far withstood the global demand slowdown and grew by 7 percent in February 2009. They are expected to decline since both US and EU, which account for nearly 95 percent of the country's garments exports, are in a synchronized downturn.
Remittances	Private remittances have decreased by 5.3 percent from US$ 523 million in January and February 2008 to US$ 495 million in the corresponding period of 2009. With the slowing of economic activity in the Middle East (which contributes around 60% of Sri Lanka's remittances inflows), remittances are likely to fall further.
Foreign Reserves	Gross foreign reserves which stood at US$ 3557.6 million at the end of July 2008 (sufficient to finance 3.2 months of imports) deteriorated to US$ 1368.7 million by the end of February 2009 (sufficient to finance only 1.3 months of imports).
Tourism	Tourist arrivals declined by 25.5 percent in January and February 2009 year- on-year. This rapid slowdown of international tourism is expected to continue in 2009.

Policy Measures taken by the Government

The government policy response has been driven primarily by the need to maintain rupee liquidity in the economy. The Central Bank of Sri Lanka (CBSL) reversed its policy stance, from *monetary tightening to monetary easing*. The outflows of foreign investment from government

1 Textiles and garments and tea are the major export items of Sri Lanka, constituting around 43 percent and 16 percent of the total exports respectively (as of 2008)

2 Remittances from workers abroad constituted around 7.2 percent of GDP in 2008.

Fiscal Stimulus Package: In December 2008, the government announced an economic stimulus package of around Rs 16 million (amounting to 0.6 % of GDP) aimed particularly at providing relief to exports and tourism sectors. The government also approved a bailout package of Rs 4.2 billion in February 2009 for banking and other financial institutions.

treasury bills and bonds (US$ 438 million) in September 2008, and the consequent liquidity crunch in the economy, led CBSL to reduce the Statutory Reserve Requirement (SRR) on all rupee deposit liabilities of commercial banks from 10 percent to 9.25 percent in October 2008 and further to 7.75 percent in November 2008, which resulted in additional liquidity of around Rupees 24.5 billion. Subsequently, the bank has reduced all the policy rates and also the penal rate charged on reverse repurchase transactions.

Seeking Financial Support: The government is currently negotiating for a Stand-by-Arrangement facility of US$ 1.9 billion from the ***International Monetary Fund (IMF)*** for post-conflict resettlement and for its balance of payment support. The government is also in negotiation with government of Libya for a long-term loan of US$ 500 million.

The CBSL also intervened quite extensively in the forex market and spent more than US$ 1 billion in last four months of 2008 to defend the Sri Lankan rupee, in order to avoid further expansion of the country's large external debt (which is around 40 percent of the country's GDP). The bank has also taken several measures to rebuild the depleted foreign reserves of the country, for instance, it has been negotiating with three countries' central banks for currencies SWAP arrangements, promoting investments in treasury bills and bonds among the overseas Sri Lankan workers; however, their effectiveness remains to be seen. Under such arrangements, the bank has, so far in 2009, received US$ 200 million.[3]

The Outlook for the Economy

Amidst several challenges and risks confronting the Sri Lankan economy, the IMF has estimated the rate of growth of GDP to slow down to around 2.2 percent in 2009, though it is expected to recover slowly to 3.6 percent in 2010. With already depleted foreign exchange reserves and a high magnitude of external debt, the economy is clearly vulnerable. The vulnerability of the Sri Lankan economy is also rooted in some of its internal problems viz. a high level of public debt and the civil conflict. The government is required to repay loans worth US$ 900 million in 2009 alone. The country is likely to face severe balance of payments difficulties without external financial support. Though the civil conflict seems to have ended, the government needs a huge quantum of external financing in order to continue with the *resettlement, rehabilitation and reconstruction work* in the former conflict areas of the country. The government is seeking support from the IMF. As sources of external funding have contracted, it would be difficult for the government to finance its fiscal balance as well. Nonetheless, some of the recent developments, such as a decline in the year on year-inflation from 24.3 percent in September 2008 to 2.9 percent by the end of April 2009 and a fall in the trade deficit due to price decline of some of the key imports of the country, give some reasons for optimism. Restoring its macro-economic stability should be the top priority for the country.

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[3] Annual Report 2008, Central Bank of Sri Lanka

The Crisis and Trade Protectionism: The Way forward

History reveals that protectionism is one of the immediate and serious consequences of any global financial and economic downturn, the current crisis being no exception. Trade decline is an unavoidable consequence given the liquidity crunch and fall in demand. This decline is often exacerbated by protectionist measures imposed by countries that leads to a vicious cycle of protection and retaliation which in turn leads to a loss in global welfare and accelerates and deepens the downturn.

Recent Trends

The WTO Director General's report[1] (February, 2009) on the crisis projects a 9 per cent decline in world trade in 2009, the largest such decline in over 60 years. Though the predicted fall of trade in developed countries (10 per cent) is larger than that in developing countries (2-3 per cent), the report does caution that developing countries might be affected more because of their greater dependence on trade for growth.

This projected fall in trade takes into account collapse in global demand and shortages in trade finance but not the impact of protectionist measures. If the impact of protectionist measures and associated negative multiplier effects are taken into account the fall in global trade, though difficult to calculate, would be much larger. This is an alarming thought.

The immediate aftermath of the stock market crash of the 1930's was an escalation of border tariffs, the most controversial being the Smoot Hawley tariff imposed by the United States, following which countries engaged in a direct tit for tat protectionist war by raising tariffs. In contrast the 70's protectionism was more of a subtle and creeping nature[2] (Sally; 2008) and less blatant as compared to the 30's. Countries engaged in imposing non-tariff measures and voluntary export restraints rather than directly raising tariffs. Analysing the protectionist tendencies over the past few months there seems to be an increasing similarity with the post 70's trend except that the measures extend beyond tariffs and non-tariff barriers to include protectionist regulatory measures integrated into domestic fiscal programmes and bail-out packages. This cocktail of measures termed 'murky protectionism'[3] (Baldwin and Evenett; 2009) is difficult to identify and therefore to roll back as well. An illustrative list of country measures that have raised protectionist concerns has been compiled below.

