

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM - 2009

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FINANCIAL DAY

**LINK SESSION IN RUSSIA: GLOBAL ECONOMIC REVIVAL: WHERE AND WHEN?
THE VIEWPOINT OF INTERNATIONAL BUSINESS AND ANALYSTS**

June 6, 2009

(14:00-16:00, Hall 7.1, Pavilion 7A)

St. Petersburg

2009

Description:

How long will the global economic crisis last? What is the forecast of post-crisis development for leading regions and key economies? New economic leaders – countries, regions, sectors. Global economic development scenarios and major market recovery forecasts. What is the correlation between business strategies and plans of leading governments? New system of global economic regulators: the viewpoint of business. What is business elite's vision of global economy structure?

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

Andrei Klepach, Deputy Minister of Economic Development of the Russian Federation

Jomo Kwame Sundaram, United Nations Assistant Secretary-General for Economic Development in the 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

Alexander Pertsovsky, CEO, Renaissance Capital

Sergey Vybornov, President, Alrosa Co. Ltd.

Klaus Kleinfeld, President and CEO Alcoa Inc.

Dmitriy Pumpyanskiy, Chairman of the Board of Directors, TMK

Anri Proglia, President and CEO Veolia Environment

Sergey Guriev, Dean of the New Economic School

Oleg Chirkunov, Governor of the Perm Region

Transcript:

A. Shokhin:

Today's session is not only going to be a discussion of global economic revival and clarification of international business and analysts' opinions about the question when and where this recovery will take place first of all. But it also is a joint event organised by the Russian Union of Industrialists and Entrepreneurs, United Nations LINK Program together with Center for Macroeconomic Analysis and Short-Term Forecasting and Business Daily Vedomosti. I asked to collect results of voting taken at different sessions in order to compare speeches of our spokesmen with results obtained yesterday and the day before yesterday at the interactive sessions— they were devoted to inflation, whether economic growth is going to start in the nearest three years and where it is going to start. Energy session took place in this hall, the fair oil price of 70-80 dollars per barrel was set . We have a lot of consensus forecasts of participants; it would be good if economy followed our recommendations. Conference traditionally held by LINK is a unique event where representatives of the Russian and international business, scientists, officers together with world analysts discuss structural changes, which occurred in global economy during the crisis period and what else is going to happen. Our session is not the first to discuss these topics; in fact, we have been carrying out brainstorm for three days already. I hope that we will offer our mite and choose correct route so that there's no need to come back and search for a new route. You know perfectly well that usually during crisis economical models get out of date. Crisis is a period of time, used for formation of new concepts, new economical models. In this context we can say that global crisis is not only an ability to develop and modernise economy for the purpose of new technological structure formation, but also an ability to form new theories, new models which will answer the question – what was that? We failed to forecast this crisis, but maybe someone will get Nobel Prize for explanation of this crisis background. I would like to draw your attention to the fact that yesterday and today in the morning we didn't obtain consensus while discussing terms and rates of economic recovery; forecasts of international institutions, banks and governments are discordant. In particular, the most favourable forecasts for growth rate of global economy was done in the beginning of the year – about 2.3 % in 2010. However later recession was noticed in many countries and that level for 2010 was decreased practically to zero value, so depressive scenario had been influenced by many. Yesterday the President of the Russian Federation Dmitry Medvedev said, as you remember, that crisis is a long-living plant and it is too early to pop up a bottle of champagne. So, there's a question: is it high time to buy a bottle of champagne or to concentrate on something else? Aide to the President of the Russian Federation Arkadiy Dvorkovich and Minister of Finance Alexei Kudrin reckon that economic recession is going to end soon and recovery is

going to begin. Mr. Mundell at plenary meeting asserted that we expect a slow recovery in the nearest future. Also you know that at voting “Which Latin letter shall be used for better description of crisis?”, taken at one of the sessions held by Elvira Nabiullina, Minister for Economic Development, letter “W” won. Many experts consider the recovery seen now, including oil prices, to be temporary with no strategic support. We wish this “W”-scenario didn’t come into action. It would be obviously better if the crisis finished at the end of summer, but summer in St. Petersburg has not even started yet, so apparently something needs to be done. I am not aiming to bring up all questions we are going to discuss. Let me grasp the nettle. I would like to introduce the Nobel Laureate in Economics, Professor of Economics of Columbia University, Robert Mundell. He has already spoken at the plenary meeting and I would like to ask Professor Mundell, if there is a possibility of foreseeing the depth of crisis and the beginning of economy recovery? During recent International Banking Congress, which took place in St. Petersburg, Chairman of the Central Bank of Russia said that the second wave of the crisis was not expected, but later he admitted that it was his intuition, not objective estimation. Professor Mundell, should we base our forecasts on intuition? Or is there any other objective basis for forecasting?

