THE GLOBAL FINANCIAL CRISIS:

IMPACT AND RESPONSE OF

THE REGIONAL COMMISSIONS

THE GLOBAL FINANCIAL CRISIS: IMPACT AND RESPONSE OF THE REGIONAL COMMISSIONS

The world economy is facing the worst crisis since the Great Depression. All the regions are addressing enormous challenges emanating from the growth slowdown in developed countries as well as the global credit crunch. Shared impacts across regions are slowdown in exports, fall in asset markets, reduced credit for consumption and investment and the resulting increase in unemployment, poverty and increased difficulty in meeting the MDGs. Furthermore, regions display a number of challenges specific to their unique circumstances.

Regional Commissions are addressing these challenges through a range of actions to support their member governments. Other than actions specific to their regions, there are some key areas in which joint initiatives among the Regional Commissions are important:

- A joint approach to promoting debate and political consensus on recommendations for reforming the global financial architecture could be pursued through an inter-regional dialogue between the Regional Commissions, including through cooperation in research culminating in a high-level Meeting of key policy decision-makers from each region.

- A joint approach to emphasizing strongly to the international community the need to maintain sufficient resources for financing for development in the face of greater needs arising from the crisis as well as increased budgetary pressure for developed country governments. In this context, a joint research initiative could be undertaken to assess the impact on achieving the MDGs arising from the crisis.

Economic Commission for Africa

Impact on region

The financial crisis is taking place at a time when African countries are slowly emerging from the effects of the food and energy crises and threatens to reverse the gains made by the region in recent years. Furthermore, it has changed the international environment within which African countries conduct and implement policies and there is general consensus that bold, swift and concerted actions are needed to reduce the potential negative effects of the crisis on poor countries.

The immediate effects of the crisis on African economies have been a tightening of credit, weakening currencies and declining stock markets, especially in some of the major stock exchanges in Africa. Moreover, most African countries are also likely to suffer from a second round of impacts, resulting from a decline in global economic activity which would lead to a decline in African exports, trade credits, investments, remittances and receipts from tourism. In addition, pressures to recapitalize financial institutions and support other ailing industries may cause donor countries to reduce aid to developing countries, with serious consequences for the African countries that rely on official development assistance to meet their pressing challenges. Preliminary evidence indicates that the crisis has led to a reduction in the growth forecasts for the continent for 2009 by 1.5 percentage points.

Impact on ECA activities

Most of the discussions on policy responses to the current global financial crisis have thus far focused on national and international actions. The regional and sub-regional dimensions are missing. Yet they are of immense importance, especially in light of the limited capacity of many African countries to tackle this issue. Against this background, the ECA, the African Union Commission (AUC) and the African Development Bank (AfDB) have taken several actions to assist African countries in dealing with the effects of the crisis. For example, ECA in collaboration with the AUC and the AfDB organized a High-Level Forum on the Financial Crisis for Ministers of Finance and Planning and Governors of Central Banks in Tunis on 12 November 2008. The Communiqué issued at the end of the meeting outlines measures to be taken at the national, regional, and international levels to mitigate the effect of the crisis on African economies. A follow up meeting involving development partners was also organized during the just concluded Doha Review Conference on Financing for Development.

The ECA has also provided research support to African countries on the Financial Crisis. For example, it prepared papers on the Impact of the Financial Crisis on Africa and on the Reform of the International Financial Architecture which formed the basis for discussions by African Ministers and Central Bank Governors at their meeting in Tunis. ECA will strengthen its advisory role by helping African countries harness potential natural resource revenue, and prudently using such resources for sustainable growth and development. In addition, it will continue to provide technical assistance to enable African countries build capacity for policy design and implementation, including deepening economic reforms.

