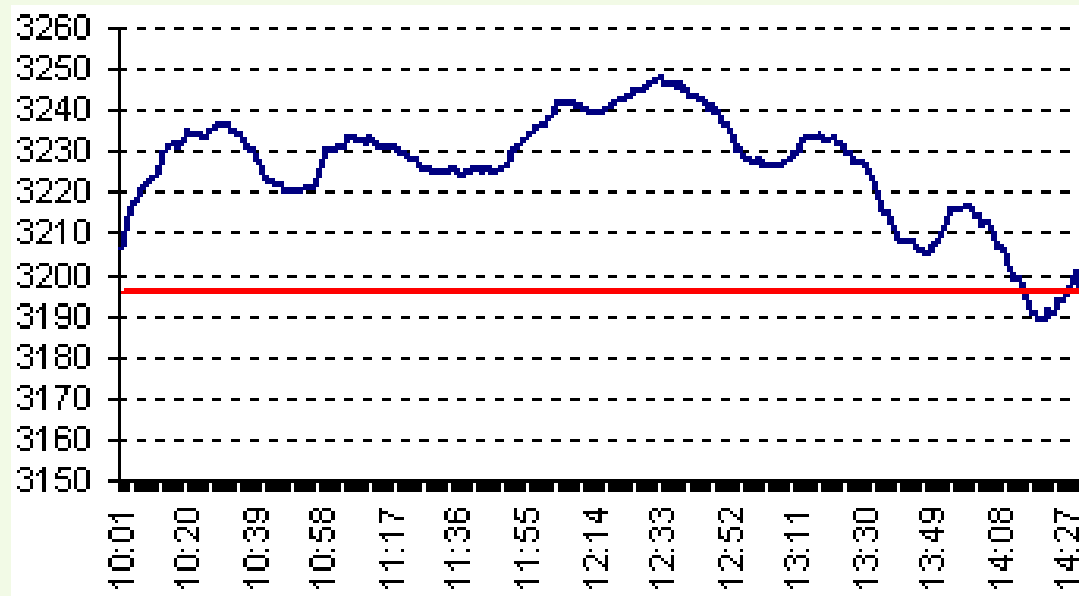


Responding to Financial and Economic Downturns



Characteristics of FEDs

-) Drastic declines in GDP growth
-) Falls in equity prices and output
-) Very high inflation rates
-) Sharp drops in consumption and incomes
-) Heavy burden of external debt
-) Very volatile when combined with other types of crises: social or political, natural disasters

Factors Which Contribute to FEDs

-) Deterioration of financial sector balance sheets
-) Increases in the interest rates
-) Increase in uncertainty - lenders less willing to lend
-) Deterioration of non-financial balance sheets (caused by unexpected change in the inflation rate, or unanticipated exchange rate depreciation)

Indicators: FEDs

-) Fiscal deficit and current account deficit
-) Rate of inflation
-) Over-valuation of the exchange rate
-) Capital flows
-) Credit growth
-) Extent of non-performing loans
-) Bank liquidity
-) Export decline
-) Economic slow-down
-) Liberalisation without adequate regulatory system


Societal Impacts of FEDs

-) Contractions in the economy
-) Increases in absolute poverty and income inequality
-) Open unemployment - labour force shifts to less productive and less remunerative activities
-) and underemployment
-) Increased vulnerability of already disadvantaged groups
-) Deterioration in wages
-) Threats to political stability

Russian Financial Crisis 1998

-) Combination of the devaluation of the ruble, default on domestic and foreign debts and a collapse of the stock market and major commercial banks
-) This crisis accentuated already existing social protection problems
-) Widespread deterioration in welfare compared to two years earlier
-) Total poverty rate increased from 22% of households to 33% just after the crisis
-) Urban households more affected than rural ones

ILO Response to FEDs

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-) Expand employment through employment-intensive infrastructure schemes
 -) Facilitate re-entry into employment by reorganizing employment service networks
 -) Continuous upgrading of worker skills
 -) Furthering labour standards and worker's rights
 -) Promoting voluntary self-help mechanisms
 -) Identification of self-employment opportunities and market demand
 -) Training and retraining programmes