R. Mundell:

<Inaudible> involves the LINK project. The LINK project is building an econometric model with integrated national econometric models and would result in a model for the world economy. So, a good place to start at forecasting would be to look and see what the LINK model says about those things. Now, I don’t know too much about the origin to the LINK model, but I was indirectly related to it because the Wendell Fleming model came about in 1960 to 1963, 1964, 1965, and I’d written about 7 or 8 papers on the open economy model and the world economy model with two integral parts, and that really was overlapped very, very closely with the LINK model. Now, the LINK model was, of course, an outgrowth of the Nobel Prize winner, Philadelphia; the Klein-Goldberger model which is a closed economy model, and then opening that to the international economy was what made it the LINK model. But back then, there were 2 models, 2 basic competing models. One was in Harvard and that was the AutoExchange model. And that became the foundation for the data resources corporation. And the second was the WEFA model, which was the Klein-Goldberger model and the WEFA stands for the Wharton Econometrics Forecasting Associates. And I had another link to that because my son Bill was the CEO of WEFA for about 10 years and always knew both people and the global insight which integrated those two companies. So, those are the models that, in principle, could give you the size of the recessions, and how deep that would be and you’d get some calculation. But they have been very good in putting together all the figures, national income figures. I don’t think they have been awfully good at predicting and

forecasting recessions very long in advance and not before the other things.

My own view is that, it's a little different from the usual opinion. First of all, there's already been three-quarters of the way of a W in the economy. We had this wonderful period of the world economy. Probably, I think the most magnificent period of growth the world economy has ever had from 2002 until 2007. All the major economies were succeeding, all the emerging market economies were doing well. They had surpluses. They were been in great shape. And Secretary of Treasury, Paulsen said in the spring of 2007, "I've never seen in my lifetime the world economy with all its components so effective and prosperous as it is at this time." Famous last words, of course, because already concurrently at that time in April, the IMF meetings had talked about the subprime mortgage crisis. And the CEO and chairman and president of Citibank, Bill Rhodes, had written an article in the Financial Times, warning of the danger of these subprime mortgage assets. And the IMF and the world representatives there of the major countries knew at that time of the subprime mortgage crisis, but they came out with a very clear idea that the banking systems were strong enough to handle it. They knew it was a big problem, but they thought it was within the scope of the world economy to handle. Now, the big question that comes up is why this is 2007. Now, when it did come up, it was first manifested in a horrendous liquidity crisis. That took place in August 2007. In 2 days, August 9th and 10th, the Thursday and Friday, there was this tremendous panic of all banks to acquire liquidity to cover the holes left by these bad assets in their balance sheets. And the European Central Bank stepped up to the plate, and said "unlimited credit at 4%", with the result that in one day alone there was \$95 billion of lending by the European Central Bank, just in that one day. And then when the Fed came in later on, 6 hours later, and the other countries came in, there was a solution to that liquidity crisis of \$250 billion at least issued in those 2 days. And so that solved the problem of that liquidity crisis. They resolved the solvency problem of the microeconomic problems of the individual firms. But the big question is why the financial crisis, except for Bear Stearns' problem and Bear Stearns got settled by May 2008. Why did it wait 13 months until the collapse of Lehman Brothers, AIG and the tremendous financial crisis that took place? What was the new information, the new factor involved in it? And this is what I think it comes from the world economy and what was happening in economic variables. Because you had that strong growth up until the third quarter of 2007, of 4.8% or 4.9% growth in the third quarter. Then, you had 2 quarters of almost zero growth, about half of 1% growth. That's the last quarter of 2007, first quarter of 2008, and then the next quarter of 2008 was something like 2.8% growth. Revised initially it was 3% and then it was later revised to about 2.8% growth. So, you had a recovery last year in the second quarter. And then the question is what is it that moved from that apparent recovery into this sudden financial blowout and a real recession of three-quarters of strongly negative growth that we're just coming out of now? What was the factor that caused it? I

think the factor was tight money. And the tight money wasn't shown by the supply of money in the Federal Reserve last June and July. They were starting to panic about inflation, because they saw this huge increase in the quantity of money, but the problem was the demand for money had increased much faster than the supply of money. And even though there was a lot of money going out there, it was not nearly enough to cover the total amount of the increase in the demand for money. And that became apparent because of 2 factors that worked simultaneously and are always sure proofs of the shortage of money, and that's the soaring dollar - the Euro went from 60 cents to about 80 cents, which is a 30% increase in about 3 or 4 months, and the falling price of gold. The price of gold over that summer period fell from \$980 to \$720. Those 2 factors made abundantly clear that the Fed looks in interest rates. And the interest rates are nothing variable. They used the Taylor rule. The Taylor rule is not even perfect in a closed economy but in an open economy it gives all of the wrong signals and it misses the whole point. So, It was those factors that caused simultaneously the failure of Bear Stearns, AIG, all those other financial problems and knocked out the market for American automobiles who got recession in October, November. You got the big panic about General Motors going bankrupt and people started to talk about this, and all the other automobile companies and General Electric and a lot of other companies all going bankrupt because of that. In that emerging recovering, because of that recovery the Fed let the dollar soar by 30%. The biggest appreciation in the three or four month period in world history and in American history ever; never before did the dollar get up like that. When the dollar rose in the first half of the 1980s, it took four years for it to increase by as much as it did. But here, this is in three or four month period and it did that. And that's a big factor that's been missing in a lot of the discussions on crisis and that's the big factor that so possibly here today cause we're talking about the W now. We have the fall of the last quarter of 2007 was the downswing of that. The second quarter of 2008 was the upswing and then a big dip, a very dip with those three quarters of recession that we're just maybe coming out of now. And now coming up from an upswing again, but you've got a major problem that the Fed might do it again. Will it be worried about inflation and start to patch up things again? That's the big problem. My forecast is for growth to bottoming out in the third quarter of this year, early in the third quarter and through some gentle recovery but not a very long recovery. You're not going to get a long recovery because you have expected medical revolution in the US combined with big increases in taxes that Obama is promised to do. The only way that the United States can save its corporations is via a grand exit strategy from the crisis. Manufacturers only make up 6 25% of US GDP. It's not just going to come back, they're going to go bankrupt unless they can seriously cut corporate income tax to 15%. Like in Germany. Germany cut its income tax of 25% to 50% and the US has to cut its corporate tax way down and this would get the stock market recovering again. It would start to let the firms, the corporations use some of the profits instead of paying the taxes to

recapitalise and restore the health of the firms. Thank you.