Types of Measures that have raised protectionist concerns	Countries that have used them to various degrees
Anti-dumping Investigations on imports	Argentina, Brazil, Canada, India, EU, China
Provisions in Economic Stimulus Packages	Australia, Brazil, Canada, China, Dominican Republic, France, Germany, India, China, Hungary, Jamaica, Korea, Luxemburg, Malaysia, New Zealand, Peru, Portugal, Russia, Turkey, United Kingdom, United States

1 Report to the TPRB from the Director General on the Financial and Economic Crisis and Trade Related Development, 26 March 2009

2 Fredrik Erixon and Razeen Sally, 1970s Déjà Vu: Creeping protectionism is on the rise, East Asia Forum, November 29th,2008

3 Baldwin Richard and Simon Evenett, 'The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G20', A VoxEU.org Publication, March 2009

Trade distorting measures in the automobile sector (e.g. subsidies, guarantees, special loans and guarantees)	Argentina, Australia, Brazil, Canada, China, France, Korea, Russia, Turkey, UK, US. (India also initially imposed licensing requirements but removed them later)
Trade distorting measures in the steel sector	Argentina, EC, Egypt, India, Indonesia, Malaysia, Philippines, Russia, Turkey, US, Vietnam, (Indian Government deferred implementation of the regulation by a year though)
Tariff Increases	Ecuador, India, Russia, Mexico, Ukraine, Kazakhstan, Indonesia, Korea, Turkey, Vietnam
Non-Tariff Barriers	Indonesia, Argentina
Import Bans	India, China
Labour Related Measures	Malaysia, France, Italy, Spain, US
Safeguard Measures	Japan, Philippines, Chinese Taipei
Currency devaluation	Armenia , Kazakhstan, Russia

Source: Compiled from WTO Director General's Report to the TPRB (March,2009) and from ICTSD[1] (March,2009)

Costs of Protectionism?

Any form of protectionism, since it introduces distortions in the trading system, would reduce global welfare. Estimates of the impact of protectionism post 1930's find that more than 15 per cent of global trade decline could be attributed to such measures. In fact some studies estimate that world trade contracted during the period 1932-39 by 8 per centza because of discretionary tariff escalations, 7 per cent because of the imposition of discretionary non-tariff trade barriers, and 5 per cent as a result of deflation-induced tariff increases, from 1929 to 1932[2] (Madsen, 2001). Any protectionist interventions today might have more significant effects due to the linkage effects of global supply chains especially in manufacturing.

Also, contrary to expectations, protectionism does not always lead to domestic economy gains. Countries engage in protectionism to expand production in the protected industry benefiting the owners, workers and suppliers of inputs. This is the logic behind provisions such as the Buy American Act which requires, with certain exceptions, that all of the iron, steel and other manufactured goods used in projects benefiting from the stimulus program (including US$48 billion for transportation projects) be made in America. But what is often forgotten is that protecting a domestic industry has distribution effects across industries and also across producers and consumers leading to a reallocation of gains and losses and significant impact on overall welfare. In fact most protectionist measures have adverse effects on consumer welfare as the production is reserved for internationally less efficient domestic producers. Three different estimates of the costs of protectionist measures imposed in the US in the 80's[3] (Tarr and Mokre (1984), Hickok (1985) and Hufbauer (1986) quoted in Coughlin et al; 1988) reveal that consumer losses associated with such protectionist measures are much larger than the producer gains leading to net welfare losses to the economy. Further the study

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1 'Protectionism in Times of Crisis', ICTSD News and Analysis • Volume 13 • Number 1 • March 2009

2 Madsen, J. B. (2001b). 'Trade barriers and the collapse in international trade during the great depression', Southern Economic Journal, 67, 848–868.

3 Coughlin, C. Cletus, Chrystal K. Alec & Wood E. Geoffrey, "Protectionist Trade Policies: A Survey of Theory, Evidence and Rationale" in Frieden, Jeffrey A. and Lake David A. (ed.), International Political Economy: Perspectives on Global Power and Wealth, London: Routledge, 2000, pp. 303-318

by Hufbauer finds that for more than half of the cases studied, the cost per job saved as a result of the protectionist measures is on an average US$100,000 or more per year with the maximum cost incurred in the carbon steel industry of US$500,000 per year per job. These figures, though indicative, raise questions on the rationale of adopting protectionist policies that incur larger losses on the domestic economy while trying to protect jobs or specific industries.

Way ahead?

There is an intense debate on what could be the way ahead with many suggesting that multilateralism, as we know it, has come to an end with the WTO losing its relevance. In fact the two strongest suggestions are to use the G20 as a forum for ensuring prevention of discriminatory measures and to engage with increased vigour in regional trade agreements.

G20 is the closest that we have come to a coordinated global response. But whether the G20 would be able to go beyond grand statements and translate them into commitments is a moot question. It is highly improbable given that G20 has no legal rights and powers of imposition.

Engaging with increased vigour in regional cooperation agreements could be a way forward. But the current crisis shows that even within the European Union, one of the most successful regional agreements, the first reaction to the crisis was for the more developed western European nations to try and impose murky protectionist measures that would hurt the less developed Eastern European region. The EU experience is not promising at all.

In such a situation the best option for the world economy and specially the emerging economies would be to strengthen the WTO. Most protectionist measures that countries are engaging in today are WTO compliant. Though this does not make these measures any less trade distorting, it does highlight the fact that countries still attempt to honour their WTO commitments. There is a systemic flaw within the WTO which provides countries the leeway to impose restrictive measures while still being WTO compliant. This should be tackled by reforming the decision making process and by concluding the Doha round. If the Doha round is completed with countries binding commitments in the different areas of negotiations with the provision of safeguards to deal with crises related trade surges, this flexibility would be reduced. Further the WTO principles of reciprocity and non-discrimination would reduce the extent to which larger countries could reduce the welfare of smaller trading partners. It would also provide developing countries such as India and Brazil, who are new members of the quad, to play a much more constructive role. More importantly if the Doha round is completed, the gains of liberalisation which could accrue to nations has been estimated at around US$150 billion (WTO estimates) that would in itself act as a global stimulus package.

