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Abstract

The impact of the US financial crisis that unfolded in 2008 has been global. It was felt in output, trade, and cross-border capital flows and transfers. Incomes have dropped and consumption patterns are changing, placing at risk the human development gains of the 1990s. At the heart of this global crisis is a credit crunch that has put financial strains on firms and individuals and has led to a large number of job losses and drops in income from other sources. Having learned the lessons from past financial crises, some countries were well prepared and, with support from the international financial community, lessened the impact of the crisis. Still, current estimates about the impact of the Crisis are staggering. But country experiences show that in the past there have been huge overestimates of the impact on human development indicators that may be the case again now. The high share of developing-country exports in total exports to advanced countries and the high number of women—pivotal in child development--in developing country-export sectors, make focusing on national and global actions conducive to restore world credit a priority for policymakers. High on the action list is restoring credibility in financial markets, making credit accessible to small businesses that account for a large share of employment globally, strengthening the absorptive capacity of public spending, and expanding social protection programs. This paper is a compilation of selected literature on the impact of financial crisis on jobs, other sources of private income and public social spending and on human development. The paper uses the *bank run* and *sudden stop* framework of financial-crisis analysis, discusses country cases, and summarizes the lessons learned from current as well as past crises to prevent loosing sources of income.

Keywords: financial crisis; credit; jobs; human development

JEL classification: E2; E5; H4; I3

I. Introduction

Global progress in human development since the 1990s has been impressive. In health, for example, there has been progress in maternal mortality, which dropped to around 343,000 in 2008 from around 530,000 in 1980 in the 181 countries.[1] Higher incomes partially explain these outcomes by improving the nutritional status of women and more access, physically and financially to health care. Progress was particularly significant in Egypt, China, Ecuador, and Bolivia. In education, the 2010 Education for All Global Monitoring Report[2] reports increasing numbers of children in school, reduction in gender gaps, and increasing numbers of children completing basic education (although the quality of education remains an issue).

The global financial crisis (the Crisis) that unfolded in 2008 has lowered incomes and has led to changes in consumption patterns that are placing at risk those gains in human development. The Crisis originated in the US, and its impact has been felt globally. In 2009 global output dropped 2.2 percent and the global unemployment rate increased to close to 7 percent, the equivalent to having 35 million more people out of work (Figures 1 and 2). An increase of 50 million in the number of the extreme poor is expected. [3] It is too soon to report on the impact on education and health, but, based on the experience of past crises, in some developing countries it is expected to be far from negligible, putting at risk the human development gains of the last decade.

Financial crises are not new to the global economy (Figure 3), and in some regions they

[1] Hogan et al. (2010).
[2] UNESCO (2010).
[3] World Bank (2010).

have been recurrent.[4] In developing countries the combination of banking and currency crisis (the so-called twin crises) has inevitably led to output collapses.[5] But even in successful attempts to weather a financial crisis, output fell and fiscal adjustment, typically via public expenditures, in some cases led to a fall in social expenditures. The impact of financial crises on human development indicators (HDI) has been extensively reported.[6] Financial crises increase poverty (Figure 4). However, the impact on health and education indicators has not been uniform across countries. While in recent years there has been progress in protecting social expenditures from volatility and in establishing and improving the effectiveness of social protection programs, much remains to be done to ensure available resources are fully and efficiently disbursed and used.

The Great Depression and financial crisis experiences in emerging markets provided lessons that have guided world policymakers in addressing the Crisis. The ultimate goal of this paper is to discuss the Crisis from the perspective of human development, to consider the lessons learned, and to assess the current policy challenges. After this introduction, Section II discusses channels of transmission; Section III addresses the development and impact of the Crisis; Section IV evaluates prospects; and Section V looks at lessons and policy challenges.

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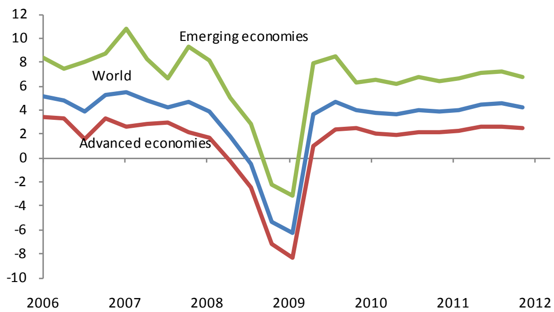
[4] Reinhart and Rogoff (2009) review episodes of external defaults, inflation crises, currency crises, and banking crises in developed and developing countries since the 1800s.

[5] Kaminsky and Reinhart (1999).

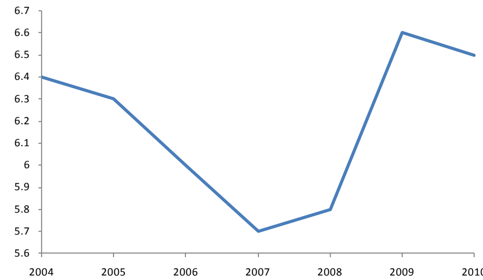
[6] e.g., World Bank (2000), Ferreira and Schady (2008).

Figure 1. Real GDP growth
(%, quarter over quarter annualized)



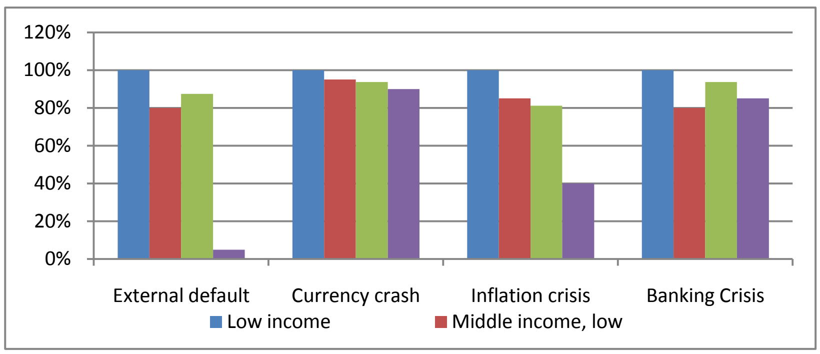
Source: IMF, *World Economic Outlook Update*, January 2010

Figure 2: World unemployment rates (%)



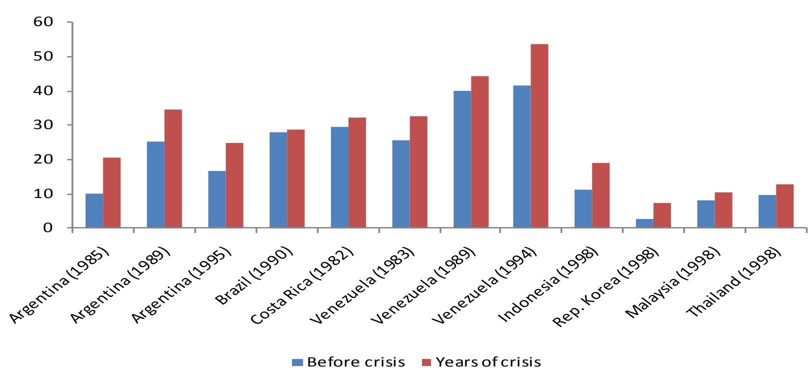
Source: ILO, *Global Employment Trends*, January 2010

Figure 3. Percent of countries with at least one episode of financial crisis



Source: Reinhart and Rogoff (2009)

Figure 4: Poverty Headcount Before and After a Financial Crisis



Source: Conceição,, Zhang, and Yanchun, 2009. Note: The year of crisis is in the parenthesis.

Table 1. Selected Crisis Episodes and Health Development Indicators

Crisis Episode	Impact on Infant Mortality (IMR) and Malnutrition
Peru, 1988-1992	IMR increased 2.5 percentage points for children born during the crisis
Mexico 1994-1995	Mortality from anemia increased from 6.3 to 7.9 /100000 in 1993 and 1995, respectively for children under age 1.
Indonesia, 1997-98	IMR increased 3.5 percentage points in rural and urban areas.
Cameroon, 1990s	Malnutrition for children under three years increased from 16 (1991) to 23 percent (1998)

Source: Lustig (2010); World Bank (2000).

II. Financial Crises and Human Development Outcomes: What have we Learned?

The term *financial crisis* has been broadly used to describe situations in which financial institutions or assets suddenly lose their value and national output drops significantly. A characteristic of financial crises is a sudden change of investor sentiment with regard to the riskiness of investments, which leads to a sudden withdrawal of funds from financial institutions. This phenomenon, known as a "bank run" or "bank panic," in turn leads to a drop in loanable funds and credit to the private sector. Consequently, output collapses and private and public incomes also drop, leading to changes in spending and consumption patterns. Poverty increased in past crises. The direct impact on other aspects of human development is less clear. Financial crisis can be particularly harmful to those least equipped to manage it, i.e., the poor. In terms of distributional outcomes, the evidence on a country-by-country level provides ambiguous results, largely due to measurement shortcomings. However, crisis-resolution strategies tend to be inequitable due to the unequal influences of poorly-managed by institutions.[7]

The number of countries which have had recurrent banking crises in a region has been high: 35 percent in Latin America; 13 percent in Sub-Saharan Africa; 11 percent in combined Eastern Europe and Central Asia; and 8 percent in East Asia and the Pacific.[8] There is no definitive explanation as to why Latin America is the region with the highest share of countries with recurrent crises. Most studies attempt to associate this outcome with the poor growth performance of the region and this in turn with high growth volatility since the early 1800s

[7] World Bank (2006).

[8] IDB (2005) for the period 1974-2003. There were no countries with recurrent financial crises the Middle East and North Africa and in high income countries. See also Reinhart and Rogoff (2009).

fueled.[9] Although in this association causality remains uncertain, a recent study on Argentina[10] during 1971-2001 supports the endogeneity of growth volatility: external shocks but more importantly inconsistent domestic policies explain the recurrent crises there.

In this section we discussed channels of transmission after a brief discussion on the mechanics of financial crises.

II.1. The mechanics of financial crises.

Sudden credit scarcity and the absence of a lender of last resort have characterized recent (and past) financial crises. In both advanced and developing countries economic booms have typically preceded a financial crisis. In developing countries these have been driven by external factors such as a surge in capital inflows and/or commodity prices and fast growth in the world's largest economies. During booms more bank financing at lower cost becomes available, relative prices change favoring the non-tradable sectors (e.g., real estate and commerce sectors), and higher loan collaterals lead to faster bank lending. As a result, aggregate demand shoots up, and GDP growth accelerates.[11] Current account balances deteriorate reflecting higher public and private sector external indebtedness, and international reserves can increase consistent with a

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[9] It is well known that since colonial times, in Latin America (a) economic inequality has been at the heart of many of the region's political and social problems (particularly in endowment-rich economies); (b) the region has had many rapid inflation and default episodes (some involving creditor military interventions, e.g., Nicaragua and Venezuela); and (c) the region remains highly dependent on external factors, e.g., commodity prices, in other words, there has been little export diversification. Rodriguez (2001); Frieden, Pator Jr., and Tomz (2000); Edwards (2009); Engerman and Sokoloff (2002). Other sources of recurrent crises include higher terms of trade, real exchange rate and economic policy volatility (Sahay and Goyal (2006)), and lower regional productivity (IDB (2010A)) in relation to emerging Asian and advanced countries.

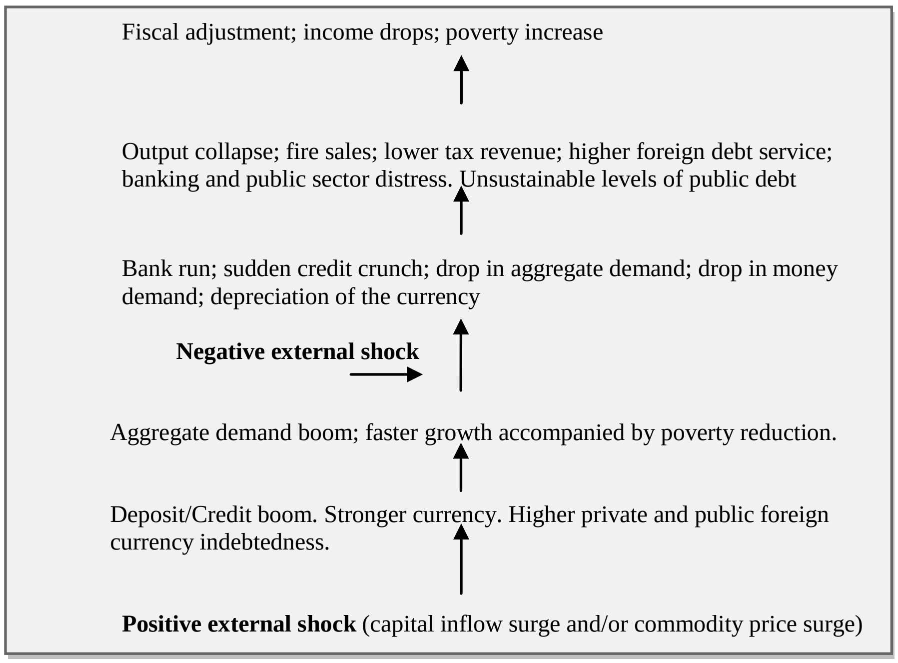
[10] Kaminsky, Mati, and Choueir (2010).