Moderator: After Professor Mundell's speech, I believe he will have to leave but I don't think we may release the Professor that easily. I hope we'll be able to ask a couple of questions of Professor Mundell. While the audience is thinking, may I ask my own question?

<Inaudible>... anti crisis program and current program initiated by President Obama and Tim Geithner. The two programs are different or they're different steps of the same program, from your point of view?

R. Mundell: I don't think that the program is going to have much of an effect but I think what the program of bailing out the banks has been something that's necessary. They absolutely have to do that. The big program was of last fall in letting Lehman Brothers fail. First of all, the Fed made its mistake by its bad policy last fall and they compounded that mistake by Bernanke and Paulson who were responsible letting Lehman Brothers fail and that just aggravated this shortage of money, this increase in demand for money all through. I don't see very much in this total spending package if it's going to be of great help to the economy because United States has become much like the European economies and European economies really don't believe in this Keynesian idea that if you just have an increase in spending and finance it by issuing bonds that there's a multiplier effect from that because you really get a multiplier effect from the spending, you get a negative multiplier effect from the selling of the bonds which tightens market. The United States is becoming a little bit like that because of the worry about the dollar and so I don't that you're going to get any much of a multiplier effect from spending. The only country where you're going to get this, that's in the position to have all kinds of Keynesian policy is China. It's been doing this it got a huge reserves and its got the ability to do this increase in spending and to release money more from the government to the public and let consumption rise and the could be effective there.

Moderator: We're ready for one question from the audience, please.

A. Pukin: I'm Alex Pukin, Center for Microeconomic Analysis and Short-term Forecasting from Moscow. My question is very simple - it concerns the United States economy. So far, by Fed actions and the actions of the central bank we are likely awashed in liquidity to see Libor, for instance. And on the other hand, the microeconomic indicators continue to worsen though you can still see some signals of recovery if you really want it. So, my question is could you see some arguments for the second wave of problems maybe with insurance companies, with commercial

mortgages, *etc., etc.* or you think this is immaterial? Thank you.

R. Mundell: I'm always open to the possibility that there's something out down the road that's going to be sudden surprise because, frankly, nobody really predicted accurately the course of this crisis and nobody got to the root, as you were mentioning here of all the causes of it and I think that it would be hazardous not to be aware of the possibility of some big problems like more insurance companies like AIG. We had that one example of AIG and the AIG problem - the biggest insurance company in the world - was known about really three or four years ago. Hank Greenburg tried to shore up that problem then he got wrapped on the knuckles by the attorney general in New York and was forced out of the company. So, he wasn't allowed to do that job. I think there are likely more but the problems are going to be great, very great if the E-list lets the dollar comeback again and high again. Every movement up in the dollar and down in the price of gold tightness, anything tightness, anything threatening appreciation of the currency like a deflation, it exacerbate all the problems of the banking system and the insurance company, the whole financial system. They said part of it is that out this what's happening in the past would have been big financial crisis out side the gold standard when you got stuck inside it and couldn't get out of the gold standard situation is always more inflation. The United States came out of World War II with a debt-GDP ratio of 125%. They solved that problem in the next five years by a big inflation and by 1952 it was more manageable 52%. So this is the road that simply you have to extract. The idea of the Federal Reserve now following the policy of inflation targeting in the old fence is not just useful at all because actually the inflation rate is down to zero in the United States. There's probably tipped into a negative territory now and that's true in Europe economy. They're not even doing inflation targeting properly because they're letting these prices go down.

A. Shokhin:

Thank you very much, Professor.

Frankly speaking Professor Mundell is our keynote speaker that is why I was so liberal about his speech duration. However, I will be stricter about other speeches – we have many topics to discuss and many speakers. Besides, Grain Summit is opening right now in St. Petersburg, where Andrei Klepach, Deputy Minister of Economic Development, should be present. He asked me to give him opportunity to make speech closer to the end of the session in order to summarise discussion, but it is not possible to do that for technical reasons, so someone else will make summary of the discussion. I would like to give Mr. Klepach opportunity to speak right now. Mr. Klepach, here is a question for you: In January official government's forecast of recession rate was minus 0.2 %, then it became 2.2%, many experts considered it be too optimistic. Nowadays Ministry of Economic

Development has specified recession rate of 6-8% this year and your Ministry is being criticised for being too pessimistic. What conclusion can be made? Should we specify arithmetic average or refer to foreign forecasters, who also went from optimism to pessimism – practically all forecasting centres have deteriorated their forecasts from January until May bearing in mind the rates of the first quarter?