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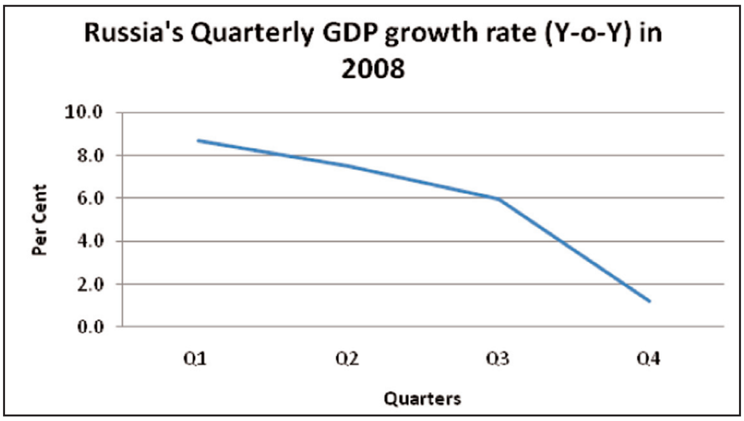
Global Crisis and Russia: Impact and Responses

Global financial crisis has severely dented economies the world over. The severity differs from country to country depending on the status of domestic demand vis-à-vis exports. Russia, being heavily dependent on exports of oil, gas and minerals, is seriously affected by the world crisis. Russia's booming exports in the pre-crisis period aided it in achieving a high GDP growth rate that touched 9 per cent in the last quarter of 2007. The after effects of the crisis have led to decline in industrial production, investments, trade and employment. Consequently, the growth of the Russian economy in 2009 is expected to be negative at -6.0 per cent, as per the latest IMF estimate.

Russia's performance in terms of economic growth and external trade has fallen during the year 2008. It's GDP in 2008 reached US$ 1,676.59 Billion with a growth rate of 5.6 per cent, though significantly lower than the 8.1 per cent in 2007. Although, the growth rate declined slowly during the first-three quarters of 2008 corresponding to the pre-crisis period, it plummeted from 6 per cent in the third quarter to 1.2 per cent in the fourth quarter owing to the global crisis.



Russia's trade-balance, fuelled by exports of oil & gas, has remained positive and has grown through the last decade to US$ 179.74 billion in year 2008. Its exports (f.o.b.) increased by 33.1 per cent to US$ 471.6 billion and imports (f.o.b.) strengthened by 30.6 per cent to US$ 291.86 billion in 2008. However, in the last quarter of 2008 and first quarter of 2009, Russia's trade-balance has gone down tremendously led by a sharper decline in exports. Its exports were lower by 28 per cent and 41 per cent respectively in the last two quarters.

The share price indices of the two major stock exchanges operating in Russia slid sharply during the third and fourth quarters of 2008. MICEX dropped by 60 per cent and RTS by 71 per cent in the first quarter of 2009 as compared to the corresponding quarters of 2008. The producer price index fell by16.7 per cent on an annual basis in the fourth quarter of 2008. However, the rate of inflation increased from 9.0 per cent in 2007 to 14.1 per cent in 2008, mainly due to rise in prices of imported food and stimulus measures taken by the government during the last quarter of 2008.

The global crisis got transmitted into the Russian economy through credit scarcity and waning trade. Russian banks and companies have been depending largely on external credit for their requirements. External borrowings of Russia as per cent of its GDP were 36 per cent in 2007 and 29 per cent in 2008. As the financial crisis took a turn for the worse in the advanced countries in September 2008, the external credit flow to Russian corporations started drying. Cautious creditors exhibited total disinterest in lending to their Russian clients. Even refinancing or restructuring of loans by the lenders became difficult. The credit-crunch made a grave impact on the functioning of Russian corporations.

Due to the global financial crisis, the economic activities in the major industrial countries started exhibiting a sharp decline in the post September 2008 period. That resulted in lowering of demand for oil and metal resources in these countries. The crude oil benchmark 'West Texas Intermediate' dropped 64 per cent between 26th August and 9th December 2008 from US$ 116.08 per barrel to US$ 42.15 per barrel. The Economist's global metal index tumbled by 52 per cent from 257.4 to 123.6 during the same period. The lower demand and prices of oil and metal-products reduced the overall export revenue. The value of crude oil exports declined from US$ 47.7 billion to US$ 27.7 billion and the value of oil products exports fell from US$ 26.21 billion to US$ 15.31 billion during the same period; a reduction by 42 per cent. This aggravated the financial difficulties of Russia's natural resources companies. After August 2008, the Russian currency started depreciating against the US dollar owing to the reversal of capital flows. In the fourth quarter of 2008 the total net capital outflows were US$ 130.5 billion. The average exchange rate continuously declined from Rouble 24.58 in August 2008 to Rouble 35.76 per US$ in February 2009.

The Government has taken both monetary and fiscal measures to diffuse the impact of the crisis on the economy. In September 2008, the central bank loosened its monetary policy to boost investor confidence. But the outflow of money was too strong to allow any impact of the monetary easing. Seeing not much success of the monetary policy, the central bank began monetary tightening from October 2008 onwards and raised interest rates to control rising inflation. The annual lending rates were increased from 12.7 per cent in September 2008 to 17.1 per cent in May 2009.

Among the fiscal measures taken in 2008, the government implemented Rouble 2.09 trillion worth of stimulus measures and plans another Rouble 1.83 trillion package for 2009. The total stimulus package is 6.7 per cent of the GDP. The main thrust of fiscal stimulus is to strengthen the financial sector and support the real economy. The policy measures included recapitalization of Russian financial institutions and ensured repayment of external obligations by banks and companies. The real economy was helped by way of lower tax burden and direct support to industries of strategic importance.

According to the World Bank projections, Russian economy will contract by 4.5 per cent in 2009 and will grow by zero per cent in 2010. It projects the average price of Ural blend crude to stay at US$ 45 per barrel in both 2009 and 2010. The high import prices and considerable fiscal relaxations are likely to keep inflation high at 11 to 13 per cent in 2009. The current account surplus will sharply decline from nearly US$ 100 billion in 2008 to US$ 31 billion in 2009 and US$ 16 billion in 2010. On the back of repayment obligations and lack of large FDIs and portfolio investments, the capital account deficit is expected to be US$ 170 billion in 2009 and US$ 90 billion 2010. The World Bank expects unemployment rate to rise to 12 per cent by end of 2009.