[11] The credit-growth causality has been discussed in economist circles extensively. Today there seems to be consensus that credit explains growth as shown in Mendoza and Terrones (2008).

government strategy to accumulate them to address balance of payment troubles and/or to maintain a depreciated currency and to maintain competitiveness.

But not all is good news during bonanzas. Reliance on short-term and foreign-currency borrowing makes emerging markets vulnerable to bank runs as significant liquid liabilities end up backed by illiquid assets and perceptions of real exchange rate misalignment mount (Chart 1).[12]

Chart 1. Boom-bust cycle in open economies



In low-income countries with limited formal financial intermediation and exposed to temporary commodity price shocks, e.g., low-income small African economies, vulnerability to

[12] Calvo (2009). Schularik and Taylor (2009) also show that over the past 140 years episodes of financial instability were often the result of "credit booms gone wrong." See also Reinhart and Rogoff (2009). Reinhart and Reinhart (2006) catalog capital inflow bonanzas in both advanced and emerging markets during 1980-2007 for 181 countries and 1960-2007 for a subset of 66 economies from all regions.

capital outflows (i.e., capital flight) also exists. This typically arises from the government's inability to save a temporary windfall and to resort to money creation to close fiscal imbalances in the face of a sudden negative shock.[13] Not surprisingly, bonanzas have been associated with a higher probability of depositor runs on banks, debt defaults, and inflation.[14]

In this context, as the economic literature suggests, even apparently small factors can lead to self-fulfilling prophecies and trigger a run on vulnerable financial institutions.[15] Emerging market examples of the 1990s include Mexico's in 1994, Thailand's in 1997, and Russia's in 1998. As credit dries up, a contraction in expenditure accompanied by a real devaluation takes place, closing the deficit of the current account of the balance of payments. But as collateral values drop, further credit contraction follows, lowering GDP growth and generating a deep recession. A bank run threatens the sustainability of the financial sector payment system. Hence, once the banking crisis has erupted and with no access to international capital markets, central bank liquidity injections could deepen the crisis further, leaving the economy insolvent and its financial and real sectors collapsed. Argentina's 2001 crisis makes a good example of this scenario (Box 1).

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[13] Collier, Paul, Anke Hoeffler and Catherine Patillo (2004) and Collier (2007).
[14] Reinhart and Reinhart (2006).
[15] Burnside, Eichenbaum and Rebelo (2008) for a review of currency crisis literature.

Box 1. Sudden stop, financial crisis and poverty increase in Argentina 2001/02.

Like all emerging markets, during the 1990s Argentina enjoyed large capital inflows and fast growth. Throughout the 1990s, the macroeconomic framework compared favorably with countries renowned for their fiscal behavior, e.g., Euro countries. Contagion from Mexico's crisis in 1994/5 brought fast growth to halt, but the economy recovered quickly and with a sounder financial sector. As the Russian crisis of 1998 froze international capital markets, risk premiums in emerging markets rose, but they rose far more in Argentina reflecting expectations of devaluation of the currency and the concomitant deterioration of public finances. Growth decelerated. To promote faster growth, in March, 2001, the central bank injected liquidity into the economy leading to deposit withdrawals and international reserve losses. By December 2001 bank deposits had dropped 18 percent; international reserves had fallen to less than half their January level; and the spread on government bonds had jumped almost five times to 4435 points. To prevent a collapse in the financial sector's payment system, bank customers were not allowed to withdraw deposits (the so called *corralito* measure). As foreign reserves continued to plummet, the peso was devalued, bringing balance sheet problems in firms and individuals indebted in dollars but receiving income in pesos. A weaker peso together with higher interest rates and slower growth rendered the public debt unsustainable. Political constraints to adjust the fiscal accounts led the government to default on its debt. Thus, at the heart of Argentina's crisis was the impact of a sudden cut in capital flows in a context of dollar debts that reached unsustainable levels also as a result of the large devaluation needed to close the current account (Calvo, Izquierdo, and Talvi, 2004).

As a result of the crisis, output and investment dropped 18.4 percent and 56 percent, respectively. Unemployment increased from 11.7 percent to 15.9 percent during 2001/2. Poverty as traditionally measured increased from 38 percent in 2001 to 53 percent in late 2002.

Another common feature of recent financial crises is regional and global contagion, reflecting increased financial and commercial integration. In virtually all the crisis episodes of the 1990s, there were incipient or full-fledged bank runs in economies other than in the source of the crisis. In Bolivia, for example, Argentina's financial crisis combined with domestic political instability led to capital outflows of about 6 percent of GDP in 2001-2002.[16] Also, contagion could be instantaneous or come with a lag, e.g., Central America in the mid-1990s.[17]

At the heart of these systemic effects of financial crisis is the absence of a lender of last resort ready to inject liquidity when an incipient bank run occurs. In the cases of Russia and Argentina, no lender of last resort came forward. In the case of Mexico, the $50 billion Emergency Loan from the US contributed to preventing the breakdown of the financial sector system. Emerging market experiences with boom-bust cycles--the so-called *sudden stop*

[16] Calvo (2006).
[17] Calvo and Reinhart (1996).

episodes--have been costly in terms of investment drops and government rescue packages (Table 2).[18]

Table 2. Output, Investment Contraction, and Rescue Packages
in Developing Countries

	Output % Contraction	Investment % Contraction	Rescue Package % of GDP
35 Output collapses in developing countries	Mean: -9.9	Mean: 42.2	NA
Indonesia, 1997	-13	-39	18.1
Korea, 1997	-7	-31	11.7
Mexico, 1995	-6	-35	13.5
Morocco, 1994	-7	-25	NA
Russia, 1998	-5	-44	5.8
Thailand 1997	-12	-62	12.1

Source: Calvo and Reinhart (2000). NA: not available.

In view of these experiences, the economic profession remains divided regarding the benefit of openness in developing countries.[19] Poorly-managed economic bonanzas in economies with poor regulatory frameworks and supervision lead to vulnerability to costly financial crisis, as discussed in Section II.1. Empirical studies, however, provide ambiguous results about the impact of financial integration in developing countries. Could more (as opposed to less) regulation promote sustainable growth in financially integrated economies? Some policymakers (e.g., Brazil's) and more recently the IMF believe that capital controls on inflows could help, even though empirical studies provide ambiguous conclusions regarding their potential effectiveness.[20] Capital controls on inflows do not prevent capital outflows of

[18] Analyzing the behavior of 32 developed and developing countries, Calvo, Izquierdo and Mejia (2004) found that the probability of a sudden stop episode is higher the more closed to international trade and the higher foreign currency debts are. Episodes of growth acceleration followed by growth deceleration have also been discussed in Hausmann, Rodriguez and Wagner (2006).

[19] Box 3.5 in World Bank (2010).

[20] Ostry et al. (2010).

resources already in the financial system.[21] In many countries bonanzas have yielded improved HDI--albeit temporarily--which suggests that the issue is not whether to integrate or not but when and how to do so (including actions to protect expected human development gains). For example, countries that trade less are more prone to *sudden stops* and currency crisis: closing the current account will require higher real exchange depreciation and, accordingly, self-fulfilling expectations of it may lead to a bank run in economies that trade little.[22] This conclusion provides support for trade openness and is consistent with the conclusions that bubbles may be socially efficient once the costs and benefits of financial deregulation that spurs temporarily high growth that then collapse are weighed.[23] While there is no consensus regarding appropriate financial sector regulations for advanced and developing countries, there is agreement on the need to introduce reforms to regulate and supervise financial systems better in order to improve welfare across societies and prevent financial crises.[24]

II.2. Channels of Transmission

Financial crises across the globe during the last decade have provided significant information on the impact on human development. The outcomes on health and education have not been uniformed across countries. In rich economies no deterioration has been identified in either indicator. Well-functioning credit markets, well-established social protection programs, and a low opportunity-cost of attending school explain this outcome. In developing countries health indicators unambiguously deteriorates but only in low-income countries school enrollment deteriorates unambiguously. School enrollment has increased in places where families chose to

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[21] Calvo (2010).
[22] Calvo, Izquierdo and Mejia (2004) and Cavallo and Frankel (2004), respectively.
[23] Calvo and Loo-Kung (2009).
[24] Griffith-Jones and Ocampo (2009).

send their children to school because, as indicated, the opportunity-cost of doing so is low and/or the school offers social services such as provision of food. The former was the situation, for example, in Peru in the late 1990s. In contrast, annual growth in gross primary enrollment fell from 0.44 percent in 1994 to 0.09 percent in 1995 in Mexico and from 2.2 percent in 1993 to 0.8 percent in 1996 in Argentina.[25]

HDI improve during booms and deteriorate during downturns.[26] The increased allocation of private and public income to health and education appears to explain the improvement. But there is heterogeneity of impact across the income level of countries, and human development losses during growth deceleration periods are higher than gains during booms. Furthermore, human development losses during downturns could have long-lasting effects in places where little progress has been achieved during booms, for example, in poor economies in Sub-Saharan Africa.[27] This could be quite serious in economies with recurrent output collapses and makes urgent the better understanding of the channels of transmission to design and implement social protection programs to protect the poor from economic shocks effectively.

After a short discussion on the constraints to a deeper understanding of the financial crisis-human development links, this section elaborates on the financial crisis-income link, highlighting the impact of financial crisis on jobs and the key role of small and medium enterprises as providers of a large number of jobs.

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[25] Ferreira and Schady (2008).
[26] Conceição and Kim (2009) using a panel data with 200 countries for 1980-2006.
[27] Arbache, Sala and Page (2002).

2.1. Measurement shortcomings

While these studies provide useful information, forecasting impact and extracting policy recommendations from them requires more country-specific knowledge. Unfortunately, household surveys—the leading instrument used in human development research—still fall short of providing an accurate picture of household behavior when economic shocks hit.[28] For example, in the face of an economic shock, different families may decide to live under the same roof to reduce each one's household spending. Also, non-uniform economy-wide factors such as price stickiness and inflexible real wages may lead to a poor identification of the determinants of human development outcomes.[29] The case of poverty in Indonesia in the late 1990s discussed in Box 2 illustrates these measurement shortcomings. Furthermore, expenditure measures of well-being (used to calculate poverty) do not integrate the value of public services[30] (Kanbur, 2010).

Box 2. Overstated poverty impact. Indonesia in the late 1990s.

Output drop, devaluation of the currency, higher food prices, and annual inflation all led to the expectation of a huge increase in poverty in Indonesia as a consequence of the crisis in 1997. Poverty did increase 50 percent, but the prediction had been for a fivefold increase. Thomas and Frankenberg (2007) attribute this poor forecast to three reasons: 1. per capita expenditures—typically used to measure poverty—are hardly indicative of changes in well-being because household size and composition may change in response to the crisis; 2. households may just prefer to delay spending on semidurables, thus reducing expenditure without affecting well-being; and 3. potential poor estimation of inflation rates which tend to be volatile in the aftermath of a financial crisis.

Similarly, many studies based on cross-country regressions present methodological shortcomings that make regression analysis of limited use, for example, to identify causality. This type of analysis captures neither the efficiency effects nor the temporariness of benefits. Implicit in growth regressions is the assumption that the same model of growth is applied to all countries, and this may not be right. Linear growth regressions [typically used in growth

[28] De Janvry and Sadoulet (2008) and Ravallion (2009).
[29] Behrman (2009).
[30] Kanbur (2010).

research] "imply that the effect of increasing the value of the independent variable would be the same for all countries, regardless of the initial value of that variable or other variable."[31] Therefore, the same policy, e.g., a 10 percent tax increase, may not have the same effect in a poor country as in a rich country or in a country with weak institutions as in a country with strong institutions (more on this below). Supplementing regression-based studies with more country-specific information will provide a better picture of the relationship between growth and trade integration.[32] Thus, while there is better understanding of the impact on household income and non-income resources, much remains to be learned about the channels of transmission from income to human development.