A. Klepach:

Mr. Shokhin, It is even worse to comment your own forecasts than to make them in the conditions of the crisis. I would answer, probably, in the following way. In January we had different estimates. At that time the most pessimistic forecast included value of GDP slow down by 4.5 % in 2009; we did not publish and interpret it officially. Moreover basic estimate included stagnation and plus 0.3 % or minus 0.5 % of growth, that is recession. But not the exact figure is important, the thing is that it is really difficult to forecast behaviour of economy in the crisis conditions. I believe that there are many potential problems. On one hand from recent deterioration of estimates for global economy growth one could tell that scale of global slowdown was underestimated. On the other hand, we underestimated sensitivity of the Russian economy towards fall of oil prices and outflow of capital. Alongside with these immediate effects internal process took place, which included reduction of business activities, caused by some other reasons apart from change in world prices, foreign debt retirement and lack of debt refinancing. Our analyses show that if everything could be explained by external factors only, Russian economy recession would unlikely exceed 4-5 % this year, in particular, in the first quarter. Nevertheless, in fact now we are closer to reduction of GDP up to about 7-8 %. This is mostly explained by behavioural effect – companies prefer to reduce production and accumulate debts – and also by the fact that we pursue too rigid monetary and budgetary policy. Several months ago we suggested softer monetary policy. Let us remind you that as opposed to majority of European countries and the USA where essential growth of monetary indicators and reduction of interest rates can be seen, in Russia everything is absolutely vice versa. In the first quarter money supply has been reduced harshly and only in April slight growth has begun. At the moment our monetary aggregate is lower than in the last December. Interest rates have risen sharply and it is connected both with efforts to stabilise rouble rate and selected model of monetary and budgetary policy. Although now we are having budget deficit, in January-April it was more than 3 % of GDP, but in fact money funds have been flowing into economy only from the end of March-April. That is why the amount of government demand was not increased but reduced in the first quarter. And that influenced the recession instead of counteracting it. These are the figures which explain why a year or a year and a half ago while estimating how the potential crisis of global economy would impact us we assumed that growth rates would fall sharply up to 2-3%, or

even up to one percent but it still would be positive. Before the crisis, the Russian economy demonstrated very high growth rates. So we underestimated the crisis development for the Russian economy because potential for development of projects commenced in agriculture, construction and metallurgy industries was very high. And now we can see the multiplier effect, which couldn't be foreseen before. Besides behavioural effect, I mentioned above, we can face a situation like in America in 1929-1933, when companies preferred not to decrease prices. Now domestic prices are rising, but we expected bigger reduction of production volumes. We have minimised manufacturer price drop, and now the prices are growing and companies prefer to reduce production volume but not to execute orders at lower prices.

Now I would like to come back to more general issues related to the nature of the global economic crisis and how it will influence the development of the Russian economy. In reality, crisis forecasting process is rather complicated. In general there were many estimates. If you have a look at materials of Concept for Long-Term Social and Economic Development of Russia, you will see that we'd mentioned the possibility of the global crisis but expected it a little bit later, in 2010-2012. As I mentioned above we did not foresee that the crisis would have that scale and lead to fall of the Russian GDP.

It is very important to evaluate mechanism of the crisis further development. Each step is very important here and I still think that we have had the chances not to fall so badly. In fact we failed in the first quarter and the whole year. Nevertheless, the situation is as it is, and one of the key issues now is how to overcome the crisis, not only in June-July at turning point of the trend, but also in 2010. Majority of forecasts for the global economy show that one way or another the crisis will cover at least 2010. The American economy will start to recovering earlier; the European economy is more likely to be in stagnation phase, or even negative figures may be encountered. I think that LINK forecasts for China are too optimistic; we expect lower growth rates. But anyway growth of the global economy is going to start growing for may be 1.5 % per year or may be even more. One of the problems is that we will hardly see the fast growing rates, which we observed in 2000-ies, almost 4-5% per year. We will hardly see such growth in the next decade due to lower growth rates in industrially developed countries. And what is most important, apparently, in such drivers as the Chinese and the Indian economies growth rates can be lower than in the previous decade. That is why one of the key problems for the global economy is whether we get into stagnation or slowdown rates of growth, at 1.5-2 % per year; at the same time renewal of inflation wave is eventual. In the context of Russia the question is whether we will be able to come back to fast growth of seven and more percents per year, which we had in previous five - six years in average. It seems that in 2010 we will not be able to demonstrate high rates of growth. Range of our estimates includes from 1% up to 1.2-1.3% of GDP growth. And in future a lot will depend on structural adjustment of the

Russian economy and on conservatism of budgetary policy. One of our key challenges lies in the fact that without essential government investments private sector cannot ensure growth of own investments. That is why once in two-three years we can get in to situation of rather low growth rates of about 1-2% per year at favourable scenario of structural adjustment of business and relatively active expansionist policy of the government provided that there are no so-called budget shocks. While getting into the crisis all countries one way or another have a large budget deficit; Russia will have about 8-9% of budget deficit per year in 2009 and the question is whether there is a possibility of cutting it in 2010 and 2011. If we cut it twice as much, budget shock can occur in the economy and it will seriously affect recovery. One of the key issues now is how to escape budget shock and to mitigate getting out of crisis. On the other hand the problem is how to escape lack in innovations and technologies. It is quite obvious that our problem includes extremely low level of competitive ability, low level of efficiency, labour productivity in majority of key branches; these indicators are from three-five up to ten times lower than the same of our competitors in the European countries and sometimes in China and India. To reach sustainable growth model we should obtain significant increase in labour productivity and reduction of energy intensity. It cannot be reached without investments and essential business restructuring. It is rather difficult to say how many years it will take, but we assume that under favourable conditions and stable international trends we will be able to reach growth rates of 5%-6% per year in two-three years. In this context Russia can become one of the fastest growing economies again.

