

## THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

4–6 JUNE 2009, ST. PETERSBURG

### JOINT SESSION with LINK (UN Project): GLOBAL ECONOMIC REVIVAL: WHERE AND WHEN? THE VIEWPOINT OF INTERNATIONAL BUSINESS AND ANALYSTS

#### Moderators:

**Alexander Shokhin**, President, Russian Union of Industrialists and Entrepreneurs

Elizaveta Osetinskaya, Editor-in-Chief, *Business Daily Vedomosti*

#### Participants:

**Robert Alexander Mundell**, Professor of Economics, Columbia University, Nobel Laureate in Economics

**Jomo Kwame Sundaram**, United Nations Assistant Secretary General for Economic Development, United Nations Department of Economic and Social Affairs

**Hans Timmer**, Lead Economist and Manager of the Global Trends Team, WB

**Igor Serov**, CEO, United Industrial Corporation

**Jan Kubis**, Executive Secretary, UN Economic Commission for Europe

**Rob Vos**, Director, UN Social and Economic Development Policy and Analysis Division  
Director

**Alexander Pertsovsky**, CEO, Renaissance Capital

**Sergei Vibornov**, President, Alrosa Co. Ltd.

**Klaus Kleinfeld**, President and CEO Alcoa Inc.

**Dmitry Pumpyanskiy**, Chairman of the Board of Directors, TMK

**Anri Proglia**, President and CEO Veolia Environment

**Sergey Guriev**, Dean of the New Economic School

The panel discussion centred on how long the crisis will last and the likely impact on key sectors of the economy. It was agreed that potential recovery in 2010 will be modest and could be derailed if the banking system encounters further difficulties. However, it was concluded that better international policy coordination and continued adherence to the principles of free trade could help drive a faster and more sustainable recovery from 2010.

Participants focused on the economic environment in 2009, the severity of the crisis, economic expectations and factors that could lead to a stronger 2010.

With regard to the economic environment in 2009, it was pointed out that the global economy is currently subject to the most severe downturn since the Second World War, with the UN currently forecasting a 2.6% decline in worldwide GDP this year. The contraction in GDP has not only been particularly sharp but also geographically widespread, with important economies like the US, Japan and continental Europe and emerging economies all impacted. Though there are some green shoots of recovery it is not clear whether these have the potential to be self-sustaining or just a slowdown in the rate of decline. In Russia, the government forecasts a 6.5% decline in GDP this year.

Participants agreed that the crisis stemmed from imbalances in the US financial system that gradually spread to the real economy. Policy decisions by the US Federal Reserve designed to reduce inflation and more specifically the decision to allow the collapse of Lehman Brothers played a major part in inhibiting financial liquidity and exacerbating the financial crisis. As the slowdown spread across the US and other major economies, demand contracted for the exports of emerging economies. The hypothesis that emerging economies would decouple proved incorrect, it was noted. In Russia, forecasters had underestimated the scope of the global recession and the sensitivity of the Russian economy to a lower oil price and lack of foreign liquidity.

In the joint session, it was commented that the UN forecasts the global economy to see modest GDP growth of around 1.5% in 2010. This forecast is based upon the assumption of liquidity problems in the financial sector bottoming out in 3Q09 which should allow government stimulus measures to gain transaction. However, it was noted that, if the financial system takes longer to recover then fiscal measures to revive demand could take longer to have an impact. Recovery in 2010 could also be negatively impacted in the event of exchange rate instability which could result if the US finds it more difficult to finance its economic deficit. In Russia, modest GDP growth of around 1.3% in 2010 is currently forecast. In the medium term, it was concluded that for Russia to see more attractive growth changes in the structure of the economy, improvements in labour productivity and energy efficiency will be required.

The panel concluded the session with a discussion on what could lead to a stronger economy in 2010. The current financial crisis has highlighted the need for better international policy coordination. One participant commented that, although fiscal stimulus packages have been huge, they have been geographically unbalanced with many emerging economies neglected. A stronger recovery in 2010 will require more stimuli to be made available in emerging economies. Policy coordination and coherence will also be essential, it was agreed, if long-term sustainable economic growth is to be seen by all countries. Free trade is also an important way to get out of crisis. This is well understood by many emerging economies, the panel noted, but there are risks of higher protectionism in the US and Europe.