While the global crisis has given a major blow to the Russian economy, the fiscal measures taken by the Russian government have strengthened the financial system and supported the real economy. The MICEX and RTS indices have steadily risen by 42 per cent and 54 per cent respectively between March 2nd and April 30th 2009. The price of Ural blend crude after falling to US$ 34.2 per barrel on 2nd January 2009, has slowly increased and crossed US$ 50 per barrel in May 2009. The recent measures taken by the industrially advanced countries will help in restoring growth in the global economy. With the consequent rise in world crude prices, Russia’s problems will start to wither away.

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Russia Desk

Global Crisis and China: Impact and Response

China's GDP growth came down to 9 per cent in 2008 from an impressive 13 per cent in 2007. The GDP growth for the first quarter of 2009 was 6.1 per cent. When the global economy collapsed, Chinese economy had already started slowing down due to Government's proactive policy to protect the economy from over heating. A collapse in global demand meant that China's trade was impacted severely. Most of China's exports are products of processing trade; this along with falling commodity prices meant imports fell much more than exports. In the first quarter exports were down 19.7 percent and imports were down 30.9 percent. This led to large number of factories shutting down and a surge in unemployment rate, an estimated 20 million workers lost their jobs. Also, FDI has started slowing down. FDI inflows fell consecutively in the last 5 months. China is one of the most trade-open economies in the world with a trade to GDP ratio of around 74 percent; the impact on its trade translated directly to already slowing GDP numbers. The net FDI has fallen from USD 122 bn in 2007 to USD 92.4 Bn in 2008.

On the financial side China was not impacted much. A couple of Chinese banks, Industrial and Commercial Bank of China and Bank of China, had exposure to toxic assets to the extent of roughly around USD 2.5 bn. Chinese banks are well capitalized and meet all the capital adequacy ratio requirements. As per the latest data issued by China Bank Regulatory Commission (CBRC) the NPL ratio declined in the first quarter of 2009 to 2.04 %, a decline of 0.38 percentage points. China has capital account control, hence, the risk of large sums of capital flowing out of the country is not there. China's forex reserves stand at around USD 2 trillion. To invest in the Chinese stock markets foreign institutional investors need to register under the QFII or Qualified Institutional Investor Program. The fall in stock market cannot be attributed to outflow of capital only. The stock market was considered over valued even before the global markets were falling.

The Response

China has taken both monetary and Fiscal measures to counter the impact of the crisis. On the monetary front People's Bank of China has cut deposit rates from 4.14 to 2.25 percent, lending rate cut from 7.47 to 5.31 percent and reserve requirement ratios have been cut from 16.5 to 13.5 percentage points. Interest rates paid by the PBC for required reserve deposit and excessive reserve deposit decreased from 1.89 to 0.99 percentage points and from 1.62 to 0.72 percentage points respectively. A low inflation rate, which was -1.5 percent for the month of May, gives ample room for rate cuts if need arises. As a result the risk of deflation is also very low.

On the Fiscal side, the government has been very aggressive in announcing stimulus packages. The Government announced a package of USD 586 bn (CNY 4 trillion) in late November to counter the slowdown. This amount will be spent over a period of two years to 2010. The details of stimulus plans are as follows: Roads, railways, airport, power grids: 37.5 %, Earthquake area reconstruction: 25%, Rural Infrastructure: 9.25 %, Innovation and Industrial upgrading: 9.25 %, Welfare Housing 10 %, Environmental Conservation:

5.25 % and Health care, education and culture: 3.75 %. Out of the CNY 4 trillion, the central government has committed CNY 1.18 trillion, the rest coming from the local government. The World Bank estimates that China will grow at around 6.5 % in 2009 and 4.9 percen of this will come from Government related expenditures. Among other measures taken, the government has increased export rebates, tax cuts and sector specific packages. Ten industries have been given sector specific packages which mainly aim at increasing competitiveness. There is more headroom for fiscal expenditure as the expected budget deficit for 2009 is around -3.2 percent.

Green Shoots

China is likely to be among the first economies to recover from the current crisis. Government's aggressive monetary and fiscal measures seem to be bearing fruit. China finds itself being pulled in opposite directions, the external sector dependent on trade which is pulling the growth rate down and the domestic sector which is showing signs of revival. Among the first signs of revival, bank lending has improved remarkably. Lending soared to 4.58 trillion yuan ($670 billion) in the first three months of the year, peaking at a record 1.9 trillion yuan ($278 billion) in March. The fixed asset investment rate ytd is up 30.5 percent as compared to 25.7 percent for the same period last year. Retail sales have been holding up well. Cement production and electricity generation also picked up in the first quarter after contracting in the fourth quarter of 2008.The OECD composite leading indicator index (CLI) shows a possible trough indicating an upturn in the economy. The Purchasing Managers' Index has been above 50, meaning an expansion, in the month of March and April. The Shanghai Stock Exchange has been the best performing market in the world after the collapse of Lehman brothers. Most of the private banks have upgraded their forecasts by a factor of 0.5 to 2.3 percent after the GDP numbers were announced. In spite of a contraction in global trade, analysts expect that the expansion will come from investment and domestic consumption. The government still believes that China could have a V shaped recovery

Conclusion: The past and the future

The Chinese economy is most likely to continue to be the fastest growing economy in the world. In a scenario where global demand continues to be weak, a full fledged recovery to earlier growth rate is unlikely. The recent measures aimed at boosting domestic consumption are positive; an investment led growth is not likely to solve the structural problem inherent in the current business cycle. This was the longest continuous period of high growth without any slowdown in the Chinese economy. The share of consumption in GDP fell from 74.7 % in 1999 to less than 40 percent in 2007. The share of investment and net export has been continuously rising during this period. China is trying to focus on changing the structure of its growth strategy. A sustainable and more desirable model will be one where majority of growth comes from domestic consumption. Among other issues China needs to rethink its currency and reserves strategy for a more balanced growth. The current crisis provides China with a perfect opportunity where it's long and short term goals seem to converge.