Thank you.

A. Shokhin:

Thank you, Mr. Klepach, for your moderate optimism. It would be just optimism if not for this exception that Russia can become one of the fastest growing economies in three-five years. I have a question. If I see it right, the Russian economy recovery rates depend in many ways on recovery rates of the economies which are the major markets for our export resources, don't they? Aren't we able to reach this moderate optimistic result with internal resources?

A. Klepach:

There are two different way. I believe that we have opportunity to reach 2-3% of growth rate next year and even more in 2011 even on the condition of no improvement, but stability of comfortable prices, which are being formed now. For oil with annual average value it is fifty- fifty five dollars per barrel, now it is around sixty and there is a tendency for increase of metal prices. However, there is a possibility of essential internal growth. There's been thirty percent reduction of import in the first quarter. There is a potential of import substitution, but it is practically not used even

though there is high devaluation. Companies try to survive, to reloan and just remain afloat, that's why manufacturing industry has not used devaluation effect yet. On the other hand, we have large potential of implementing investment projects in infrastructural sphere. One problem is that uncertainty related to state policy and market situation lead to conditions when companies review reduction of their investment plans; this situation refers not only to private business of metallurgy and chemical industry, which are export-sensitive industries, but also to natural monopolies and infrastructural branches. At the moment investment programs of the Russian Railways, according to the preliminary estimates, may be reduced up to more than fifty percents and it means reduction in demand of metals, construction works. Investment programs of electric power industry have not been in the positive rate yet, but we can obtain stagnation in the next year. Investment programs of Gazprom may be reduced. I'm not going to mention any figures as far as we have not reached certainty in this issue with Gazprom. And it relates not only to economic conditions, it relates to future model of development – all new deposits are connected with significant growth of capital intensity and as result we'll receive time delay in development of Shtokman, Yamal and other deposits. Growth potential of domestic demand, both investment and consumer demand, is still very high. Earlier our trade and consumer demand used to grow up to 13-14% per year. We'll not come back to such rates, but even 5-6% of increase in trade is rather powerful driver for economic growth. I believe that in two years we will reach it although it depends on many factors. The problem is whether we have sufficient wisdom and decisiveness to use it.

A. Shokhin:

Thank you, Mr. Klepach for you detailed answer. Colleagues, now we are coming back to the global topics and I would like to introduce Rob Vos, Director of UN Social and Economic Development Policy and Analysis Division. We know that UN experts not only actively develop forecasts for the global economy and main macroeconomic regions, but also work out recovery scenarios. Taking into consideration fact that the next G20 Summit is going to take place at the same time and not far away, we would like to use the opportunity and find out what is the opinion of General Assembly, which will be held in September, regarding this issue.

R. Vos:

Thank you very much. First of all, to the Forum for organising this joint session with Link, which is not just a model framework as Professor Mundell referred to it, but is also a network of experts that help us keep informed of what's happening in different parts of the world. Let me make four points and then come back to your final question on what's going to happen at the general assembly. The four points are: First, what do we expect to happen in 2009? The second point is to discuss the

nature of this crisis that's become a very deep and serious crisis; third, what's our expectations for 2010; what kind of recovery we might expect and the risks associated still with the fragility of the global economy; and fourth, what could be done to get to a stronger recover?. So firstly on the outlook for 2009, we were among the pessimists already last year when everybody was still relatively optimistic. The managing director of IMF still in May of last year had a public statement saying that the financial crisis was over, at least the financial turmoil over at that time. We were much less sanguine already beginning of last year. We felt and over the previous years that there were all kinds of signs that the unsustainable growth path over the previous years would come to an end as the financial bubble and the housing market bubble in the US would come to an end. So, we've seen a very steep deceleration of trends since the middle of last year and increasing downturn we now project that the world economy will decline by 2.6% in 2009. We should recognise the importance of this because this hasn't happened since the Second World War so this is a very severe crisis for the global economy. It also expresses that there's a downturn that is very widespread. And of course, it's led by the downturn in the developed countries which strong and active growth in the United States minus 3.5%, Japan more than 7% decline, Europe also more than 3% decline and elsewhere. Also strong declines we forecast for the economies in transition: Russia, Ukraine all show negative growth rates for most of the economies in transition. And also the developing countries which did relatively well, have robust growth since about 2003, of average growth rates of 6% or higher for that period. We will see decelerating growth on average by 1.4% in 2009. Also, strong deceleration in East and South Asia that had a very high growth rates before and stagnant growth in Africa and negative growth in Latin America. So, the outlook and parts there's not much more optimist one can give to that simply because of what has already happened during the year, particularly developing countries are being hit by all kinds of channels - a reversal of capital flows, the collapse of world trade, we expect world trade to decrease by 11% for the year. And if we look at the quarterly numbers, they've been more staggering; also in Asia very strongly declining trade. Also some economies are also suffering from falling remittances and depending on their export structure, also many developing countries in particular are suffering from lower commodity prices. So coming with that to my second point is how did this crisis come to be so widespread and world wide and now that we are in the middle of it that seems like a normal thing and everybody says so. But again, up to about a year ago not many people were thinking that the financial problems in the United States would easily spill over to the rest of the world. There were hypotheses that there might be some decoupling presence by which the strong growth in developing countries had gained their own momentum and that they will be less affected by the financial problems in the developed countries. But if you analyse it properly, and it is not because the model we have that if you properly look at the interconnections around the world you would see that the