ECA will also help African countries reduce their vulnerability to external shocks by providing support in the development of productive capacities. This will enable them to diversify their exports and production, thus increasing their resilience to external shocks. The Tunis meeting also mandated ECA and the African Union Commission to put the issues of fiscal policy and domestic resource mobilization on the agenda of their next Joint Conference of Ministers of Finance. ECA also serves on the Secretariat of a Committee of Ten African Ministers of Finance and Governors of Central Banks established at the Tunis Meeting to articulate Africa's positions on the reform of the international financial architecture.

Since the onset of the crisis Member States have increased their demand for technical assistance and support to enable them cope with the potential effects of the crisis. These requests cover three key clusters: research support; advisory services and advocacy; and facilitating African consensus on policy responses to the crisis. One of the areas where Member States of ECA have a keen interest is in the reform of the international financial architecture. In recognition of this, ECA has made appropriate provisions in our current as well as the 2010-2011 biennial work programme to enable us to provide technical assistance to African countries in this area.

ECA has conceptualized a Regional Forum on Financing for Development to enable African countries address the challenges that they likely to face from future declines in development finance as a result of the effects of the financial crisis. Finally, a meeting on Financing for Development and Fiscal Policy is planned in February 2009 to enable African countries to examine alternative sources of development finance and the role of fiscal policy in harnessing resources from these sources.

Economic Commission for Europe

Impact on region

The global financial crisis is having significant impacts on all the sub-regions covered by the Economic Commission for Europe (whose membership comprises 56 countries), but the effects vary considerably due to the different economic circumstances in the various regions as do the needed policy responses. North America and Western Europe are facing severe downturns with likely negative growth for all of 2009, while growth in the new members States of the EU (NMSs), South-east Europe and the CIS is expected to slow down considerably from their recently robust rates to only about two per cent.

Although the initial shock was much more significant in the United States (compared to Western Europe), the policy response in the former in terms of aggressive monetary and fiscal policy has been much greater and as a result the likely downturn is likely to be similar in the two areas. The European response has been limited by inadequate regional co-ordination and built in institutional limitations in effectively being able to use macroeconomic policy. More generally, economic policy in North America and Western Europe must deal with addressing the meltdown in their financial sectors by providing governmental financial support, attempt to provide stimulus to minimize the recession mostly through increased fiscal expenditures, and begin to redesign the structure and regulatory apparatus of their financial markets to avoid a repeat of the current crisis.

The NMSs and South-east Europe have developed based upon an economic model dependent on capital inflows from abroad; with the freezing-up of global credit markets their ability to maintain this growth strategy is no longer viable and they find themselves in a period of substantial macroeconomic vulnerability. A number of the European CIS, although not net external borrows, have had a growth strategy dependent on large private sector borrowing from abroad and essentially find themselves in a similar situation. The adjustments that all of these economies will need to make in terms of their exchange rates, credit growth, asset prices, and fiscal spending will be significant and could potentially precipitate domestic financial crises in a significant number these economies. Severe recessions in their major export markets will further weaken their economies. Already six of these economics have had to turn to the International Monetary Fund for support and that number is likely to increase further as the crisis develops.

The Central Asian CIS will primarily be impacted by the reduction in their exports, the decline in commodity prices and lower remittances from reduced opportunities from working abroad.

Despite globalization, the strongest trade, financial and remittance links for the ECE economies remain with those countries nearby. For this reason a regional approach is an important component of any policy package for addressing this crisis. For example, a fiscal expansion in a European economy will rapidly leak out through trade and financial linkages and will be of little significance for the country that initiated the policy. Thus, whether it is fiscal and monetary expansion or capital market regulation, the actions for addressing this crisis must be regionally coordinated if they are to be effective. The failure to fully appreciate this is already apparent in Europe with the uncoordinated response to deposit insurance in European banks last month and remaining unresolved issues of cross-border financial responsibility and supervision.