2.2. The financial crisis-income-consumption link

Lower consumption of quality food, medicine and public social services as a consequence of lower private and public incomes have been associated with deterioration of human development.[33] Recalling the financial crises in East Asia in 1997-98, in Russia in 1998, and in Latin America since the early 1990s, this section illustrates the impact of these events on sources of income including labor markets, public services, and remittances. Discussing engagement with illegal activities and the impact of a drop in the value of financial assets is beyond the scope of this paper.

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[31] Rodriguez (2008).

[32] Applications of the Growth Diagnostic Approach in growth analysis (Hausmann, Rodrik and Velasco (2005)) have brought to the forefront the discussion on the utility of cross-country regressions (Rodrik (2005) and Rodriguez (2008)).

[33] World Bank (2000) and 2006).

The labor market

The labor market is an important channel of transmission of financial crises. As output collapses, firms close or reduce production leading to higher unemployment. The speed of adjustment of the real sector depends on its production structure (e.g., a large and diversified export sector),[34] flexible labor costs, access to credit, and firm closure regulations (e.g., bankruptcy laws and the US's Chapter 11-type of regulations) that provide resilience. In the absence of these, surviving firms have typically resorted to strategies to reduce costs by, for example, moving to the informal sector. Laid off workers migrate to sectors and/or countries with better employment prospects.

The situation could be particularly critical for workers in micro- and small and medium firms (SMEs) in both advanced and developing countries. In the United States, SMEs account for about 50 percent of total employment and account for about 60 percent of gross job creation.[35] In developing countries SMEs account for an average of 65 percent of total employment.[36] In Bolivia, for example, microfirms receiving microcredit were affected by the economic shocks of 2001/02.[37] In Chile the impact of the 1997/8 East Asia and Russian crises led many small firms to use non-bank financing, e.g., retained earnings, and thus to sacrifice investment, as large firms—unable to access external financing and perceived more creditworthy—crowded out domestic bank financing for SMEs. In Chile, employment in SMEs and microfirms accounts for about 75 percent of total employment. Absence of credit, inflexible wages, and high firing costs led many SMEs to reduce the number of employees and hence to

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[34] Hausmann, Rodriguez and Wagner (2008) and Calvo, Talvi and Mejia (2008).
[35] Bernanke (2010).
[36] Beck, Dermirgüç-Kunt and Martinez Peria (2010).
[37] Gonzalez-Vega and Rodriguez-Mesa, 2002.

become microenterprises or to file for bankruptcy. In the late 1990s unemployment increased from 6 percent to 11 percent. Going back to pre-crisis unemployment rates took time.[38] In Latin American economies labor and credit inflexibilities have been identified as constraints to fast job recovery.[39]

Displacement of workers to informal activities has featured in past crises. Indeed, in Latin America recurrent financial crises have gradually led to increases in informality. For example, urban salaried informality increased in Argentina from 1992 to 2003 by around 9 percentage points and by 17 percentage points in Greater Buenos Aires from 1980-2003.[40] These workers are typically not covered by social protection. In East Asia displacement of workers took the form of migration to the agriculture sector. About 30 to 40 percent of urban workers moved to the agriculture sector.[41] In Korea, unemployment increased from 2.6 to 6.8 percent in 1998 but achieved pre-crisis rates quickly as currency devaluations reduced the real wage. In Indonesia fewer working hours helped to prevent further increases in unemployment. So did sustained availability of microcredit.

Public sector social expenditures

Public sector social expenditures have suffered during past crises in several developing countries. The need to close the fiscal deficit in the face of lower tax revenues and increased

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[38] IDB (2006) and World Bank (2005).
[39] Caballero, Engel and Micco (2004).
[40] Perry et al. (2007).
[41] World Bank (2009a).

public debt service has typically led to cuts in social expenditures.[42] For example, one common practice has been reducing the investment portion of government education and health budgets. In education public investment dropped 50 percent during 1987-1990 in Peru. Typically, cuts in social investment in developing countries have been the result of social pressures to sustain the salary portion of these budgets.[43] Teacher salaries can be counted as investment in human capital; however, the quality of teaching in many developing countries is being questioned. In Latin America salaries in education have shown the most anticyclical behavior reflecting the strong presence of teacher unions.[44] On the other hand, attempts to better allocate education expenditures biased toward tertiary education and the rich have proved virtually impossible. In this region the volatility of public expenditures has been associated with macroeconomic volatility and the need for recurrent episodes of fiscal adjustments (CAF, 2008).

World public financing of health by governments and development assistance sources (in constant US dollars) increased by nearly 100 percent from 1995 to 2006, as shown in Figures 5 and 6 using IMF data (consistent with WHO data).[45] Domestic resources have been larger than development assistance. Aggregate data do not tell the whole story, however. In many economies health public expenditures have been pro-cyclical. In Thailand public investment in health fell 30 percent from 1995 to 99. However, breaking with past practices, Argentina effectively prioritized health spending despite the fiscal adjustment that the crisis of 2001

[42] Kaminsky, Reinhart and Vègh (2004) for emerging markets during 1965-2003. It has not been the case for OECD countries. CAF (2008) and Ravallion (2008) for the prociclicality of social expenditures.
[43] World Bank (2009b).
[44] IDB (2009); World Bank (2004)
[45] The authors, although confident on the study result, acknowledge incomplete data sources in some countries.

required.[46] Nevertheless, health outcomes suffered, partly due to the sudden increase in the cost of imported inputs, e.g., drugs, as a result of the large devaluation. Evidence on donor responses in recent past crises (i.e., without the involvement of advanced countries) remains mixed (Lewis and Verhoeven, 2010). In crisis episodes involving advanced countries, aid flows have been positively associated with the behavior of growth in advanced countries from 1997 to 2007).[47]

While sustained social expenditure is necessary, it is not sufficient to ensure good outcomes. Efficient spending is also necessary. To achieve this several social programs have been established in developing countries, some more effective than others. The common features of these programs are “accountability between policymakers, providers and citizens” (World Bank 2003) and these programs’ ability to address short-term objectives while contributing to the achievement of long-term goals. Examples include Bangladesh’s Food-for Education, Brazil’s Bolsa Escola, and Mexico’s Progresa. In fact, the city of New York is considering establishing its own Progresa. These so-called cash (or food) transfer programs have been a source of income (and non-income services) for the poor, somewhat compensating for their inability to procure credit to smooth out consumption during the bad times.

Figure 5. Government Health Expenditures

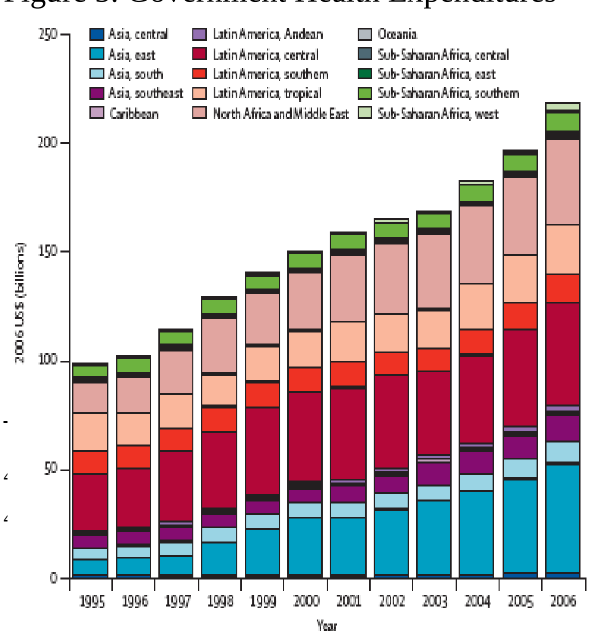
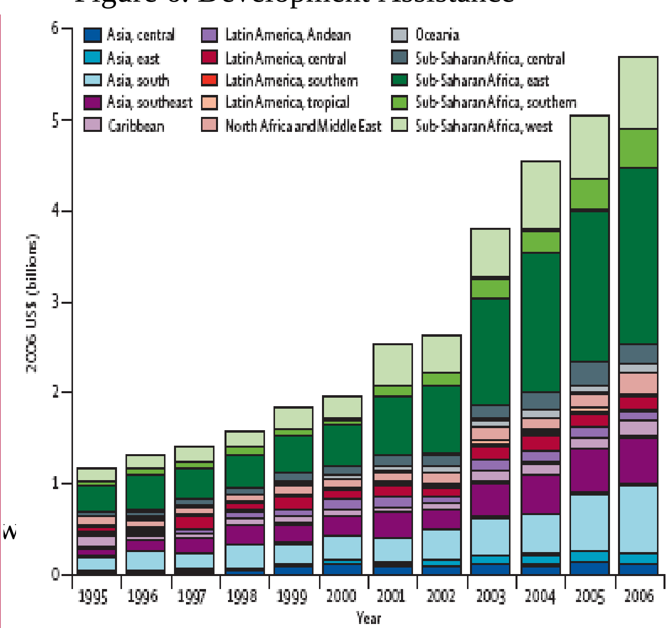


Figure 6. Development Assistance

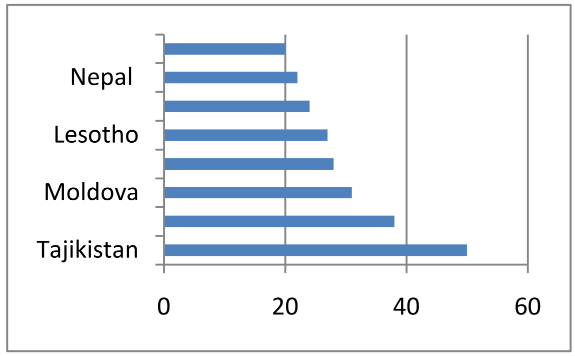


Source: Reproduced from Lewis and Verhoeven (2010). Data: Lu et al. (2010).

Remittances

Remittances are an important source of income and hence of poverty reduction.[48] The phenomenal global increase in worker remittances since 2004 was associated with the bonanza enjoyed by advanced economies and commodity exporters.[49] For example, fast growth in Russia's construction sector was an important source of remittances in some CIS economies, reaching between 50 and 30 percent of GDP (Figure 7). Remittances have been the driving force of GDP and tax revenue growth in these economies. Slower global and regional growth associated with the Crisis has lowered demand for migrant labor, in particular for hard-hit sectors such as construction. For example, formal remittances to Tajikistan fell 36 percent year-on-year in the first five months of 2009.

Figure 7. Remittances in selected countries, % of GDP, 2008



Source: World Bank (2009c)

III. The Crisis: Causes and Impact

The Crisis has increased the number of unemployed people by 34 million.[50] Recovery has started, and 2010 growth prospects for advanced economies and the developing world are generally good (with some exceptions). However, recovery is expected to be slow, particularly in labor markets. This section primarily discusses impact on incomes. It starts with a discussion of the sources of the Crisis and its impact on output.

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[48] Cervantes-Godoy and Dewbre (2010).
[49] E.g. UNDP (2009a).
[50] ILO (2010).

III.1 *The root sources of the crisis and official responses*

Consensus has gradually been reached regarding the root sources of the crisis: [51] A combination of large capital inflows, low interest in the US, and new short-term maturity instruments in the US banking industry that made cheap credit available. Capital inflows surged as investors felt that the US was a safer place to invest. Emerging market governments were significantly represented among these investors. They had accumulated huge international reserves during the commodity boom and capital inflow surge to protect their financial systems from sudden stops and to attempt to weaken appreciating pressures on the real exchange rate. They also feared further dollar devaluation as a result of lower interest rates in the US.

In a context of low lending standards, i.e., poor supervision and regulatory framework, long-term projects such as real estate investment were financed with short-term deposits that could be withdrawn at short notice, making financial institutions vulnerable to bank runs and thus laying the foundations for the Crisis and for its spread to world capital markets. In this regard the Crisis fits within the emerging-market type of financial crises.[52] The Crisis started in a segment of and quickly spread to the whole mortgage market, eventually infecting financial institutions and threatening a major economic shock. The fast change of investor sentiment in mid-2008 is reflected in the Standard & Poor's Chicago Board Options Exchange (CBOE) Volaility Index—a key barometer of investor sentiment and market volatility based on information conveyed by S&P 500 stock index option prices (Figure 8).