US financial bubble and the housing bubble drove a very strong consumption growth which in turn led to overspending in the United States, increasing deficits on which the rising export growth in other parts of the world particularly in Asia built it also steps stimulated high commodity prices which in turn helped strong growth in developing countries. The second point which is very important to mention is the crisis is a systemic crisis, it starts in financial sector but the fact that the financial sector throughout and because of the interconnectiveness with the trading system and the real economy, we see this crisis accelerating in a downward spiral from the financial sector into the real economy world wide. So it's very important to keep these aspects in mind when also addressing the prospects for recovery and the solutions to it. So coming to my third point on the prospects for recovery in our baseline forecast, we do project a weak recovery in 2010 global economy increasing by about 1.5% with a weak recovery in the United States. I say it's a weak recovery because if you go down first by 3% or 4% and then recover by 1%, they just still have a lot of output gap to make up for. And also if that works out, then also other parts of the world through increasing trade and global demands could be part of that recovery including the developing countries. Now, I say that with some caution because the assumptions we make for that to happen are based on two, at least two critical factors a few more, but let me present to how it is to you first, that the problems in the financial sector bottom out somewhere soon hopefully beginning of the third quarter. The physical stimulus packages could gain momentum such that the packages had been put in place in many of the economies. If those two things happen, then we may start to see a recovery towards the end of the year at the beginning of 2010. Now, in the new forecast, we have also a more pessimistic scenario. We'll not mention all the numbers for that, but that scenario is that we expect that those assumptions may not hold. So financial sector problems may continue and we still see a lot of problems drying up normal credit flows between businesses and countries. This also upholds trade because trade credits in many places are very difficult to be had and so on and so forth. So, if that doesn't happen, then we enter a much more pessimistic scenario for 2010, and also then the physical stimulus measures may not gain as much momentum as we would like it to see. Now there's much talk now that we may see some green shoots or signs of recovery. My own view is that, if they are there, then they're still very fragile. A lot of the good news that we read in the newspapers is actually more similar to news that could be worse, or isn't as bad as yesterday's news, such as 'only' 350,000 jobs being lost in the United States which is less than the expected half million jobs lost in the last month, but still it's 350,000 jobs being lost. So, what we may see and a lot of indicators show that is a deceleration of the downturn. So we may be heading towards a bottoming out but we are still in a downward spiral according to the more robust indicator. So we should not be too optimistic yet. There are some signs of resilience in some Asian countries. This is why, in our forecast, we're slightly more optimistic on the possibilities of China to hold up its

growth and also in country like Indonesia where physical stimulus packages are stimulating domestic demands and encouraging growth in those economies. But still it's all very fragile and we still have a lot of risk in front of us. The challenge I would like to emphasise is the main risk that has been discussed in other sessions: the risk of protectionism. There's also a possibility that, for the poorest countries, development will be much slower than in the previous years simply because of the budget constraints in the donor countries. But the point I would like to emphasise on is what Professor Mundell also referred to, and that is the risk of major instability on exchange rates and the possible collapse of the United States dollar. We are worried about this, and we've been seeing it over the past few years in global imbalances that have been building up and gave rise to volatile dollar exchange rate against most other currencies and about depreciating trend until the middle of last year because of the deleveraging process and the use of the dollar as a 'safe' currency. We've seen appreciation since, but also a very strong volatility. But what we are seeing now is a challenge ahead of us, which will put major pressure on the dollar. The United States is embarking on a major stimulus package which, according to the forecast, will drive up the budget deficit to about 1.6 trillion dollars - that's more than 11% of the GDP of the United States, up from what was projected - about 3% of the GDP. So we get a rise of 8% in GDP. The question is how the United States government is going to finance that increase in its deficits. Part of it comes from private savings. Private and household savings are projected to go from nothing, 0%, to 4%. But that still leaves us with about half of that deficit decrease to be financed from elsewhere. And that could be done through further issuance of treasury bills, attempting to mobilise more domestic private savings or money from abroad. In the past, as part of the global imbalances, surpluses have come in part from Europe, Japan, China, and from the major oil exporting countries and some other developing countries. But as we point out in our latest report, we see a narrowing of these imbalances in a deflationary way and a major concern is what will be left after the major surplus countries such as Japan have no longer projected surplus. This will mean breaking even or maybe slight deficits in this year. Basically, China will be left as the major surplus country that could finance and decrease deficit in the United States. So the question then is if there's doubt amongst the Chinese whether or not to hold more dollar assets, and also whether that is going to work out as you might hope. They may get more access to dollars than an excess demand of dollars, as we have seen happening over the past six months or so. So with that what we may expect is either downward pressure in the dollar or very unstable exchange rates around the world. It will be a worrying time in the coming months as we move forward, unless, and that has taken me to my fourth and final point, we get better international policy coordination to try and resolve that. Now, this issue of political coordination over the past few years has taken the form of warning signals about the problems we are experiencing now, which, with political coordination, we might have avoided. What does