The fact that there are extensive cross-border banking relationships in Europe, especially between Western European parents and newer Eastern European subsidiaries is of particular interest for the stability of the region. It remains unclear whether these banking relationships will prove to be stabilizing factors, by providing Eastern European banks access to funds that they would otherwise be unable to obtain on currently seized-up global capital markets, or whether they will instead prove to be a channel of contagion by which the collapse of banking institutions in Western Europe spreads eastward. How this plays out will significantly affect other developing countries' future policies regarding financial liberalization and their perceived need for additional regional or global oversight.

Impact on UNECE activities

The UNECE has a large number of committees, working parties, seminars and work shops that routinely address current developments relating to achieving the long-run objectives of their activities. These meetings have generally attempted to include discussions regarding the implications of the current economic situation for their programs of work. For example, the UNECE program on innovative finance attempts to determine best practices in helping new firms obtain financial backing. With the collapse of credit markets, the discussions in that group have explored ways to obtain alternatives sources of finance. A similar change in emphasis is apparent for a program promoting energy efficiency with has traditionally leveraged limited public resources in order to obtain additional private resources. Likewise, a workshop describing how to establish and administer Public Private Partnerships is attempting to address the opportunities and challenges from tighter private capital markets but perhaps increasing fiscal expenditures. Since both public and private funding for a number of activities supported by the UNECE (i.e., regional infrastructure projects) have been withdrawn, the work plans of these groups have had to explore alternative timing horizons and funding sources (i.e., World Bank, EBRD, etc.). Thus although often no new meetings not previously planned are held and no new mandates are developed, these programs, nevertheless, very much consider the economic context of their activities and have adjusted their discussions, work programs and policy advice as appropriate.

The UNECE will have a day-long segment of its upcoming Biennial Commission Session (at the end of March 2009) discussing how the economic crisis (and other recent developments) will impact its core economic mandates. Suggestions may come out of that meeting regarding how future UNECE activities might need to be adjusted

in order to deal with the new challenges. At a general level, the expected outcomes include:
1) more emphasis on monitoring economic developments and how they are impacting UNECE activities ;
2) more focus on the need for transparency regarding regulations, norms, and standards in areas covered by UNECE programs; and
3) a renewed political commitment to international co-operation and integration in recognition that the economic crisis requires regional and global solutions.

The Real Estate Market Advisory Group (REM) of the UNECE organized with the UN Secretariat a seminar (The Real Estate and Financial Crisis: Causes, Effects and Impacts) with a panel of experts in December 2008 addressing the real estate policies that need to be implemented at the national, regional and global level to address the current financial crisis and the initiatives that are needed to ensure longer-term financial stability in the industry. The group has shifted it focus towards addressing financial stability in addition to its usual emphasis on environmental sustainability and social responsiveness. A follow-up meeting by the group will be held in March 2009 in Rome to discuss a set of “Guidelines for the Development of the Real Estate Market for Social and Economic Benefits”.

The UNECE is in the process of strengthening its MDG related activities in response to the fact that the economic crisis will undoubtedly reduce the ability of its developing member States to achieve the targets on schedule. The UNECE statistical program is increasing resources devoted towards producing and measuring national indicators of MDG targets. A new economic analysis position has been created to analyze MDG trends and policy initiatives with the intention of being better able to establish best practices for achieving the targets.

<u>Economic Commission for Latin America and the Caribbean</u>

Impact on the region

Latin American economies are expecting a significant slowdown in economic growth in 2009 which is not expected to rise above 2 percent; after five years of steady growth. Whereas the crisis initially seemed to impact only the countries which are more integrated into the international economy and financial markets, such as Argentina, Brazil, Mexico, Chile and Colombia, it is now foreseeable that in the fallout from the new phase of the crisis commodity prices will be affected. This would significantly hurt Argentina, Bolivarian Republic of Venezuela Bolivia, Peru and Ecuador. Conversely, as Central America and the Caribbean are net importers of commodities, the fall in commodity prices would alleviate and partially offset the consequences of the world economic slowdown.