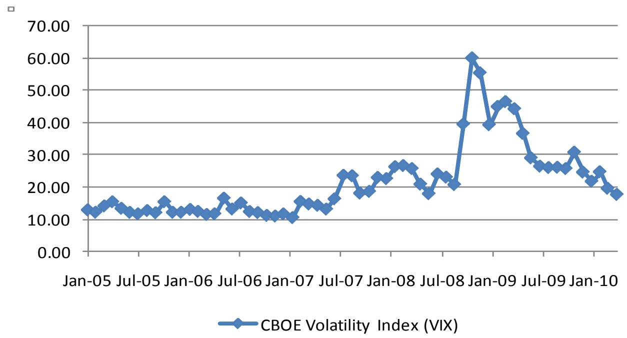
Accordingly, as discussed in Section I, it was hard to identify what triggered the Crisis. Increasing mortgage defaults since early-2007 led a large drop in the stock market capitalization

[51] E.g., Burnemeister (2008); Calvo (2009a).

[52] Calvo (2009b). Calvo (2009c) points to the sudden stop in the flow of credit (as opposed to a sudden stop in capital inflows) as domestic financial institutions were reluctant to lend.

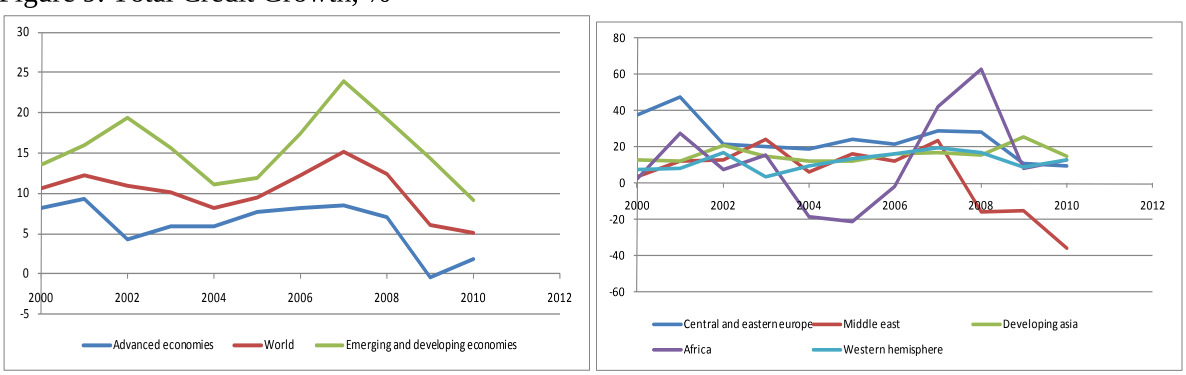
of major banks and a cessation of inter-money markets lending. Meanwhile, as off-balance-sheet maturity mismatches began to surface and no credit was available, many hedge funds suffered large losses, triggering margin calls and fire sales across the globe. In September 2008 the news That Lehman Brothers and others were not going to be rescued by the government led to deposit withdrawals globally. The role of lender of last resort, adopted by advanced governments a month later, stopped the bank runs. Nevertheless, world credit decelerated (Figure 9) and global output contracted by 2.2 percent in 2009.

Figure 8. CBOE Volatility Index, 2005:1-January 2010:1



Source: Chicago Board Options Exchange

Figure 9. Total Credit Growth, %



Source: IMF (2009)

The US mortgage crisis quickly spread around the world. As credit dried up, global output, commodity prices, global trade, and remittances dropped. Financial contagion has been attributed to the risky liability structure of banks, which highlights the need to address related regulatory issues and financial openness.[53] The impact of the Crisis on countries with lower global financial ties, e.g., low-income countries, was felt through lower remittances from workers working abroad and through lower demand for their exports by advanced economies. A recent study argues that more trade diversification could have protected countries better arguing that "the possibility of international risk sharing through insurance schemes implicit in joint ventures, international lending, production diversification, and formal insurance contracts is greater in an open economy." [54] However, the benefits of export diversification in a global credit crisis like the Crisis are likely to be limited. It is worth highlighting that those economies with a higher share of food and other commodities (as opposed to a higher share of manufacturing) in total exports have showed to be more resilient to growth decelerations in a crisis context, highlighting the key role of credit in sustaining production.[55] The implicit assumption here is that the manufacturing sector is more credit intensive than the commodity sectors.

Official responses.

The recognition of the central role of credit in the propagation of a financial crisis to the real sector and the lessons of the Great Depression prompted governments and the international financial community to intervene in the form of liquidity injections to prevent a credit crunch and output collapse. The conventional view regarding the duration of the Great Depression is that policymakers allowed credit to shrink, leading to the collapse of the banking system and a damaging and protracted recession. Likewise, the slow growth of Japan of the 1990s has been

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[53] Raddatz (2010).
[54] Haddad, Lim and Saborowski (2010).
[55] Berkmen, Gelos, Rennback and Walsh (2010).

attributed to unresolved banking and corporate sector fragilities that surfaced when house and equity prices collapsed. In emerging markets, the East Asian and Russian crises in the late 1990s as well as Argentina's in 2001 provided important lessons, preparing policymakers there and in advanced countries to manage the Crisis better. While the bonanza that preceded the Crisis had something to do with this, it also allowed many emerging market governments (e.g., East Asian countries and Chile) to be prepared for a potential financial crisis originating at home or abroad.

Thus, the first line of attack to deal with the Crisis around the world was to stop bank runs. This was achieved by a combination of liquidity injections and an increase in bank deposit guarantees. Other actions aimed at restoring the credit channel included purchase of assets and lending by national treasuries. Through different mechanisms liquidity was injected into the private sector, reducing uncertainty and systemic risk in financial markets and allowing vulnerable firms to continue operating while accessing schemes (e.g., Chapter 11 in the US) to prevent widespread bankruptcies. At the international level the US, as lender of last resort, made liquidity available to selected countries (e.g., Brazil, Korea, Mexico, and Singapore), also aiming to prevent major real sector disruptions. Likewise, in 2008 Japan provided liquidity swaps to Indonesia and India. In parallel the IMF launched a short-term liquidity facility (SLF). In April 2009 the G-20 increased IMF resources, leading to a new IMF facility, the Flexible Credit Line (FCL) to assist countries with sound policies facing liquidity constraints unconditionally and at longer maturities. In developing countries public banks became the channels for allocating public resources to both public enterprises and the private sector.

In parallel fiscal stimulus packages were implemented in both advanced and developing countries.[56] Fiscal stimuli took several forms, including tax cuts targeted to small and medium enterprises (e.g., Brazil, China, Mexico, India, and Japan) and increased public spending, largely on labor-intensive infrastructure projects (e.g., the US and Germany and Argentina, Chile, China, Mexico, and Pakistan) but also in some cases to bring forward planned expenditures (e.g., China). In the US, for example, infrastructure spending took the form of "greening" or "climate friendly" efforts. Economies with fiscal space, mostly middle-income countries, targeted spending to the social sectors (e.g., Chile).

However, the announced and the delivered stimuli have been different in different places. For example, in Korea only half the planned stimulus was delivered, whereas in Singapore it was fully delivered.[57] One of the cited causes of the shortfall has been implementation bottleneck. Although difficult to measure,[58] stimulus packages associated with the Crisis so far have been much smaller than rescue packages in emerging markets in the late 1990s (Tables 2 and 4). A recent study indicates that the US stimulus package reached 6 per cent of and China's at 13 per cent of 2008 GDP, which make these closer to past rescue packages.[59] All the 35 fiscal packages reviewed in this study have a social protection component amounting to about 25 percent of 2008 global GDP. South Africa (56 percent), Singapore (52 percent), Taiwan (47 percent), and Finland (43 percent) have the largest allocations for social protection. In Peru, Mexico, Israel, Chile, and Turkey this allocation amounted to an average of around 4

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[56] Paci, Ravenga, and Rijkers (2009).
[57] The World Bank has produced several reports describing the impact of the Crisis regionally, e.g., (2009d) and (2009e).
[58] Reinhart and Rogoff (2009).
[59] Zhang, Thelen and Rao (2010).

percent, perhaps consistent with the limited impact the Crisis had on these countries and/or the amount of resources contingently allocated before the Crisis hit.

Table 4. Selected Fiscal Stimuli, Advanced Countries, 2008-2009

	Eurozone	G-20	US	Japan	UK
Fiscal Stimulus, % of GDP*	1.5	2	2.4	2.5	3.5
Changes in public deficit/GDP, percentage points**	3.7	OECD 4.5	4.3	5.1	7.3

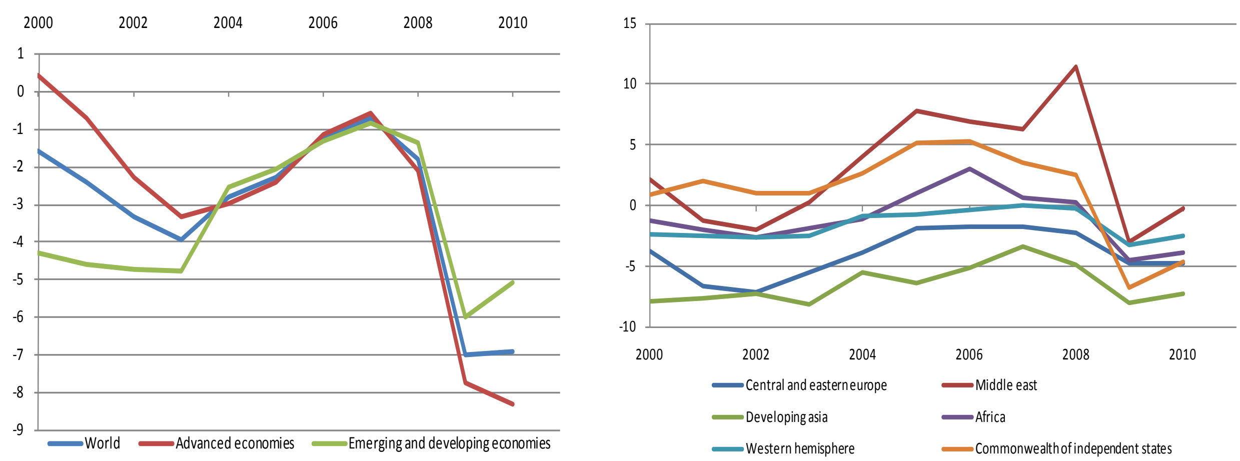
Sources: * World Bank (2009d); **Sinn (2009).

Preliminary data suggest that stimulus packages have been effective. The March 2010 data on employment in the US indicate that unemployment continues increasing but at a slower pace and that some employment recovery has taken place.[60] An important topic of debate is the long-run effect of fiscal stimuli on the soundness of public finances. Undoubtedly, government intervention has resulted in larger budget deficits and debt (Figure 10), threatening fiscal sustainability, i.e., the ability of a country to pay its debts, particularly in economies with little fiscal space. Sinn (2009) estimates that the percentage increases in budget deficits in the UK, OECD, and the Eurozone were 10.2, 4.5, and 3.7 respectively. Furthermore, a high level of domestic currency debt in developed countries, e.g., the US, could lead to higher inflation rates to reduce the real value of the debt. This would lead to higher interest rates on developing countries' external debt and stronger deterioration of their fiscal accounts, repeating the

[60] Bureau of Labor Statistics (2010).

"Volcker" increase in interest rates of the 1970s that led to the debt crisis in the developing world at that time.

Figure 10. Budget Balances, % of GDP



Source: IMF (2010a).

The Management of the Crisis vis-à-vis the 1997/1998 East Asian and Russian Crises.

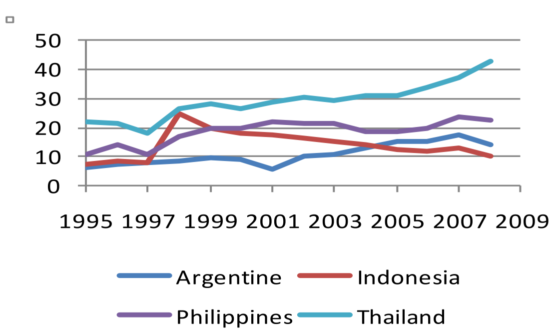
In contrast to the 1997/8 international financial crises, the origin of the Crisis was in an advanced country, i.e., the US, and contagion hit both developing countries and other advanced countries. The channels were financial markets as in the late 1990s but also private transfers (e.g., remittances) and trade in goods and services. In low-income countries contagion was primarily through the trade channel. Associated with a drop in global output and trade was a drop in commodity prices.