political coordination imply? Firstly, if we look at the action being undertaken we see that major amounts of public money is being poured into the financial system in the form of physical stimulus packages in an unprecedented manner. According to our summary, since September last year, 18 trillion dollars of public money, which is about 40% of world output, has been spent on financial guarantees and bailouts money . We've seen packages put together for this year and the coming years of about 2.7 trillion dollars which is about 4% of growth GDP so that is quite significant. The problem we see however is that firstly, the stimulus is unbalanced. It's unbalanced because 80% of it is taking place in developed countries, although probably that's the way it should be since the downturn there is worse, but as we've mentioned, the downturn is also very strong in the emerging market economies and in the developing countries and many of those don't have the physical space and the physical means also to engage in <inaudible> policies. So unless the packages are more balanced that way we may not see a full recovery of the global economy to the extent that is needed. The second part that needs to be more balanced is that a lot of the stimulus comes deficit countries, particularly the United States, and a lot of the concentration of the physical stimulus is there. The question is whether that will give us a benign adjustment of the financial imbalances without risking these exchange rates alignments I just talked about. Coordination is rebalancing of the physical stimulus and a part of that will need to happen through financial transfers and making more resources available than is currently the case; particularly for the poorest countries. The second thing that will need to happen as part of the coordination is to ensure we avoid greater financial instability and fewer moves towards the financing of physical stimulus packages, as this will lead to major budget problems around the developed world and the emerging market. The economy is an immediate term framework, and we need to think about how these will be financed. But particularly, as I mentioned, that will include agreement on how target the monetary adjustments and keep the exchange rates within certain bands so as not to upset financial markets. The further area of coordination that should take place is also in the trade area avoiding further protectionism. Yesterday there were several sessions on this so I won't go into it here. But we need to keep markets open to provide even further market access particularly in developing countries so that we will be able to achieve recovery including through strengthening of trade. And if you would do that, one of our new model systems which I showed you could gain much more from that kind of political coordination. But my final point about coordination is not so much just coordination but also policy coherence. We should not just look at how we try and resolve the financial sector problems, how and how much physical stimulus should take place and how that should be balanced across countries in order to have a balanced recovery process, but also how that would be invested in long-term investments so we can get closer to a much more sustainable recovery of the global economy. And I think that should challenge us to find new ways of development. Due to the crisis,

about 100 million more people will be entering into extreme poverty and that will be major setbacks in the progress that had been made in the past few years in poverty reduction and improvements in education and health. The second major long term challenge is of course how to combat climate change and what we will need ahead of us is an alignment of the physical service packages such that we can get a sustained and more balanced growth path. But we also need sustainability in terms of combating climate change. We won't go into the details of that. So it's time to close and come back to the question you raised about what's going to happen to the general assembly. Well, there will be a general assembly starting in September. The main events we will have at the general assembly will deal with the financial crisis' impact on development. This will take place between the 24th and 26th June. Where a lot of these more long-term challenges lie, particularly how to involve the developing countries in this process and ensure that the solutions that we are trying to find for this crisis and seeking recovery and in resolving these long term problems are being done in the interest and with the full participation of the developing countries. I would say or as the president of the general assembly would say is that we see a lot of decisions being made at the G8 or G20 summit and he would say "what about the other 192 which make up the member states of the United Nations?"

And I think that the crisis, as I started out saying, is a global crisis; it's affecting all countries in the world also those that we won't have to start the problems, so in seeking solutions we should try make an inclusive process in seeking fair and sustainable solutions for all countries in the world. I think that's a challenge in that conference as much as addressing the more systemic issues which I leave for the discussion and I will stop here. Thank you very much.

A. Shokhin:

Because of the fact that the United Nations include almost two hundred countries, besides G20 Summit we could establish G200 Summit, maybe someone else will join UN under these circumstances. For developing nations recovery, which includes access to markets, as you've mentioned; and this access mostly depends on success of the Doha Round of WTO negotiations. Do you believe that it is possible to consolidate the joint efforts in this area by completion of the Doha Round by the end of this year?

Panellist:

<Inaudible> depends on political will, of course. We've seen it's been very difficult to get to agreements with this crisis. Probably, it is even more difficult since so many countries have embarked on protectionist measures of all sorts. But I still hope that given the severely difficult crisis, the member states of the WTO will see that without strengths, joint solutions and a multi-

lateral trading system it will be very difficult to have a sustained recovery if global trades remain depressed, and also if global is not truly living up to the promise of the Doha Round which is a developmental-oriented round and that's why I emphasised the importance of enhancing market access for developing countries. So, it will depend on political will but hopefully a crisis as the Chinese words is in crises that talks about. It's a crisis at the same time an opportunity that everybody will see this as an opportunity to repair what was wrong and try to adjust to the failures that leads to this crisis and hopefully that will be a good starting point for more vigorous negotiations leading to good outcome.

A. Shokhin:

Chinese character "crisis" means danger and opportunity at the same time. The Chinese were the first to use these opportunities. I would like to introduce Jan Kubis, Executive Secretary of UN Economic Commission for Europe. Russia is a member of the United Nations and the Economic Commission for Europe. That is why we are going to talk about perspectives of the large European region from the Atlantic up to the Urals. Mr. Kubis is on business trip, isn't he? Then I would offer to Hans Timmer, Lead Economist and Manager of the Global Trends Team of the World Bank to continue the global topic . We would like to continue talking about the opportunities for developing nations to overcome the crisis in the context of protectionist measures. For developing countries protectionism may be the only opportunity to overcome crisis as opposed to industrially developed countries, which also use protectionist measures, but apart from that they have additional resources. Will it be possible to win protectionism? All documents of G20, G8 Summits and other forums specify that struggle with all forms of protectionism, including protectionism in financial and banking systems, is the priority and it is the way out from crisis. Nevertheless, when the heads of states and governments, who signed such statement, come back to their capitals they introduce additional protectionist measures immediately. Will the countries signing combined action programs be able to act in coordinated way? What is the role of the World Bank here?