The global economic and financial crisis is expected to impact the economies of Latin America and the Caribbean through five main channels: i) financial contagion and external borrowing; ii) foreign direct investment; iii) external demand; iv) workers’ remittances; and v) changes in relative prices (particularly commodity prices). The effects of the crisis will ripple through to both the macroeconomic and the microeconomic levels. From a social perspective, the global economic and financial crisis will be felt more sharply by the most vulnerable social groups. Poverty is expected to increase, especially because of higher food and energy prices and deteriorating conditions in the labour market. Employment will be the adjustment variable. The final result will depend on the specific economic, social and institutional framework of each country of the region.

The Latin American and Caribbean countries have adopted a variety of policy measures in response to the financial crisis. Although the macroeconomic fundamentals are significantly stronger than in the past, the region will not be immune to the impact of instability in world financial markets and to the anticipated recession in the developed economies. The range of measures implemented is quite diverse as the effects differ from country to country and the instruments needed also vary owing to differences in the resources available to the countries and in their ability to implement such initiatives. That availability generally depends on the fiscal space available for financing the measures, when their implementation entails the use of public funds or when they involve foreign-currency transactions, and it also depends on the availability of external assets or the access to foreign-currency credit. In the current circumstances, the latter is limited to dealing with international financial institutions.

Impact on ECLAC activities

ECLAC remains committed to supporting the countries of the region in broadening their concept of development in a way that is truly sustainable in every respect through a more virtuous combination of applied research, technical cooperation and training. Its strong convening authority at the regional level is an important element in this task. The above-mentioned analytical and political capabilities and convening authority gain special importance in the current economic conditions prevailing both at the global and the regional level, and are of great value in creating effective consensus on crucial matters in the region. Some of the latter are, to name a few, the coordination of proposals for macroeconomic management through counter-cyclical policies; the promotion and management of trade agreements based on the concept of open regionalism; the modernization of productive structures focusing on the real economy and in technology and innovation; the urgent and far-reaching revision of the role of the State, and the coordination of efforts leading to better adaptation to climate change and mitigation of its effects.

In the past, ECLAC has noted that notwithstanding the overall success of industrialization, a number of setbacks persist: unsatisfactory international integration: recurrent external bottlenecks, low and unstable growth, unemployment, underemployment and poverty, and a widening gap in wealth and income levels between the centre and the periphery. In the new context, the current message is similar. However, instead of championing industrialization as the only engine of growth and technical change, the new strategy for structural change advocated by ECLAC is conceptually linked to the ideas of production and export diversification by adding value through innovation and broadening and strengthening productive structures. The recent analytical frameworks developed by ECLAC convey this same idea enhanced by the prospect of the opportunities created by multiple paths for technical progress in several production sectors based on the production specialization structure of the countries, beyond that of the manufacturing sector.

Although ECLAC has adapted its thinking to the new environment, the analytical concepts used in its early days remain fully valid. Indeed, its recent intellectual interpretation related to economic growth and international trade represents a progression in the analysis and systematization of empirical knowledge and builds upon its classical analytical framework. In other words, the knowledge production demonstrates enhancement of the traditional structure and has been adapted to the current era of globalization.

It is time to rethink the institutions and rules governing the financial markets as well as the policies in the fields of technology and industrial diversification, particularly in economies that are catching up. More specifically, all the reasons in favour of intervention in the financial system are also present in the industrial system, and adoption of correct policies for the development of technological capabilities cannot be neglected in times of financial crisis – on the contrary, they are more necessary than ever.

The following seven-point agenda, centered on the real economy, is put forward as a non-exhaustive list for Latin America and the Caribbean:

1. The financial crisis entails more than a systemic impact on aggregate macro variables. It leads to the recomposition of the microeconomic structure, which in turn shapes the response of the economy to the crisis.

2. In crisis situations firms and sectors readapt their capabilities, learning processes and production and investment strategies. The production structure undergoes restructuring, which may imply the destruction of certain productive, technological and human capabilities.