How does the management of the Crisis on emerging markets compare with that of the 1998 Russian financial crisis? This time around emerging markets were able to use monetary and countercyclical fiscal policy, which was not an option when the East Asian and the Russian crises hit. For example, during the Crisis international reserves financed much of the current account deficit in emerging markets. Also, in the large countries of LAC, lower liability dollarization permitted devaluations within the 30 to 35 percent range. Impact of inflation was apparently negligible given global deflation.

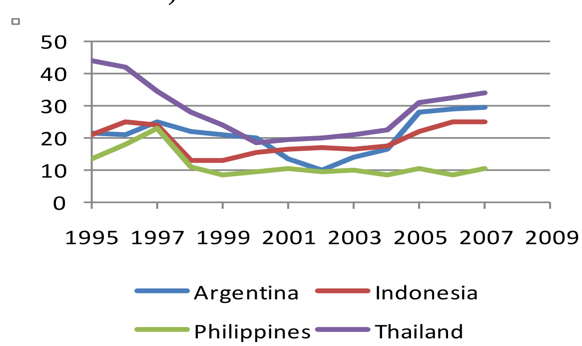
The combination of stronger fundamentals, continued access to international markets, and the US role as a lender of last resort allowed those types of official interventions. Stronger fundamentals were the result of the adequate management of the bonanza that preceded the Crisis and that led to surpluses in both the current account of the government and the balance of payments; lower total debt and foreign-currency denominated debt and short-term debt in total debt; and higher international reserves in both absolute values and as a back-up of short-term debt, lower ratios of short-term debt to total external debt (Figure 11), and in some countries accumulation of public savings.

Figure 11. International Reserves and Short-Term Debt

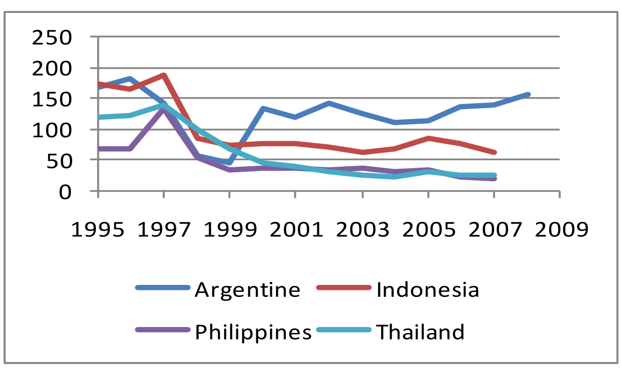
Total International Reserves (includes gold, % of GDP)



Short-Term Debt (% of total external debt)



Short Term Debt (% of international reserves)



Source: IMF (2010a)

Also, despite major disruptions in advanced-economy capital markets, capital inflows to emerging markets were sustained, although at a lower rate, and there were no major disruptions in short-term debt financing as in previous crises, e.g., Turkey's. Neither did any major disruption occur in the Central and Eastern Europe region where the Baltic economies showed weaknesses similar to pre-Russia 1998 emerging market vulnerabilities. The availability of multilateral resources for economies with good fundamentals, i.e., the IMF's FCL, gave the clear signal that the international community was ready to provide financial support to emerging markets facing liquidity problems. This context contrasted completely with that of the late 1990s, when international capital markets suddenly closed for emerging markets and there was no effective lender of last resort, leading in some cases to full-fledged financial crises (e.g., Argentina 2002). However, some emerging markets chose not to save the commodity bonanza. For example, Argentina and Venezuela are presently facing public sector financing problems, as international capital markets still remain closed for them. Multilateral support has also been identified as an important contributor to resilience in the large Latin American countries.[61]

III.2. Impact

Data to assess the impact of the Crisis are gradually emerging. Credit and output decelerated globally and fell in some countries (Figures 1 and 6). Consequently, oil and non-fuel commodity prices dropped 36.1 and 18.9 percent respectively in 2009. No country was untouched. But impact has not been uniform partly due to the initial conditions and the type of stimulus package implemented in each country. Economies with higher growth rates were hit

[61] Includes the seven major countries in the region, i.e., Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. IDB (2010).

harder.[62] This is consistent with the behavior of private credit and the capital flows/commodity boom-credit link described in Section I.I. In Latin America GDP growth turned negative with significant drops in Chile, Peru, and Mexico. In contrast, developing Asia, driven by China and India, sustained high positive albeit slower growth. Africa sustained positive growth, but this dropped significantly from 5.2 percent in 2008 to 1.9 in 2009. In advanced economies the annual growth rate fell 5.9 percentage points to – 3.2 percent in 2009. In the US, "one measure of bank's loans to small businesses dropped from more than $710 billion in the second quarter of 2008 to less than $670 billion in the first quarter of 2010.[63] Three factors appear to have contributed to this outcome, namely weaker demand for loans (partly due to a drop in the value of collaterals), deterioration in the financial conditions of small businesses, and limited credit availability.

As credit, commodity prices, and global output dropped, so did global trade and remittances.[64] Preliminary data indicate that the volume of world trade in goods and services and remittances dropped by 14.4 and 6 percent respectively in 2009. The drop in trade would have been almost twice as large had the cost of credit (reflected in interbank rates) remained at the high levels of September 2008.[65] Remittances in Africa fell by 4 to 8 percent, hitting countries such as Lesotho where accounts for 25 percent of GDP (Figure 7) and about 25 percent of the income of the poor, respectively.[66] In Moldova, with 2008 remittances at 40 percent of GDP, the

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[62] Mody (2010).
[63] Bernanke (2010).
[64] World Bank (2009e and d).
[65] Chor and Manova(2010).
[66] World Bank, Africa Region website.

drop was about 34 percent in the second quarter of 2009 compared to a year earlier.[67] FDI also suffered. Global FDI dropped 39 percent in 2009. All components, equity capital, reinvested earnings, and other capital flows, were affected. However, the decrease was especially marked for equity capital flows, which are most directly related to transnational long-term investment strategies. FDI in commodity sectors had been important in Africa in recent years. In 2008 this represented 29 % of capital formation.[68]

The impact on consumption has been far from negligible. For example, in Armenia about 43 percent of the surveyed households reduced food consumption, reduced or stopped buying medicines, and reduced or stopped visits to health services. In Turkey, where 91 percent of the poorest 20 percent of households lost income, 53 percent of surveyed households reduced food consumption, and about 21 percent reduced visits to health services. “Among the poorest households, 75 percent have reduced children’s food consumption, 29 percent reduced health care use and 14 percent cut back on education spending.” [69] These findings have heightened concerns about losing the health and education gains of the 1990s. Protecting human development gains is critical. Globally, about 72 million primary-school-age children and another 71 million adolescents remain out of school, and it is expected that 56 million primary-school-age children will continue be out of school in 2015. Illiteracy remains at 759 million people, two-thirds of them women.[70]

Drops in incomes have driven the changes in consumption patterns described above, making jobs (particularly in SMEs) a key economic shock/human development channel. Also,

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[67] World Bank (2009f)).
[68] UNCTAD (2010).
[69] Lewis and Verhoeven (2009).
[70] UNESCO (2010).

household actions related to human development typically are in the hands of women; hence, sustaining their well-being is imperative. Availability and quality of social services are also likely to suffer as a result of the Crisis. A discussion on jobs, women, and public expenditure follows.

2.1 Jobs

The impact of the credit crunch of the Crisis on jobs around the world has been significant, particularly in the export, construction, and manufacturing sectors. Developed and European Union (EU) countries and Eastern European (non-EU) and CIS countries had the largest increases in unemployment (Table 5). In Lithuania, for example, the annual unemployment rate increased close to 7 percentage points in the first quarter of 2009, reaching nearly 12 percent in 2009.[71] In India over 500,000 jobs in export-oriented sectors were lost in 2008:3.[72] The impact was also felt in the mining sector, with South Africa eliminating 40,000 jobs (amounting to 10 percent of the workforce in the sector) and Zambia eliminating 27 percent of total jobs in mining in 2008.[73] Lower US demand for Cambodian exports led some 48 factories to close there from September 2008 through May 2009.[74] About 30,000 jobs, amounting to about 10 percent of the labor force, were lost. This in turn had an impact on the rural sector, where about 1.5 million people depend on remittances from migrant workers—mostly women—in urban areas as their major source of income.

After four consecutive years of decline, the associated global unemployment rate increased from 5.7 percent in 2007 to 6.6 percent in 2009 (Table 5). Developed economies and

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[71] UNDP (2009).
[72] World Bank (2009g).
[73] Ndulo et. al (2009).
[74] World Bank (2009g).

the European Union saw an increase of 2.3 percentage points. In the US the increase was 4 percentage points, and in other advanced countries it hovered between 0.5 and 3 percentage points. During 2008-2009, the highest increases in unemployment rates among EU countries, about 7.5 percentage points, occurred in Ireland and Spain. In contrast, in Germany unemployment decreased half of a percentage point. Box 3 presents a good example of the behavior of firms from Eastern Europe with regard to sales, financing, and employment during 2008 and 2009.

Table 5. Regional Unemployment

Table A2. Unemployment rate by sex, world and regions (%)

Both sexes	1999	2000	2004	2005	2006	2007	2008	2009* CI Lower Bound	2009* Preliminary Estimate	2009* CI Upper Bound
World	6.4	6.2	6.4	6.3	6.0	5.7	5.8	6.3	6.6	6.9
Developed Economies and European Union	7.0	6.7	7.2	6.9	6.3	5.7	6.0	8.3	8.4	8.5
Central and South-Eastern Europe (non-EU) & CIS	12.4	10.6	9.7	9.4	9.0	8.3	8.3	10.0	10.3	10.6
East Asia	4.7	4.5	4.2	4.2	4.0	3.8	4.3	4.1	4.4	4.8
South-East Asia and the Pacific	5.1	5.0	6.4	6.5	6.1	5.4	5.3	5.4	5.6	5.9
South Asia	4.3	4.5	5.2	5.3	5.1	5.0	4.8	4.8	5.1	5.5
Latin America and the Caribbean	8.5	8.4	8.4	8.0	7.4	7.0	7.0	7.9	8.2	8.5
Middle East	9.3	9.5	9.3	10.0	9.5	9.3	9.2	8.8	9.4	10.0
North Africa	13.1	14.0	12.3	11.5	10.4	10.1	10.0	9.8	10.5	11.1
Sub-Saharan Africa	8.2	8.3	8.2	8.2	8.2	8.0	8.0	7.9	8.2	8.5

Source: ILO (2010, Table A2).

So far, output and unemployment have been affected differently across countries. While Ireland and Spain saw unemployment increase 7.5 percentage points, output dropped by more than 8 percent in Ireland but only by approximately 4 percent in Spain. Germany was able to decrease unemployment even though output dropped 7 percent (2009). Output declines, institutional differences, the characteristics of the Crisis (e.g., the construction sector collapse), and policy response differences (e.g., short-time work programs in Germany, Italy and Japan) explain this variety of responses.[75]

With respect to gender, male unemployment in developed economies rose faster in 2008 (1.1 percentage points for men versus 0.8 points for women). In South Asia, Latin America and the Caribbean, and the Middle East and North Africa, the female unemployment increased more than that for males.

[75] IMF (2010b).

Box 3. *The behavior of firms.*

Eastern Europe and Central Asia are the regions that were hardest hit. Unemployment there is expected to reach 10.3 percent in 2010 (Table 5). Surveys of firms from those regions provide good information about the impact of the Crisis on labor. Some background first: Capital inflows in the form of foreign bank resources to Eastern Europe increased five times during 2003-2004:3. This in turn led to a fast increase in domestic bank credit in both domestic and foreign currency. The Crisis brought a sudden credit crunch, leaving domestic firms and households highly indebted, many of them with debt denominated in foreign currency. The threat of major devaluations and output collapses in these countries and of major financing troubles in the banking system of the countries that provided the loans (e.g. Norway, Sweden, and Austria), led the world to provide financing resources to avert a full-fledged crisis. Nevertheless, the impact of the sudden deceleration and drop in credit was felt in the real sector. Table 6 shows the impact of the Crisis on firms in some of these countries.

The behavior of firms was not uniform across countries. In Bulgaria both permanent and temporary employment dropped. In Hungary temporary workers suffered, whereas in Latvia the increase in temporary workers was at the expense of permanent workers. Clearly, sales in the export and the construction sectors dropped, but they increased in sectors producing goods for the domestic market such as food and textiles. This is consistent with the framework of analysis described in Section II.1. Firms delayed payments to financial institutions and increased used of non-bank financing for working capital, and workers, particularly those hired for temporary tasks, lost their jobs. Debt increased, making firms vulnerable to roll-over and foreign-exchange risk. Full-time employment of skill-intensive enterprises dropped in all countries except Hungary.