Loknath Acharya
China Desk

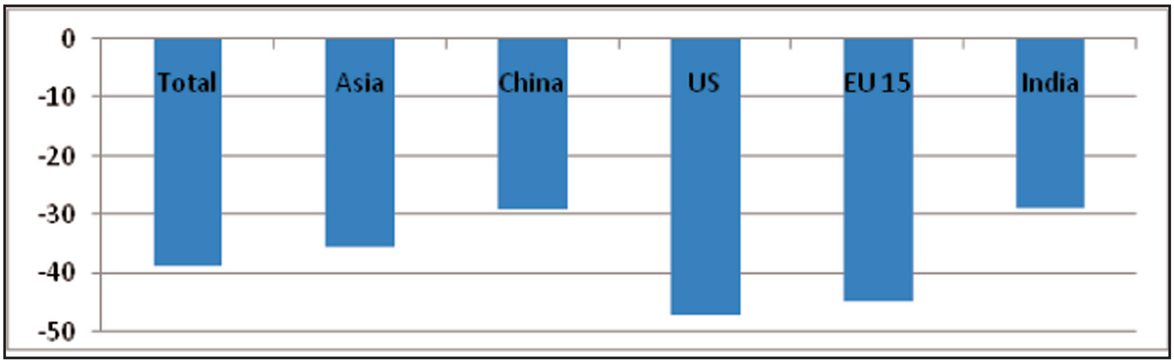
JAPAN: Impact of Global Economic Crisis and Response

According to the April 2009 monthly economic report of the Cabinet Office in Japan the economy is *worsening rapidly.*

- Exports are decreasing – down 38.7 percent in FY 2008 from the previous year. .
- Industrial production is decreasing – down 34.2 percent in FY 2008 from the previous year.
- The employment situation is worsening rapidly - unemployment rate jumped to 5 percent in April 2009.

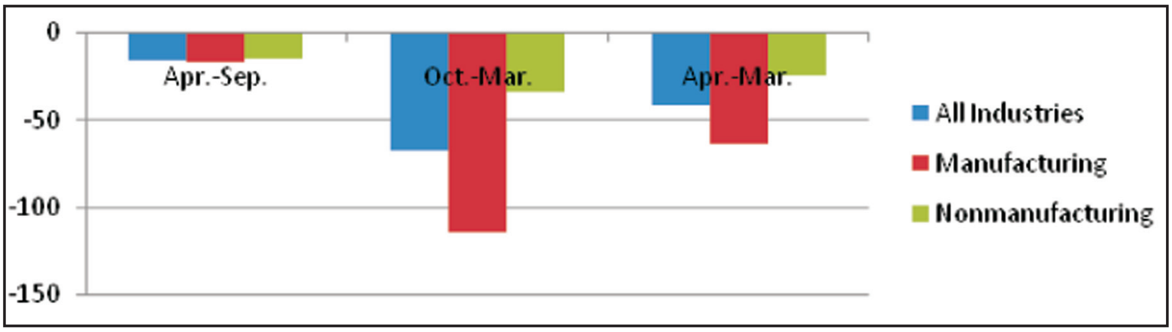
Sagging exports have pushed Japan's trade balance into its first annual deficit in 28 years. According to Japan's Ministry of Finance exports in March 2009 plunged 45.6 percent from a year earlier to USD 42.4 billion. With the result the trade deficit for the fiscal year that ended in March 2009 was USD 7.35 billion.

Figure 1: Value of Exports – Year on Year percent change (March 2009)



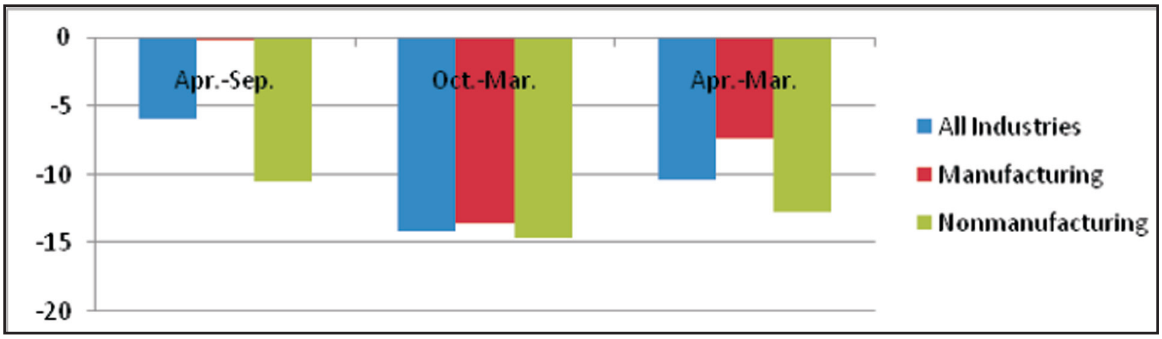
Source: Japan External Trade Relations Organization (JETRO)

Figure 2: FY 2008 Profit by Industry – percent change from previous year



Source: Cabinet Office, Japan

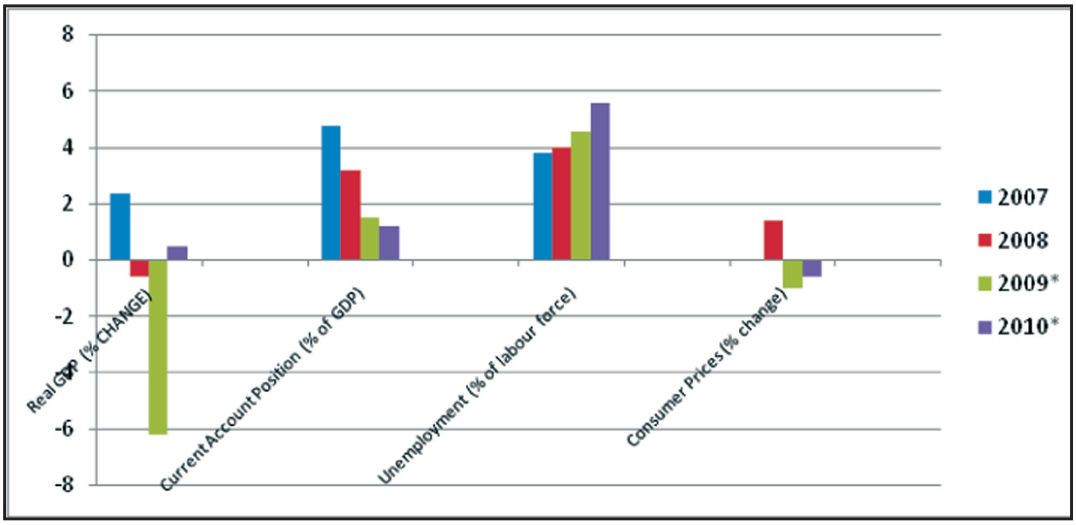
Figure 3: FY 2008 Investments (excluding land) by Industry – percent change from previous year