3. Industrial and technological structures are no less systemic than finance: network and domino effects are present in the real economy as well. Stickiness in production and technological capabilities implies that these effects are less easily reversible in the real economy than in financial markets.

4. Capabilities in new paradigms in science, technology and production will lead the emergence from the current crisis, and will determine the repositioning in the global economy.

5. Facing the crisis means thinking about the future: the need “more than ever” for active industrial and technological policies.

6. A smart policy mix: measures to avoid the destruction of production and technological capabilities and new incentives for the accumulation and adoption of new technologies.

7. Dealing with uncertainty: the need for technology foresight to provide a comprehensive overview of future production paradigms, bringing together in partnership scientists, engineers, industrialists and government officials.

Designing coordinated responses to address the current economic conditions means actively seeking complementarities between growth and equity, between competitiveness and social cohesion, between these two pairs and democratic development; lastly, between economic development and environmental sustainability. We are aware that these goals are often conflicting and that they generate multiple policy dilemmas. However, we must find creative ways to achieve them simultaneously in the medium-to-long term.

Therefore, the response adopted by any given country to the current global financial crisis must entail the ethical responsibility to recognize and strengthen the interrelationships between the economic, social and environmental policies, coupled with the equally-important democratic progress in the region. This is crucial in the current context of uncertainty about the economic and social benefits of democracy, global economic integration and the uneven progress towards regional and sub-regional integration.

Economic and Social Commission for Asia and the Pacific

Impact on the region

For the second time in a decade the Asia-Pacific region has been hit by financial crisis. However, this time the source of crisis is from outside the region. The region is better prepared for currency and balance of payment crises than it was a decade ago, having instituted wide ranging reforms, improved current account balances and built up a protective shield of foreign exchange reserves. Notwithstanding this progress, high levels of financial, trade and investment integration with the global economy leave no country immune to these events. Consequently, the global slowdown arising from the crisis has exerted significant downward pressures on growth in the region with attendant social consequences that are still unfolding. There are a number of potential vulnerabilities that raise concerns and need to be tracked carefully as the crisis unfolds.

First, the spark that has led to immediate macroeconomic difficulties for some economies of the region has been, once again, exposure to short-term portfolio capital. During times of generalized international risk aversion, when short-term portfolio capital exits developing countries, efforts aimed at preventing excessive currency depreciation reduce the availability of reserves to cover external short-term debt repayments and current account deficits in some countries.

Another potential vulnerability stems from the banking sector. Although most economies in the region possess adequate reserve cover for external short-term debt at the national level, banking sectors in some cases may run the risk of being overly dependent on foreign sources for their lending. The global credit crunch may result in banks coming under increased stress in continuing to fund their banking activities.

A third source of vulnerability is the region’s dependence on trade and investments with developed countries. Even though intraregional trade has been growing impressively, it generally consists of parts and components in the manufacturing sector. To a large extent these exports are linked to demand for final consumer products in developed countries. Developed country recession will therefore transmit its way back to the region through the channel of trade and investments.

The increasing spill-over effects of the global financial crisis into the real sectors and its evolution into an economic crisis, combined with long term challenges posed by climate change, and huge volatilities in food and fuel prices have all converged to pose a grave challenge for the Asia-Pacific region. A number of questions arise. Has the global financial system with its complex and opaque interplays between financial demandeurs and suppliers evolved too fast? Have we run the regenerative potential inherent in our ecosystems to the ground? Have we created social inequities that will be difficult to corrected and will delay the achievement of the MDGs by the target date? Due to the convergence of crises, compounding effects must be taken into account in devising policy responses. There is a unique opportunity for the region to reorient economic growth towards a long term development path that is inclusive and sustainable.