Table 6.Firm Survey Results. Central and Eastern Europe

	Sales of goods domestically demanded,% change	Sales of exportables and construction, % change	Overdue on obligations, % of firms*	Non-bank financing, % of firms**		Corporate sector debt., % of total debt		Employment , % change	
				2008	July 2009	Short-term debt***	Foreign currency debt	Permanent employment	Temporary employment
Bulgaria	21	35	23	52	84	49	21	- 4.6	- 6.8
Hungary	11	25	66	26	51	69	35	1.2	- 5.3
Latvia	33	48	63	50	73	49	39	- 18	54.9
Lithuania	18	47	48	40	51	80	21	0.0	23.8
Romania	14	36	9	58	65	57	31	2.6	- 13.5

Source: Correa and Iotty (2010). *Percent of firms overdue on obligations to financial institutions in total firms that have restructured their outstanding liabilities in the last 12 months. **Percent of firms that use internal funds or retained earnings to finance 100 percent of working capital. *** Debt with maturity of less than a year in total debt.

Measures to mitigate the impact of the Crisis on jobs were implemented around the world. The UK, Australia, and Chile provided hiring subsidies. Germany reduced working hours to prevent layoffs. The US, Brazil, and OECD countries extended unemployment benefits. Mexico, for example, has in place the Job Training Program for Unemployed Workers (PROBECAT) which has proven effective in providing private (as opposed to public) on-the job training and targets the unemployed and displaced workers with income support and placement services.[76]

2.2 Women

Women are particularly vulnerable to economic shocks, and addressing this is critical for human development. A key factor in human development is women's role as child caretakers. Women are typically responsible for feeding children and facilitating access to health and education. Also, the health of newborn children—critical for cognitive development—is directly related to their mothers' health. Iodine deficiency and anemia during pregnancy as well as absence of skilled health personnel during delivery could leave children facing lifetime disadvantages.[77] A drop in household income implies lower consumption for the whole family, poorer health, and less education.

Of the 3 billion employed around the world in 2008, 1.2 billion were women (40.4 percent). Female unemployment is likely to be impacted by the Crisis as well as men's, as discussed. But aggregate figures do not provide the whole picture. Women's employment in export-oriented industries has increased significantly in recent decades. In Uganda, for example, the cut flower industry employs a workforce that is 85 percent female. In Kenya, where cut flowers are the second largest agricultural export, 70 percent of workers are women. Women are also well represented in the textile export sectors in Kenya, Lesotho, and Thailand.[78] As global trade has decelerated, layoffs involving women in the export sectors have been significant.[79] Self-employed women in the Indian garment sector have seen their monthly earnings fall by 50

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[76] World Bank (2009a).
[77] UNESCO (2010).
[78] World Bank (2009f).
[79] ILO (2010).

percent and days of work reduced by 69 percent since November 2008. The reduction of remittances in Vietnam as a consequence of the Crisis has made women migrant workers poorer. To cope with the crisis, many Vietnamese women have moved to the informal sectors, others are relying on community-based assistance.[80]

An increase in domestic violence toward women as a result of poorer economic conditions has also been identified in past. The increased vulnerability of women's well-being due to the Crisis makes it imperative to continue addressing its short-term impact, i.e., reducing unemployment due to a credit crunch and aiming at sustaining jobs for both men and women while strengthening social protection programs.

2.3 Public spending

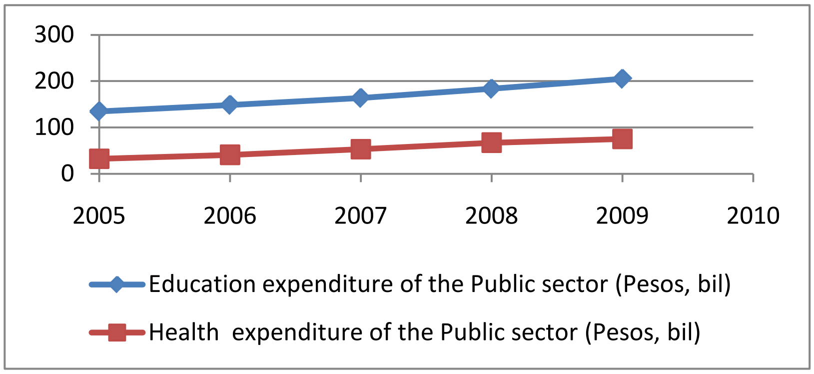
The impact of the Crisis on public spending in the social sectors has been mixed.[81] In some countries, in contrast with the crisis experiences of the 1990s, social spending did not change, e.g., Brazil, Chile, and Peru. In others it increased. Mexico, which was hard hit by the Crisis, increased funding for education by about 10 percent (Figure 13). Social spending increases took place even in economies with significant drops in output in 2008-9, e.g., Romania, Latvia, and Lithuania. In fact, the Crisis has facilitated the introduction of reforms in Latvia, and Romania introduced reforms aimed at improving the efficiency of education and health spending that proved difficult to implement. In Armenia there have been cuts in education spending, too, amounting to 11 percent for the lowest income households. The Ukraine increased minimum wages and public sector employment. However, this could be an expensive intervention with limited impact on the poor—public employees typically are not among the poor group—and,

[80] Nguanbanchong (2010).
[81] Lewis and Verhoeven (2010).

once implemented, increased minimum wages and public sector employment are virtually impossible to reverse, leaving an inflexible wage bill in the government budget.

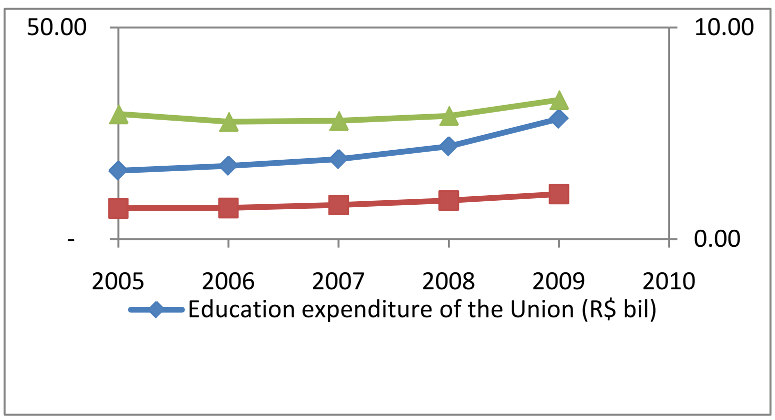
Figure 13. Education and Health Social Expenditures, 2005-2009

Mexico



Source: Secretaría de Hacienda y Crédito Público, Mexico

Brazil



Source: Ministerio de Fazenda, Brazil. Union: Federal Government

In light of the global nature of the Crisis, in all low-income countries there have been concerns about lower donor funding. This has increased significantly in recent years, making social sectors highly dependent on this type of resource. For example, in Rwanda donor funding represents about 50 percent of the total government budget for the health sector and nearly 100 percent of the total public health budget.[82] However, new estimates indicate that there has been

[82] World Bank (2009b).

continued growth in development aid in 2009.[83] More specifically, total net official development assistance (ODA) from donors in the OECD's Development Assistance Committee rose 0.7 percent in real terms or 6.8 percent once debt relief is excluded. Significant increases came from Denmark, Sweden, and the United States. The increase from the US was 5.4 percent in real terms over 2008. Most countries have maintained their commitments for 2010; others, including some large donors, have reduced or postponed the pledges they made for 2010, confirming expectations. However, the IMF (2010) reports countries with Poverty Reduction Strategy Papers are expected to maintain social expenditures.

A key challenge for donor grants is to increase the speed of disbursement. For example, the Global Fund disburses quickly once allocations are decided, but spending in the target country is slow. About half of the allocation of Global Fund resources for HIV/AIDS remains undisbursed. This is particularly acute in Sub-Saharan Africa, where disbursement has only been about 45 per cent. For example, Global Fund funding for HIV/AIDS increased during 2008-2009, but a large share of that remains undisbursed. This is also a concern about government spending.

IV. Prospects

Preliminary projections are staggering. The Crisis--compounded by a lingering food crisis that started in the mid-2000s--could bring hunger to an additional 100 million people, increasing the overall number of undernourished to over one billion.[84] People in extreme poverty could reach 114 million by the end of 2011 (relative to a non-crisis scenario) and there

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[83] OECD (2010).
[84] FAO (2009).

could be up to 3050 additional infant deaths in 2009 in S-Saharan countries.[85] The number of unemployed women could increase by 22 million in 2009, increasing the global unemployment rate for women to 7.4 per cent.[86] While rescue packages have stopped the Crisis from deepening, incomes will continue suffer where labor demand remains low and governments, firms, and individuals remain highly indebted and credit constrained. Consumption forecasts augur difficult times particularly for economies in recent years enjoyed high levels of consumption as capital flow in and/or commodity prices increased and were poorly prepared to cope with a shock, e.g., the Central and Eastern European countries (Table 7).

Table 7. Consumption Growth % (2010 and 2011 are forecasts)

	Hungary	Bulgaria	Croatia	Estonia	Latvia	Lithuania
2007	- 1.6	5.1	6.2	9.1	14.8	12
2008	- 0.6	4.5	0.8	-4.8	-5.5	3.6
2009	- 6.7	- 6.2	- 8.0	-17.4	- 22.4	- 17.0
2010	**- 1.9**	**0.1**	**- 0.5**	**-3.8**	**- 7.5**	**- 5.0**
2011	**1.6**	**1.9**	**2.6**	**2.2**	**1.6**	**2.1**

Source: Consensus Forecasts (March 2010)

Recovery has started, and growth prospects in most countries are positive. Global output is expected to rise by about 4 percent in 2010 (Annex 1), largely driven by emerging Asia. In the US there is evidence of stronger consumption that may help normalize global trade, FDI, and remittances. But dark clouds are still lingering. In some countries (e.g., China) this recovery appears to be driven by a buildup of inventories and hence may not be sustainable. In the trade area, while faster growth in rich countries may lead to higher demand for developing-country

[85] World Bank (2009) and Friedman and Schady (2009), respectively.
[86] ILO (2010).

exports, implicit protectionism imbedded in stimulus packages promoting consumption of domestically-produced goods may have a negative impact. Protectionism also appears to be increasing in developing countries (e.g., Indonesia, Argentina, Brazil, and Russia).[87] In selected emerging markets (e.g., Brazil and Colombia) inflows of capital have resumed, appreciating the currencies and discouraging export production.[88] In the financial sector there are indications that banks remain reluctant to lend and more financial regulation is on the adjustment agenda. Banks continue to tighten standards for loans to small businesses, while standards for large companies remain unchanged.[89]

Macroeconomic policy decisions will also impact employment. In light of expansionary packages, inflation may pick up and interest rates may go up, putting deceleration pressures on economic activity. Fiscal accounts may deteriorate (partly as a result of rescue packages), threatening the ability of governments to pay their debts and to maintain their credibility. These uncertainties and past crises experiences augur stubborn global unemployment. It may take time for new employment opportunities to emerge.[90]

Commodity prices. Over the medium term, real commodity prices are expected to remain stable at 2010 levels--still higher than mid-2000 levels and closer to the behavior of the 1970s (Figure 14).[91] As all, growth developments, the macroeconomy (reflected in volatile exchange rates and interest rates), financial-investor appetite in commodity markets, and the use

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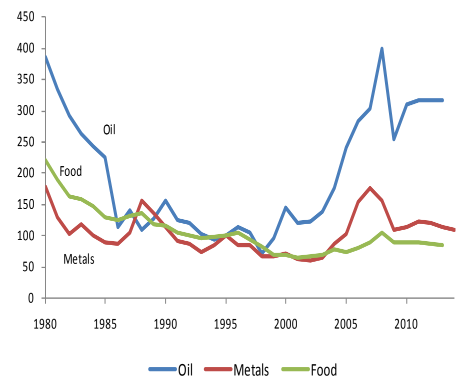
[87] Taylor and Wilson (2009).
[88] Kiguel and Levy-Yeyati (2009).
[89] However, fast recovery may take place without an associated bank credit increase as firms resort to informal credit markets and/or postpone investment plans as happened in emerging markets in the late 1990s (Calvo and Loo-Kung (2010)) .
[90] IMF (2010b).
[91] World Bank (2010).

of agriculture products as an alternative fuel source remain volatile; upward and downward pressures on commodity prices are expected to balance out This situation that contrasts with that of the 1970s when markets were less volatile calls for continually addressing regulation on financial commodity markets.

