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Redirecting Focus - Supplication for the Poor

"While much of the world is focused on bank rescues and stimulus packages, we should not forget that poor people in developing countries are far more exposed if their economies falter,"

~ Robert Zoelick, President-World Bank

Macroeconomic fundamentals of many of the small, open and highly susceptible countries are, indeed feeling the pinch of the deteriorating financial and economic conditions of the developed world, providing further evidence for the refutation of the decoupling concept. And it is becoming increasingly apparent that the current state of the global economy will soon become a human crisis also, as the global economy crumbles around us and millions of people are plunged into joblessness. It threatens to reverse much of the recent accomplishments made in the fight against human poverty in under-developed countries.

In response to the global financial crisis, many countries are feverishly trying to contain the impact, and to prevent a complete collapse of their economies. The US recently announced a USD787 billion economic stimulus package and further spending hikes and tax cuts are being considered to help keep afloat the sinking economy and to safeguard employment, which has already fallen off significantly since the start of the crisis. Japan's lower house of parliament approved a bill that would free up about USD50 billion for the same purpose. Australia's USD28 billion stimulus package, designed to stoke consumer spending and build schools, roads and hospitals, was passed by its Senate on 13 February 2009. Even the world's fastest growing emerging market, China is now considering new stimulus measures, adding to the USD585 billion spending plan as the government attempts to shield the world's third largest economy.

While many of the developed countries possess an arsenal of resources to at least limit the extent of the economic and social fall-out from the crisis, the ominous burden is on the small, under-developed, poor economies. These are the countries that won't necessarily have the resources to provide any kind of safety nets for the impoverished in society. In a study done by the UN Educational, Scientific and Cultural Organization (UNESCO), the world's poorest countries are unable to insulate their citizens from the crisis, with an estimated 43 out of 48 countries incapable of providing a pro-poor government stimulus. {Pro-poor growth is a term used for primarily national policies to stimulate economic growth for the benefit of poor people (primarily in the economic sense of poverty)}.

Numerous countries are heavily dependent on external forces and their primary sources of foreign exchange earnings come from the developed countries, which are all in the midst of a deep economic slump. A great deal of foreign exchange flows are therefore expected to dry up, whether it is through trade, remittances, tourism or foreign direct investment or portfolio flows. The impact upon these poor and vulnerable nations is calamitous – with unemployment in these countries already at unacceptably high levels, the crisis has the potential to force many more into unemployment. According to the World Bank, about 53 million people in developing countries will remain poor because of the world economic slowdown, and that 40% of the world's 107 developing countries are 'highly exposed' to the global crisis. The current economic crisis will add insult to injury, since according to the World Bank; the food and fuel increases in 2008 pushed another 130-150 million poor people into poverty.

Another concern will be the impact of the crisis upon the Millennium Development Goals (MDG's), which are the internationally agreed targets to eradicate poverty and reduce child mortality, among other human development objectives by 2015. The current state of the global economy may delay the progress towards the achievement of these goals, as the financial crisis and 'fixing' the problem would now command the resources which would have alternatively be directed towards the MDG's.

The effects of the ongoing turmoil in the international financial market and expectations for the global economic growth rate to fall to its lowest rate since World War II (IMF projects 0.5%) are indeed extensive. The Group of Seven (G7) finance ministers are expected to meet soon to discuss measures to restore confidence to the global financial system. The World Bank President will be in attendance. He has thus far urged developed countries to earmark 0.7% of their economic stimulus packages for a special Vulnerability Fund for developing countries, which will fund safety net programs for the poor, ensuring that investments in vital infrastructure proceed and support small enterprises and banks. The World Bank's private finance arm, the International Finance Corporation (IFC), wants to invest USD3bn in recapitalizing distressed banks, and, along with Germany, has just pledged USD500m to support micro-finance institutions which lend to the very poor.

Increased foreign aid will become crucial to help reduce fiscal pressure but aid development assistance budgets are coming under increased pressure. The European Union's aid commitment to provide 0.56% of GDP in aid by 2010 is rapidly losing value with lower growth projections. UNESCO estimates that the real financial value of the commitment in 2010 will be USD4.6 billion lower. The report also estimates that USD7 billion will be needed in increased aid for low income countries to meet key educational goals. The expected drop in aid will undoubtedly have a significant adverse impact upon the level of social spending in many countries that need it for their very existence.

Estimates for this year suggest that lower economic growth rates will trap 46 million more people on less than USD1.25 a day than was expected prior to the crisis. An extra 53 million will stay trapped on less than USD2 a day. This is the sobering reality in which millions of people live. Thus far, the issue of widespread poverty and an imminent 'human crisis' has been ostensibly pushed aside amid 'bigger' issues. It is hoped that the G7, which comprises the world's richest nations, will not only reach some agreement on measures to revitalize the faltering financial system, but will also deal with the structural problems of extreme poverty and inequality. To quote the World Bank's President, '*poor people in Africa should not pay the price for a crisis that originated in America*'.

FINANCIAL & ECONOMIC INDICATORS

As at 5 March, 2009

Exchange Rate/US$	Closing Value	Previous Week
Yen	98.07	97.92
Euro	1.25	1.27
Jamaica	88.20	88.18
Guyana	204.90	205.50

Commodity Prices	Closing Value	Previous Week
Crude oil (US$/bbl)	43.61	45.22
Natural Gas (US$/mmbtu)	4.21	4.07
Gold (US$/Troy Ounce)	932.40	946.20

Eurobond Indices (As at 5-March-09)	
Lehman Brothers Global Aggregate Index (Return % YTD)	-5.67
JP Morgan EMBI+ (Basis points)	688
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	3.30

Policy Interest Rates (%)	Closing Value	Previous Week
United States	0-0.25	0-0.25
Euro Zone	1.50	2.00
Japan	0.10	0.10
Brazil	12.75	12.75
Trinidad	8.75	8.75
Jamaica	17.00	17.00
Barbados	3.00	3.00

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	0.19	0.27
US 10-Yr Treasury	2.81	2.99
3-month UK Libor	1.99	2.06
Japan 90-day T-Bill	0.38	0.38
Brazil 90-day T-Bill	11.83	12.05
TT 90-day T-Bill	3.98	4.11
Jamaica 90-day T-Bill	21.69	22.33
Barbados 90-day T-Bill	3.84	3.84

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com