Impact on ESCAP activities

In the past, given the increased trade orientation of the region, the focus of its analytical work remained on its trade policies, and not on financial or monetary policies such as exchange rates. The increasing severity and frequency of financial crises will bring about major changes. Consequently, the ESCAP Secretariat has been at the forefront of addressing how this year's global financial developments could impact the Asia-Pacific region. At the institutional level, ESCAP repositioned itself and made changes to its structure so that macroeconomics, along with disaster management and ecologically sustainable economic growth, now plays an even larger role in ESCAP’s services to the region.

In terms of advice to our member governments, the Secretariat has provided a range of key analytical inputs to policymakers both in the years leading up to the crisis and as the crisis hit with full force in 2008.

The Executive Secretary in her first appearance before the UN General Assembly in October 2007, made a presentation on the subject of "Managing Financial Flows for Inclusive and Sustainable Development in Asia and the Pacific." The Executive Secretary highlighted the increased vulnerability to crisis emanating from financial volatility. At its Commission Session in April 2008, a high level policy discussion was organized which raised the alarm on the potential consequences of the financial crisis for the region.

The Executive Secretary also sought to look beyond the current financial crisis to the combined impact of the economic, food, fuel and climate change crises. Thus the focus of Economic and Social Survey of the Region 2009 will be on “threats to development” and their convergence. Furthermore, a High-level Regional Policy Dialogue on “The Food-Fuel Crisis and Climate Change – Reshaping the Development Agenda” was organized in Bali in December 2008. The two-day event was the first time that the crises were addressed in a comprehensive and integrated manner in the region. Recommendations from the Dialogue, as contained in the “Bali Outcome Document”, serve as a framework for ESCAP actions to address the impact of the crises on our region. Finally, the theme topic for the 2009 Session of the Commission is on sustainable agriculture and food security.

In line with its the analytical and normative role, the ESCAP Secretariat will serve as a forum for exploring policy options and forging consensus on regional policy coordination. In an effort to ensure that the region emerges from "crisis-resilience" to "crisis-resistant", some of the key directions in which the secretariat's future work related to the financial crisis will be oriented are the following:

1. **The reform of the global financial architecture**. This issue is currently under intense debate and will remain at the top of the international policy agenda. The Asia-Pacific region could be expected to have an influential voice in shaping the future multilateral governance, commensurate with its rising contribution to global economic prosperity. The Secretariat will provide the forum in which countries from the region can debate various policy options and coordinate their views.

2. At the regional level, a largely neglected debate concerns the **formulation of effective and coordinated macroeconomic policies to move the region from crisis-resilience to crisis-resistance**. Pressure to undertake currency devaluations in the current environment of export difficulty would result in "beggar-thy-neighbour" competitive relations to the detriment of all in the region. Closely related to this is the difficult challenge of how to manage vulnerability to reversals in short term capital flows. **The Secretariat will encourage consensus building on establishing more coordinated and durable regional exchange rate arrangements**.

3. Of equal concern for Asia-Pacific is the need to **establish a regional contingency plan to respond quickly to liquidity and capitalization problems of domestic banks**. However, this would require an **accelerated establishment of a regional surveillance system that focuses on emerging risks**. ESCAP is well positioned to assist its subregional development partners in filling in and analyzing, in a neutral way, large information gaps that exist in assessing systemic financial risk. As a first step, a database of financial indicators has been set up to track the performance of these indicators.

4. The global financial crisis has put enormous pressure on Asia-Pacific exporters to increase competitiveness to exploit rapidly declining export opportunities. ESCAP is continuing to call for a strengthening of the multilateral trading system, including an early and successful conclusion of the Doha negotiations, as this system offers the most stable and transparent environment to conduct global and regional trade.

5. Public trust and confidence in business and the workings of markets has been seriously eroded. Insufficient respect for values that encompass ethical dimensions while addressing profitability is, at least in part, responsible for the confidence crisis. The integration of economic, social, environmental and governance issues into corporate management assumes increased importance. The Secretariat is working closely with the Global Compact office in New York to build business-driven networks in the region that help companies to make a paradigm shift.