Whether or not agriculture production, consumption, and trade increase in developing countries and produce more food for the world's poor, access to food remains the most immediate concern. In comparison with the 1970s, inventories are more adequate to respond to demand. For example, "the wheat stocks-to-use ratio in major exporting countries has risen from 12 percent in 2007/8 to 20 percent this season. On the demand side, biofuels remain a leading driver, but the year-on-year growth has slowed down compared with the past few years. In the United States, the largest user of grains for biofuel production, the use of maize for ethanol has grown by 14 percent this season, down from 40 percent in the run-up of the high price period"(FAO (2010)).

Figure 12. Commodity Prices



Source: IMF (2010)

The response to the food and fuel crisis in the mid-2000s largely comprised general subsidies in some countries and increasing taxes to contain its impact on domestic prices in others. Out of 146 countries surveyed by the IMF, only 39 expanded targeted safety nets, partly because not all countries (largely low-income) have safety nets in place and partly for political reasons.[92] Unfortunately, temporary price distortions have long-term effects and typically have

[92] World Bank (2008).

turned out to be permanent. For example, export taxes and other price controls in the short term redistribute income away from producers (rural producers in the case of commodity producers) to richer consumers and in the medium term discourage investment (e.g., Argentina's export tax on commodity exports). Also, public stockpiles have proven costly and difficult to manage.

Slow employment recovery calls for sustained actions aimed at preventing job layoffs as well as promoting employment. It also calls for the strengthening of social protection programs, for example, through direct cash transfers that aim at smoothing out consumption and thus preventing human development deterioration among the working poor. Effective safety nets with a nutrition-driven component remain the first choice. Identifying those most vulnerable to the food crisis is urgent. The food crisis of the mid-2000s has affected both consumers and producers. For the poor in developing countries it was a negative shock, given the significant share of these commodities in their budgets. A key policy issue is to identify who are the gainers and who are the losers in the event of high commodity prices. This in turn depends on the degree of transmission of international prices into domestic prices.[93]

V. Lessons and Challenges

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[93] De Janvry and Sadoulet (2009) in a welfare exercise for Guatemala stated that there was no statistically significant transmission of international into domestic prices. Most real staple food prices rose but not significantly, as usually assumed, yielding small welfare effects. However, given high food consumption share in farmer households, farmers of all sizes lost out from the rise in prices. Only if international prices had fully transmitted would half of the large farmers have gained, with the vast majority of small and medium farmers losing out. "Allowing for price responses in both production and consumption mitigates negative effects, but still leaves a vast majority of the farmer population losing." This study suggests that social protection should target both the rural and urban poor, contrary to the belief that the most affected group is the latter.

The global financial crisis that unfolded in 2008 is the most severe global financial crisis since the Great Depression. At the heart of this crisis has been a sudden credit crunch leading to a drop in global output, trade, remittances, tourism, and other sources of employment and incomes. Domestic liquidity injections and countercyclical policies and financial resources from rich countries and international financial institutions to developing countries all contributed to keeping economies going by protecting financial sector payment systems. True, still many firms closed, millions remain out of work, and effective financial intermediation—key for the effective functioning of economies--remains impaired. Gains in the reduction of poverty from the last decade may be lost particularly in low-income countries and in this scenario the threat of social unrest is real. But, in contrast with past crises (including the Great Depression), these official interventions stopped the hemorrhaging virtually everywhere, preventing the crisis from deepening. Economies with fiscal space implemented stimulus packages including additional resources for the social sectors. Those with social protection programs in place were able to increase coverage.[94] All these actions suggest that the lessons from the Great Depression and recent financial crises in emerging markets were learned! It is, nonetheless, too soon to assess the impact of those measures on the most vulnerable.

The key short-term challenges policymakers face today include:

- *sustaining protection of the vulnerable population* while ensuring the "new" poor—those who before the crisis the bonanza lifted out of poverty-- are also reached;
- *increasing the absorptive capacity of public spending* particularly in developing countries where it remains very low*;*

[94] E.g., Mexico's Progresa; the Philippines's Pantawid Pamilyang Pilipino Program; and Cambodia's cash-and food for work.

- *restoring confidence in financial systems* that aim to sustain fully-functioning credit channels and thus protect employment. In this regard, making credit accessible to sound small business remains a priority ;
- *addressing inflationary pressures* as a consequence of increased liquidity that could depreciate incomes further;
- *maintaining an open international trade system both advanced and developing* countries. This should contribute sustain jobs particularly for women in developing countries. In emerging markets trade openness have proven to help buffer the impact of sudden stops in capital inflows;
- *effectively implementing an exit strategy from fiscal stimuli* to ensure sustained employment while preventing stimuli from being perceived and becoming permanent. In the current situation of vulnerable financial systems, depleting international reserves as fiscal stimuli are withdrawn will leave the economy vulnerable to future liquidity shocks;

As discussed in this paper, jobs and effective social spending is the key to preventing the loss of the social gains of the 1990s and for the resumption of progress. The 2008-10 crisis has shown that shock preparedness pays. In this regard, to buffer the impact of financial crises on human development the following lessons have been learned:

- *to lessen economic adjustment when external financing becomes scarce, keep high international reserves and reserve and liquidity requirements to lower vulnerability to debt-rollover and currency risk.* Sound financial systems are no guarantee of output-collapse immunization. External factors matter and cross-border contagion may strike any time.

- *to avoid potentially regressive palliative measures during a crisis, build stronger regulatory and supervisory structures for the financial system and comprehensive insurance mechanisms during economic stability. Politically*, it may not be easy to implement such measures and to achieve more equitable outcomes *once* the crisis hits. This applies likewise to ex-ante insurance design—whether for depositors, bankruptcy, or unemployment. Beyond equity considerations, crisis may not be the most appropriate time to implement constraints, e.g., higher bank loan provisions, in an already credit-constrained financial sector. Putting bounds on financial regulation has typically turned difficult. Wall Street is already searching for ways to bypass new regulations.[95] Controls on capital inflows do not guarantee containment of capital outflows. Financial stocks already in the economy are as vulnerable to reversals as new capital inflows, which highlights the need to maintain a stable macroeconomic and social environment;
- *to allow firms to adjust fast, have in place an effective bankruptcy regulatory framework.* Credit alone is not likely to speed up job and output recovery. Flexible labor markets are also needed. This however has proven difficult to achieve in the developing world, largely due to political economy considerations.
- *to provide immediate social protection, have in place an efficient system of public sector delivery.*

[95] Financial Times, April 13, 2010.

When the crisis unfolds,

- *maintain a well-functioning payment system in the financial sector during economic crisis to the extent that credit matters for output and employment.* Credit is needed to keep the economy going and to prevent massive individual and firm bankruptcies, particularly in labor-intensive sectors, e.g., SMEs and microfirms. In this regard efficient public banks may have an important role as financial intermediaries.
- *rebalance the use of public resources to prevent human development losses. In this regard Chile's behavior has been exemplary: Chile's bonanza of 2003/*8 was saved despite strong pressures (including street protests) not to do so. Today Chile is financially and institutionally ready to address the Crisis as well as the recent massive earthquake it suffered. Prioritizing expenditures becomes more important during economic crises; however, changing allocations may prove difficult and calls for efforts to be directed toward encouraging private-public partnerships. An additional challenge is to improve the ability of central and local governments from low-income countries to disburse available resources. This calls for more involvement of local communities in joint programs with governments;
- *expand existing schemes to protect the most vulnerable.* Collecting data takes time; hence social programs created in the middle of a crisis are likely to be ineffective. The short-term challenge in the social sectors is twofold: to improve protection programs and to increase coverage effectively. The challenge is to identify the right

time to phase out shorter-hours work programs, for example, as well as to achieve well-designed, targeted, a*nd* enforced programs.

Finally, the Crisis showed that advanced economies are not very different from emerging markets when it comes to financial crises. Furthermore, it has highlighted the importance of having a lender of last resort and fast international coordination to prevent crises from deepening. Proposals to ensure that this occurs include having in place a body with global central bank functions when a shock hits.[96] This could lessen the need to hold international reserves to avert crises, freeing them to address social needs.[97]

[96] Calvo (2009a) and Kapur and Subramanian (2009)).
[97] Stiglitz (2010).

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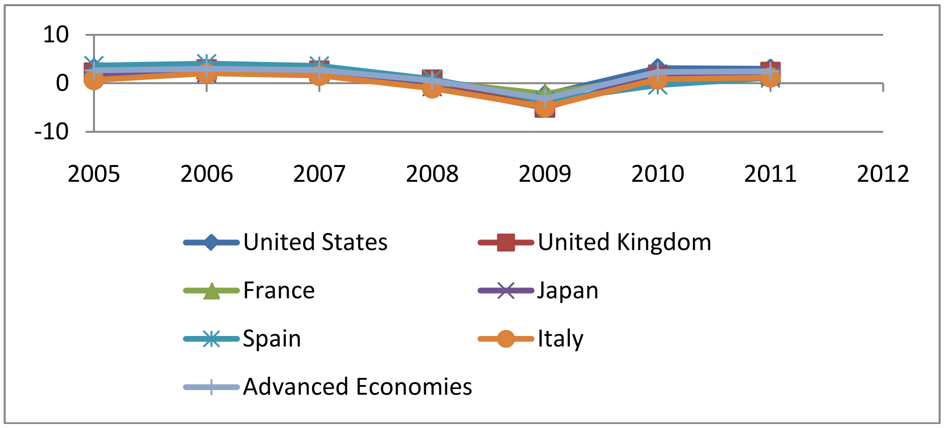
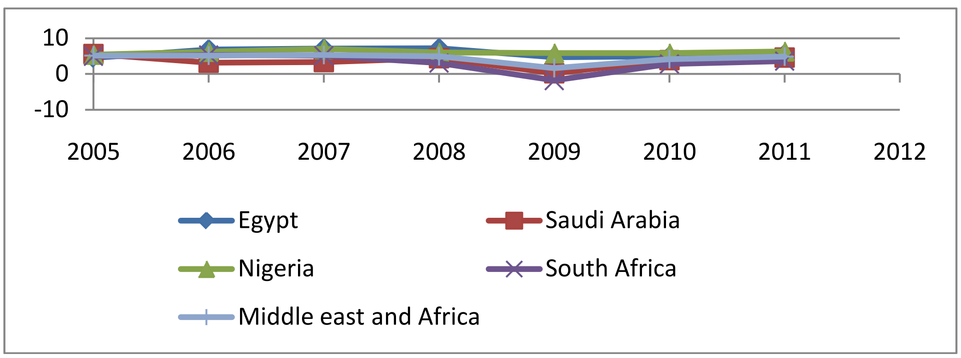
Annex. Actual and Projected Real Growth Rates, %

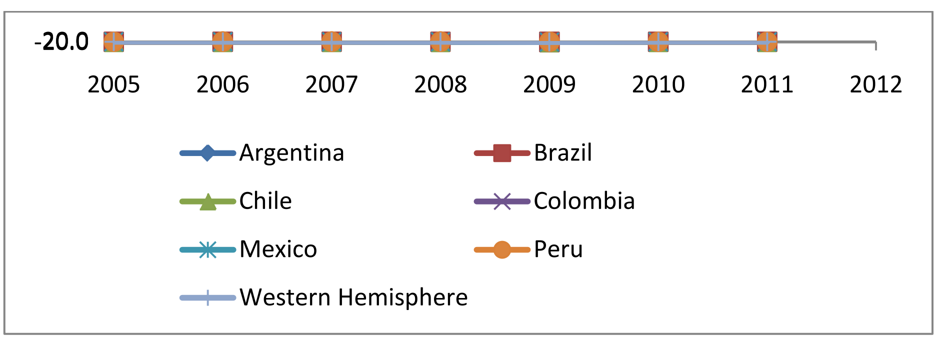
Selected Advanced Countries



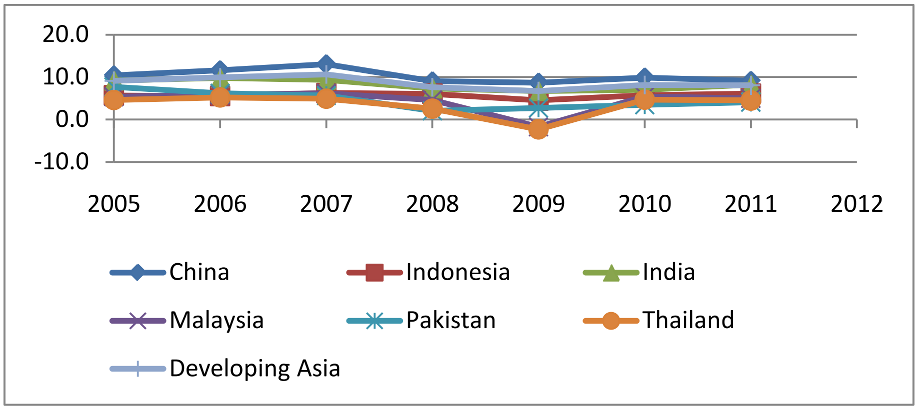
Selected Middle East and Africa Countries