Source: Cabinet Office, Japan

These numbers underscore the gloom surrounding the world's second-largest economy. The IMF's latest outlook (released in April 2009) for Japan's 2009 performance says the country's economy will shrink a record 6.2 percent revising the March 2009 forecast for an inflation-adjusted 5.8 percent decline.

Figure 4: IMF Outlook for Japan



Source: World Economic Outlook, IMF, April 2009 (* projections)

The Japanese government itself has announced the steepest-ever downward projection of the nation's economic growth. In April 2009 the Cabinet Office said the nation's economy would contract 3.3 percent for the current fiscal year that began April 1, revising downward from zero growth it predicted in December 2008. For fiscal 2008 that ended March 31, the government expects the economy to have shrunk 3.1 percent, down from an earlier estimate of a 0.8 percent fall.

The policy packages announced by the Japanese government till date to address the crisis are as follows:

Three-stage Rocket of Economic Countermeasures		
Aug. 29, 2008 Comprehensive Immediate Policy Package: 11.5 trillion yen	**Oct. 30, 2008 Economic Policy Package: Measures to Support People's Daily Lives: 26.9 trillion yen**	**Dec. 19, 2008 Immediate Policy Package to Safeguard People's Daily Lives: 37 trillion yen**
* Emergency credit limit * Emergency lending limit of government-affiliated financial institutions	* Fixed-sum stipend * Creation of job opportunities * Housing assistance and basic support for workers out of work * Emergency credit guarantee & lending limits * Equity participation in financial institutions * Subsidies to revitalize local areas * Reductions on highway tolls	* Employment insurance to non-regular workers * Tax breaks applicable to housing * Tax breaks on eco-friendly cars * Tax breaks for investment in energy-saving facilities, etc. * Increase in national tax revenues allocated to local governments for creation of employment

Apr. 10, 2009
Policy Package to Address Economic Crisis - National Government Expenditure: 15.4 trillion yen

* Expansion of emergency employment measures
* Front-loading of public works projects in the first half of FY 2009
* Facilitation of corporate financing.
* Tax Reform
* Establishing a "low-carbon, recycling-oriented society"
* Revitalization of regions

Total Fiscal Expansion
90.8 trillion yen
Approx USD 900 billion

On the monetary side the Bank of Japan has implemented policy measures in three main areas:

1. **Reductions in the policy interest rate** with the Bank of Japan lowering the 'Basic Loan Rate' to 0.3 percent and the uncollateralized overnight call rate to around 0.1 percent in December 2008.
2. **Measures to ensure stability in financial markets** such as - expansion of the securities lending facility, introduction and expansion of US dollar funds supplying operations, increase in outright purchases of Japanese government bonds, and acceptance of debt instruments issued by real estate corporations as eligible collateral, and expansion in the range of eligible collateral for loans on deeds to the public sector.
3. **Steps to Facilitate Corporate Financing** such as - introduction and expansion of special funds-supplying operations to facilitate corporate financing, expansion in the range of corporate debt as eligible collateral, and outright purchases of corporate bonds by the government.

At the multilateral level Japan has pledged USD 17 billion in development aid over the next three years to other Asian countries for infrastructure projects that will help boost growth. Japan will also establish a scheme to supply up to USD 61.54 billion to Asian nations in the event of another financial crisis. The yen swap plan will be in addition to the USD 120 billion regional liquidity fund under the Chiang Mai Initiative. This brings Japan's contribution to supporting regional liquidity to approx USD 100 billion. Japan has also agreed to lend USD 100 billion to the IMF. The hope apparently is that a pick up in the regional economy will benefit Japanese exports

The overall impact of these measures has not been encouraging. The latest data released by the government shows that GDP declined 4 percent in January to March 2009 from the previous quarter, worse than the October to December 2008 decline of 3.8 percent, marking the fourth consecutive quarter of contraction. This translated into an annualized contraction of 15.2 percent, the worst performance since 1955. It was the second consecutive quarter of double-digit annualized contraction, following a revised 14.4 per cent drop in the October-December 2008 period.

The fact that after shrinking 9.4 percent in February 2009, the rate of decline in Japan's industrial production has eased has led some to suggest that the worst is over. However consumer prices fell 1.1% in May 2009 from a year earlier and Japanese wholesale prices were down a record 6.6 percent in June 2009 from a year earlier. This suggests that the number two economy in the world is still struggling and has reinforced fears that Japan is poised for a second damaging spell of deflation this decade. Moreover, given the high level of export dependency of the Japanese economy many in Japan are more interested in the stimulus plans of the United States and China than in the huge packages being rolled out at home.

The government's ability to revive the economy is further constrained by its debt which is already the worlds largest and public-debt-to-GDP burden is fast spiraling toward 200 percent. Japan's budget deficit is projected by the IMF to be close to 10 percent of its GDP in 2009. That means "room for additional stimulus is close to being exhausted" and over the longer-term, Tokyo must implement painful changes - including an unpopular hike in Japan's low 5 percent sales tax.

On the other hand, with the Japanese, struggling to cope with the 'perfect economic storm' the global economic downturn could be a long awaited breakthrough in India-Japan economic relations. There is mounting recognition that India with its growth of at least 5-6 percent in FY 2009 represents a huge opportunity for Japanese firms. It is now for India to utilize this prospect successfully by firmly advancing on economic reforms.