6. The curtailment of trade has been exacerbated by the lack of trade credit. Somewhat anomalously for this trade-oriented region, it is the only one that does not have a regional institution specifically dedicated to export credit and export credit guarantees. A regional response would enable risk pooling across countries and scale

economies, and is more credible and would therefore enable greater access to international finance. **Under these circumstances, the Secretariat will support through analysis and policy dialogue the establishment of a regional trade financing facility**.

7. As the 1997 crisis showed, the brunt of the crisis is likely to fall on those least able to cope. In any situation where people are affected by sudden shocks, it is the poor, many women, the youngest and oldest populations and socially excluded groups which are the hardest hit. **The Secretariat will mobilize attention and renew policy action on the setting up of adequate and sustainable social protection systems**.

Economic and Social Commission for Western Asia

Impact on the region

The global financial crisis is affecting the ESCWA Region in several ways, including through decreasing overall financial wealth and lowering economic growth prospects.

Financial wealth in the region, in terms of stock market capitalization, significantly decreased in 2008 and the real estate market slowed significantly in the 4th quarter of 2008. The largest and immediate impact of the crisis was seen in the financial markets. The indices of the stock markets in the region were hit hard through the spill over from the free fall of the global stock markets. The sharp drop varied from over 67 per cent in Dubai to over 55 per cent in Saudi Arabia and Egypt. The total loss in market capitalization was estimated at over $500 billion.

As crude oil prices collapsed from the historical high level of July 2008, the region's fiscal and economic growth prospects have been facing severe downward correction. The price of oil dropped from its peak of about $147 in June 2008 to below $50 in recent weeks. This will have a major impact on the oil revenues particularly in the major oil exporting countries, which in turn will affect their public spending. At the same time, the drop in oil prices and revenues will affect the capacity of the major oil exporting countries in the region to provide official development assistance to other developing countries, which together with the expected decline in ODA from major industrialized countries would lead to a decline in the ODA inflows to developing countries in the region and outside.

As international money and capital markets became frozen, the effectiveness of monetary policy has been called into question. The government sector's strategic fiscal expansion to sustain domestic demand for growth required in most developed countries. The governments of ESCWA Region have so far pledged fiscal stimulus packages to sustain their respective economies, but several countries in the region are facing fiscal constraints to doing so effectively.

There have also been losses incurred by the sovereign wealth funds in the region which are still not to be adequately estimated.

The expected slowdown in global demand will be translated into a global recession. This, in turn, will lead to lower financing for development, drop in tourism, workers' remittances and ODA inflows to the region.

Any restrictive fiscal policies by member countries to try to mitigate the impact of the financial crisis would negatively affect the efforts of these countries to achieve the MDGs. Therefore, it is necessary for these countries to maintain a sustainable fiscal expansion to achieve the MDGs. International financial institutions may recommend tighter fiscal spending by developing countries including ESCWA member countries. However, the budget related to the MDGs should be preserved. International assistance, in form of direct fiscal assistance, should be required to safeguard progress towards the MDGs.

The financial crisis has also led to increased unemployment in the region, particularly in Dubai's real estate sector. During this phase of employment adjustment, it is the expatriate labour in the region that is the most vulnerable. Retaining expatriate labour, particularly of skilled classes, will be beneficial for the host countries in the region, but the present state of financial crisis is forcing the private sector to layoff those potentially beneficial expatriate labourers.

Impact on ESCWA activities

- Daily monitoring of the situation is being conducted and a database has been compiled for further in-depth analysis.

- An interdisciplinary approach has been considered critical as the effect of the financial crisis will be not on the region's financial sector only, but the economy and social structure at large (e.g. growth, MDGs, expatriate labour, migration).

- A paper is being prepared to analyze the impact of the crisis on the financial markets in the ESCWA region.

- The regional commissions, including ESCWA, are in an ideal position given their convening role to coordinate a regional response, in cooperation with regional bodies including the League of Arab States and regional development banks.

* * *