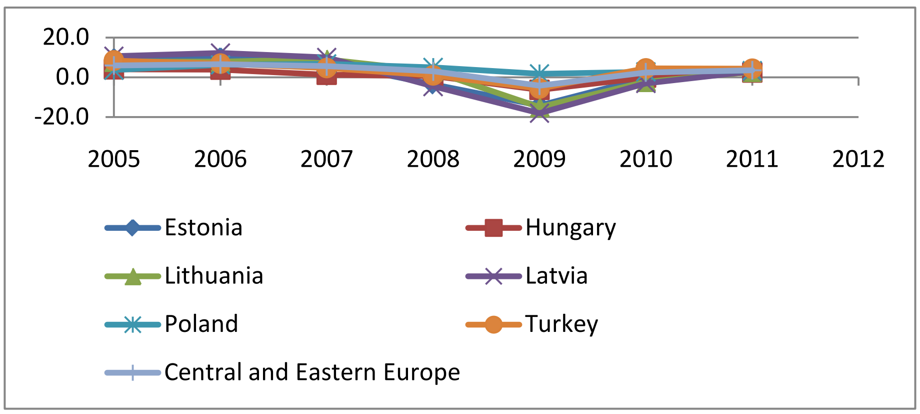
Selected Western Hemisphere Countries



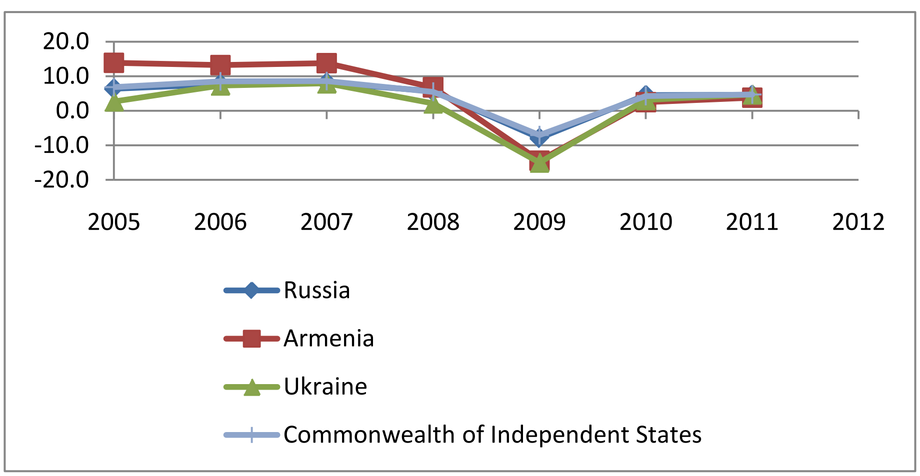
Seleted Developing Asia Countries



Selected Central and Eastern Europe



Selected Commonweath of Independent States



Annex's Graphs Data

Source: Consensus Forecast, various issues, 2010 March

WESTERN HEMISPHERE (LATIN AMERICA)								
Country	**ISO**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Argentina	ARG	9.2	8.5	8.7	6.8	-2.8	3.8	2.4
Bolivia	BOL	4.4	4.8	4.6	6.1	3.3	3.6	4.1
Brazil	BRA	3.2	4.0	5.7	5.1	-0.2	5.5	4.4
Chile	CHL	5.6	4.6	4.7	3.2	-1.7	4.6	5.3
Colombia	COL	5.7	6.9	7.5	2.5	0.1	2.8	3.7
Costa Rica	CRI	5.9	8.8	7.8	2.6	-1.5	3.1	3.9
Dominican Republic	DOM	9.3	10.7	8.5	5.3	2.5	3.1	4.1
Ecuador	ECU	6.0	3.9	2.5	6.5	-0.8	2.2	2.6
Guatemala	GTM	3.3	5.4	6.3	4.0	0.6	1.9	2.7
Honduras	HND	6.1	6.7	6.3	4.0	-2.1	2.1	2.9
Mexico	MEX	3.2	5.1	3.3	1.3	-6.5	4.0	3.5
Nicaragua	NIC	4.4	3.9	3.2	3.2	-2.4	1.6	2.3
Panama	PAN	7.2	8.5	11.5	9.2	2.4	4.0	5.5
Peru	PER	6.8	7.7	8.9	9.8	0.9	4.9	4.8
Paraguay	PRY	2.9	4.3	6.8	5.8	-3.4	3.2	3.9
El Salvador	SLV	3.1	4.2	4.7	2.5	-3.1	1.7	2.4
Uruguay	URY	6.8	4.6	7.6	8.9	1.9	3.9	3.8
Venezuela	VEN	10.3	10.3	8.4	4.8	-3.3	-2.1	1.5
Simple average		5.7	6.3	6.5	5.1	-0.9	3.0	3.5

DEVELOPING ASIA								
Country	**ISO**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Bangladesh	BGD	6.3	6.5	6.3	6.0	5.4	5.8	6.2
China	CHN	10.4	11.6	13.0	9.0	8.7	9.9	9.1
Indonesia	IDN	5.7	5.5	6.3	6.1	4.5	5.7	6.1
India	IND	9.2	9.8	9.4	7.3	6.7	7.0	8.2
Sri Lanka	LKA	6.2	7.7	6.8	6.0	3.4	6.2	6.5
Malaysia	MYS	5.3	5.8	6.2	4.6	-1.7	5.4	5.0
Pakistan	PAK	7.7	6.1	5.6	2.0	2.7	3.5	4.1
Philippines	PHL	5.0	5.3	7.1	3.8	0.9	4.0	4.5
Thailand	THA	4.6	5.2	4.9	2.6	-2.3	4.7	4.5
Vietnam	VNM	8.4	8.2	8.5	6.2	5.3	6.5	6.7
Simple average		6.9	7.2	7.4	5.4	3.4	5.9	6.1

CENTRAL AND EASTERN EUROPE								
Country	**ISO**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Albania	ALB	5.8	5.5	6.3	6.8	4.2	3.5	4.6
Bulgaria	BGR	6.2	6.3	6.2	6.0	-5.0	0.1	2.6
Bosnia and Herzegovina	BIH	3.9	6.9	6.8	5.5	-3.4	1.3	3.1
Estonia	EST	9.4	10.0	7.2	-3.6	-14.1	-0.4	3.5
Croatia	HRV	4.2	4.7	5.5	2.4	-5.8	-0.2	2.4
Hungary	HUN	4.0	3.9	1.2	0.6	-6.3	-0.2	2.4
Lithuania	LTU	7.8	7.8	8.9	3.0	-15.0	-2.3	2.7
Latvia	LVA	10.6	12.2	10.0	-4.6	-18.0	-3.0	3.0
Macedonia, Former Yugoslav Republic of	MKD	4.1	4.0	5.9	4.9	-1.8	1.7	3.1
Poland	POL	3.6	6.2	6.8	4.9	1.7	2.7	3.4
Romania	ROM	4.1	7.9	6.2	7.1	-7.1	1.1	3.1
Serbia	SRB	5.6	5.2	6.9	5.4	-2.9	1.3	3.3
Turkey	TUR	8.4	6.9	4.7	0.9	-5.6	4.5	4.3
Simple average		6.0	6.7	6.3	3.0	-6.1	0.8	3.2

COMMONWEALTH OF INDEPENDENT STATES								
Country	**ISO**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Armenia	ARM	13.9	13.2	13.7	6.8	-14.4	2.5	3.8
Azerbaijan	AZE	24.3	30.6	23.4	11.6	9.3	8.1	8.5
Belarus	BLR	9.4	10.0	8.6	10.0	0.2	1.6	2.7
Georgia	GEO	9.6	9.4	12.3	2.1	-6.7	2.1	3.6
Kazakhstan	KAZ	9.7	10.7	8.9	3.2	1.0	2.7	4.5
Moldova	MDA	7.5	4.8	3.0	7.2	-7.7	2.0	3.5
Russia	RUS	6.4	7.7	8.1	5.6	-7.9	4.5	4.6
Turkmenistan	TKM	13.0	11.4	11.6	10.5	6.1	9.5	7.8
Ukraine	UKR	2.7	7.3	7.9	2.1	-15.0	3.1	4.7
Uzbekistan	UZB	7.0	7.3	9.5	9.0	8.1	7.3	7.5
Simple average		10.4	11.2	10.7	6.8	-2.7	4.3	5.1

ADVANCED ECONOMIES								
Country	**ISO**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Australia	AUS	2.759	2.84	4.049	2.354	1.3	3.1	3.4
Austria	AUT	2.46	3.46	3.547	2.048	-3.5	1.3	1.7
Belgium	BEL	2.17	3.015	2.599	0.969	-3	1.2	1.8
Canada	CAN	3.019	2.854	2.531	0.414	-2.6	2.9	3.2
Switzerland	CHE	2.641	3.63	3.605	1.78	-1.5	1.5	1.8
Cyprus	CYP	3.949	4.142	4.444	3.57	-1.5	1	2.4
Czech Republic	CZE	6.316	6.808	6.131	2.697	-4.2	1.5	2.7
Germany	DEU	0.732	3.176	2.516	1.248	-5	1.7	1.6
Denmark	DNK	2.445	3.344	1.647	-1.202	-5.1	1.2	1.9
Spain	ESP	3.615	4.017	3.565	0.856	-3.6	-0.4	1.1
Finland	FIN	2.768	4.923	4.203	1.041	-7.8	1.1	2.1
France	FRA	1.941	2.416	2.26	0.323	-2.2	1.4	1.6
United Kingdom	GBR	2.173	2.853	2.559	0.742	-5	1.4	2.3
Greece	GRC	2.898	4.497	4.036	2.933	-1.9	-1.3	0.3
Hong Kong SAR	HKG	7.082	7.02	6.38	2.365	-2.7	4.9	4.5
Ireland	IRL	6.175	5.356	6.024	-3.036	-7.3	-1.2	2
Israel	ISR	5.1	5.283	5.203	4	0.1	3.3	3.9
Italy	ITA	0.656	2.036	1.564	-1.04	-4.9	0.8	1.2
Japan	JPN	1.934	2.039	2.337	-0.705	-5.1	1.9	1.6
Korea	KOR	3.957	5.179	5.106	2.224	0.2	4.9	4.3
Netherlands	NLD	2.047	3.394	3.613	1.996	-4	1.3	1.6
Norway	NOR	2.739	2.281	3.134	2.132	-1.4	2.4	2.6
New Zealand	NZL	2.813	1.954	3.193	0.194	-1.4	2.8	3.2
Portugal	PRT	0.91	1.368	1.872	-0.045	-2.8	0.6	1.2
Singapore	SGP	7.307	8.352	7.766	1.149	-2	6.2	5.2
Slovak Republic	SVK	6.546	8.496	10.423	6.391	-4.7	2.7	3.4
Slovenia	SVN	4.349	5.903	6.765	3.541	-7.8	1	2.4
Sweden	SWE	3.298	4.246	2.56	-0.155	-4.7	2.1	2.6
Taiwan Province of China	TWN	4.161	4.799	5.703	0.058	-1.9	5	4.5
United States	USA	3.054	2.673	2.141	0.439	-2.4	3.1	3
Simple average		3.400466667	4.078466667	4.0492	1.309366667	-3.28	1.98	2.503333333

MIDDLE EAST AND AFRICA								
Country	**ISO**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Egypt	EGY	4.472	6.844	7.088	7.171	4.7	4.9	5.5
Saudi Arabia	SAU	5.553	3.158	3.314	4.448	0.2	3.9	4.6
Nigeria	NGA	5.393	6.211	6.972	5.984	5.8	5.8	6.3
South Africa	ZAF	4.965	5.321	5.098	3.062	-1.8	2.8	3.6