Sanjana Joshi
Japan & Korea Desks

Fiscal Stimuli: Effective or Defective?

Government's first response to a downturn is to ease monetary policy because these measures can be taken relatively autonomously and quickly. Therefore central banks react in a fast and timely manner by adjusting interest rates. But under the current circumstances, of a crisis ridden with uncertainty, pundits have advocated large fiscal stimuli, through tax cuts and additional public spending, that could boost economic activity. The effectiveness of a fiscal stimulus is judged upon it being timely, targeted and temporary. But the question is have global economies followed these three axioms?

Timely?

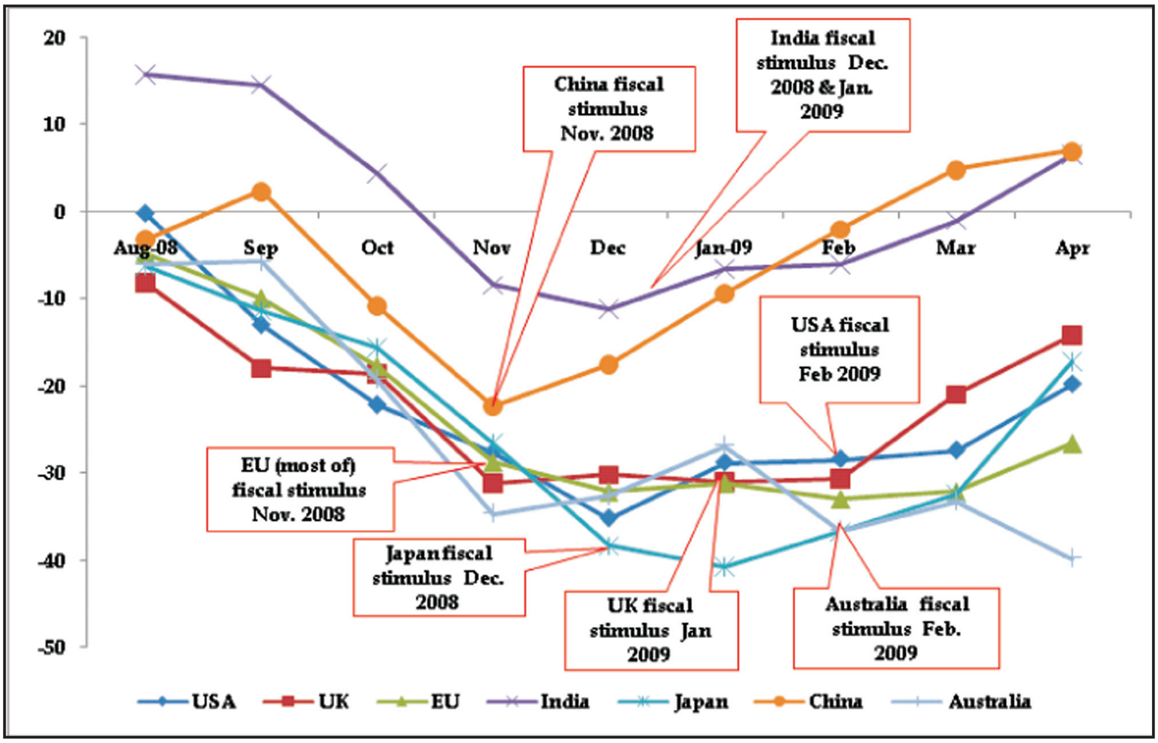
Since financial stimuli have its repercussions on the fiscal balance, it is important to ensure that the stimulus is sanctioned in a timely manner. Martin Feldstein recommends following the thumb rule of three months decline in the job market, before passing even a conditional financial stimulus ('How to Avert a Recession,' The Wall Street Journal, December 5, 2007). It is not an easy to assess the timeliness of a fiscal stimulus. Moreover, it takes parliaments some time to debate the provisions of the fiscal stimulus, before passing the same. The US Treasury has recommended that countries follow their example and allocate 2 per cent of GDP as fiscal stimulus. While UK, Japan and Canada have backed the US appeal, Germany, China and France have rejected this suggestion stating that another big fiscal stimulus package may undermine consumer confidence and increase. As a result, no consensus was arrived at in the G-20 summit recently held in UK. For these reasons, often the fiscal stimulus is late in coming and hence has to be made larger than initially required. The best one can hope for, especially in the current crisis situation, is that if the stimulus is well targeted, and it has an immediate impact on output, then one could assume that the stimulus was also implemented in a timely manner.

Targeted?

If the fiscal stimulus is successful in increasing output through spending, and if it puts money into the pockets of vulnerable families, then the stimulus is said to be well targeted. In recent times, two indicators which have fast become crucial economic indicators are Purchasing Managers' Index (PMI) – Manufacturing (indicative of increase in output) and retail sales (indicative of increase in household expenditure).

An increase in the PMI subsequent to the passing of a fiscal stimulus indicates an increase in output. While, China and India show promising results, the impact of fiscal stimuli on USA, UK, EU, Japan and Australia, seems limited (Figure 1). For almost all of the aforementioned countries, it has been the recent stimulus packages that have had some positive impact (PMI indices for the countries are climbing, albeit slowly). Australia's first stimulus pack in October 2008, and similarly UK's in September and November 2008, Japan's in August and December 2008, have had little impact on output.

Figure 1: Index of PMI (Base Value: 50)



Source: Data compiled from various sources, including official government statistics and newspaper articles.

Similarly, retail sales too have been disappointing in most countries. Only India and China seem to show some improvement since their respective stimulus packages have been implemented. Chinese goods that flood other markets also hold the comparative advantage of cheap prices. In India, traditional retail still holds 80 per cent of total market share of which food and grocery stores alone account for nearly 50 per cent of the market share. Under such circumstances, decline in retail sales are not likely to prolong.

Both UK and USA alike have registered low retail sales last year. Even Christmas sales, where a resurge in sales is normally expected, did not take off as anticipated. With unemployment rising, and increased insecurity with regard to jobs, households, it seems, are not keen on spending. In April 2009, UK did witness some revival in its retail sales figures, on account of late Easter shopping.

In Australia too, the fiscal stimulus in February, resulted in some increase in retail sales. However, as the effects of the stimulus petered out, so did the increases in retail sales.

Temporary?

Fiscal stimulus should ideally increase economic activity on a temporary basis, but these policies under the auspices of the stimulus should be temporary and not have detrimental effects in the long run on the fiscal balance and should not crowd out private investment. But the large fiscal stimuli sanctioned across the globe, are unexpectedly worsening the fiscal balances of the countries, atleast in the short run (Table 1).

Table 1: Size of Stimulus and Overall Fiscal Balance

Countries	Total Size of Stimulus			Overall Fiscal Balance			
	USD amount (bb)	Percent 2008 GDP	Tax Cut Share (%)	2007	2008	2009	2010
USA	841.2	5.9	34.8	-2.9	-4.7	-9.1	-8.8
UK	40.8	1.5	73.0	-2.6	-5.4	-9.8	-10.9
France	20.5	0.7	6.5	-2.7	-3.4	-6.2	-6.5
Germany	130.4	3.4	68	-0.5	-0.1	-4.7	-6.1
Italy	7.0	0.3	0.0	-1.5	-2.7	-5.4	-5.9
Japan	104.4	2.2	30.0	-2.5	-5.6	-9.4	-9.6
China	204.3	4.8	0.0	0.9	-0.3	-3.6	-3.6
Australia	19.3	1.8	41.2	1.6	0.1	-2.3	-3.5
India	6.5	0.5	0.0	-5.2	-8.4	-10.2	-8.7

Source: Compiled from IMF update (April 26, 2009) and Prasad, Eswar and Sorkin, Isaac, March 2009, 'Assessing the G-20 Economic Stimulus Plans: A Deeper Look,' Brookings.

Predictions indicate that fiscal balances for the G-20 advanced economies will gradually improve in the medium term if there is some growth in these economies. The fiscal stimulus too will be withdrawn at such time. For the G-20 emerging economies, which seem to stabilise in the short run, will further narrow over medium term (March 2009, IMF, 'Group of Twenty: Global Economic Policies and Prospects,' Note by the Staff of IMF).

The impact of fiscal stimuli does not look very encouraging. While China and India have shown positive responses, the impact of the stimuli for other countries, seem to be faltering. While the stimuli in China and India seem to have been based on the three axioms, for USA, UK and Japan, the stimuli do not seem to be as targeted or timely. In Australia, the stimulus did have its short term impact on output and retail sales, but it could not sustain these increases. Also, with growth rates not showing any promising increase, the increases in output may well be a false sign of recovery.

Nirupama Soundararajan
Regional Desk Coordinator &
UK and Ireland Desks

About the Regional Desk Team

ICRIER created the Regional Desk Team in 2008.

Research on India's relations with other countries will have to take on board the increasing demand being placed on India for a major role in international discussions on evolving a new global social, economic, financial and environmental architecture.

In this context, each researcher has adopted a country/region. The Team will be tracking and monitoring developments in the major countries, regions, economic blocks and India's neighbours. ICRIER Regional Desk Team's in-house publication 'Regional Insights' will provide articles on many of these countries/regions and will also contain a guest article by a renowned expert.

Dr. Rajiv Kumar	Director & CEO, ICRIER
Dr. Shrawan Nigam	Regional Desk Supervisor
Nirupama Soundararajan	Regional Desk Coordinator & UK and Ireland Desks
Deepika Wadhwa	Sri Lanka
Dony Alex	Scandinavia, Germany, Belgium, Netherlands & Luxemburg
Durgesh Kumar Rai	Australia & New Zealand
Gaurav Tripathi	Russia Desk
Gunajit Kalita	South Africa (SACU)
Loknath Acharya	China
Manjeeta Singh	Nepal
Rashmi Rastogi	Bangladesh & Myanmar
Sanjana Joshi	Japan & Korea
Santosh Ku. Das	ASEAN (Singapore, Thailand & Vietnam)
Shravani Prakash	NAFTA (Canada & Mexico)
Sirjjan Preet	France, Spain, Greece & Italy
Sneha Bakshi	Pakistan
Sukanya Natarajan	Brazil, Chile & Venezuela
Swapna Nair	NAFTA (USA)

About ICRIER

ICRIER – established in August 1981 – is an autonomous, policy-oriented, not-for-profit economic policy think tank. ICRIER's main focus is to enhance the knowledge content of policy making by undertaking analytical research that is targeted at improving India's interface with the global economy. We have nurtured our autonomy by establishing an endowment fund, income from which enables us pursue our priority research agenda. ICRIER's office is located in the prime institutional complex of India Habitat Centre, New Delhi.

ICRIER's founding Chairman was Dr. K.B. Lall who led the organization since its inception till 1992 when he handed over the Chairmanship to Mr. R.N. Malhotra (1992-1996). He was followed by Dr. I.G. Patel who remained Chairman from 1997 to 2005 until his demise in July 2005. ICRIER's current Chairperson is Dr. Isher Judge Ahluwalia. Amongst ICRIER's founding members are: Dr. Manmohan Singh, Dr. C. Rangarajan, Dr. M.S. Swaminathan, Dr. Jagdish Bhagwati, Dr. R. J. Chelliah, Mr. Muchkund Dubey, Prof. Deepak Nayyar etc.

To effectively disseminate the research findings, ICRIER organises workshops/ seminars/ conferences to bring together policy makers, academicians, Union Cabinet Ministers, Members of Parliament, senior industry representatives and media persons to try and create a more informed understanding on issues of major policy interest. ICRIER invites distinguished scholars and policy makers from around the world to deliver public lectures on economic themes of interest to contemporary India.

ICRIER's highly qualified in-house team of about 50 researchers includes several Ph.Ds from reputed Indian and foreign universities. In addition, we have 23 External Consultants working on specific projects. The team is led by Dr. Rajiv Kumar, D.Phil in Economics from Oxford University and Ph.D from Lucknow University.

Regional Desk Team

ICRIER Regional Desk Team was set up in 2008. This Team will be responsible for tracking and monitoring developments in the major countries, regions, economic blocks and India's neighbours.

INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS

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