H. Timmer:

I actually thought that the opposite is true, that at the moment it's especially the developing and the emerging economies that see the opportunity of free trade as one way of getting out of this crisis and regaining the strength that they had as an engine of growth in the world economy over the last ten years. And I think it's not a coincidence that the strongest forces for keeping trade channels open are coming at the moment out of emerging Asia because that's actually the region that benefits most from free trade and understand that it's a channel.

And one of the dangers is that that mechanism of continued, open trade in the world economy as a

way of avoiding a deeper crisis - that understanding is not everywhere in all the high income countries. In the United States, and, to some extent, in Europe, there is a danger of more protectionary measures. And that is a misunderstanding of what ultimately will create a solution out of this global crisis because free trade is not just something that will help the developing countries gain market access, which is useful for their growth opportunity and also useful to benefit from the comparative advantages that they have, but ultimately it is also very useful for the high income countries to have that growth performance in the developing world. The last two years have been characterised by strong growth in the developing world and especially very high investment growth in the developing world. Double digit growth enabled the high income countries to continue to export very strongly whilst their own, domestic economy was already slowing.

We are often talking now about the crisis as if it is something that started in September 2008 with the failure of Lehman Brothers. It's true that that was a point when it suddenly became a global crisis. That was the point when suddenly all countries in the world, including the developing countries, were directly hit by the deterioration of financing conditions. They were directly hit in their economy as a result of the deterioration of financing conditions. You saw that everywhere people stopped buying cars, everywhere the investments collapsed. It was not the trade channel that was so important; it was the direct impact on all the countries as a result of the collapse in trade. So everybody is thinking about the crisis starting in September 2008, but actually it started at the end of 2006 in the United States. That was the point when the bubble in the housing market burst. At the end of 2006, you saw that suddenly, increases in housing prices stopped and in the first half of 2007 you saw that those prices started to decline at a rapid rate. In summer 2007 the crisis began, but it was confined to the United States. At that moment, there was already hardly any consumption growth in the United States and import demand was actually declining. Now at the same time, the rest of the world was still growing very fast, especially the developing countries, and their trade growth was also still very fast throughout 2007. As a result of that, the developing world grew at more than 8% in 2007. This was a record growth and consistent with output in the developing world that we have seen this decade: on average the developing countries were growing twice as fast as the high income countries. Now as a result of that strong growth in the developing world the United States, although they saw the collapse in domestic demand, would still continue to grow at a relatively strong rate because their export growth was in double digits. What happened now in the current crisis, when suddenly it became a global crisis, is no longer was the export demand for investment goods in the high income countries was not there to rescue the adjustment that was needed in their domestic economy. So everywhere investment collapsed and it is not a coincidence that you see the largest decline in industrial productions in countries like Japan, 30% decline in industrial production over the last 6 months. In Germany, 20% decline. Initially also in Korea; so

that's a much larger decline than the average 15% decline that we have seen for the world. Those are exactly the countries that are specialised in investment goods that benefited from exports to developing countries. So, it's really in the benefit also of the high income countries to keep the trade channels open and as Rob said to support the emerging economies to come out of this crisis so that again they can become an engine of growth. So in that sense, whether it can be done before the end of the year or not but I think there should be new opportunities now to come up within a global trade deal because it's a global crisis and it needs a global solution and it's in the benefit for everyone.

A. Shokhin:

We have started talking about the trade, product markets and I suggest listening to our business participants who control these goods, products and trade. I would like to introduce Klaus Kleinfeld, President and CEO Alcoa Inc. Mr. Kleinfeld, everyone thinks that high-price period is over; our Minister of Finance stated that there would not be high prices for the Russian exported raw materials for further fifty years at least. How do companies succeed to adapt to low-price period? Which prices are acceptable for leading companies, including companies in aluminium industry and non-ferrous metallurgy?

K. Kleinfeld:

It's a very interesting question and after listening to all the distinguished panellists here I feel little bit like Zsa Zsa Gabor's eighth husband, who was asked before he married Zsa Zsa Gabor, "I know very well what is expected of me but I just don't know whether I can make it interesting anymore." So, let me start with listening to all of this on the economy and I think the same thing holds true for our commodity. I believe that if you ask me whether I know what's going to happen to the economy, I would admit that I don't know. And saying that, I think that does not mean that my education is wasted, I just believe that my education has led me to know that nobody knows at this point in time. And with that already, we know quite a bit. I had the great pleasure to listen to many economists in my life but actually it was just recently that I saw some stuff there which I really, really liked a lot and it was presented by a guy called Robert Shiller, who is a Yale professor, talking about animal spirits. And what he is really talking about is the story that we believe in. A year ago, I've been a regular here in St. Petersburg. Many who know me know that I'm a big fan of Russia. I really believe in Russia and the future of Russia and I continue to believe in the future of Russia as I continue to believe in the future of the world. You know, because I'm an optimist and I see a lot of good things. I think everyone of us here in the room, otherwise you wouldn't be invited for this forum, has the capabilities to point a wonderful bleak world and we can get even bleaker

and we can't talk about Ws or triple Us or whatever Us, you know, all we can talk about Ls and Vs and whatever. It really doesn't matter because I believe there's a group phenomenon here and we are overlooking some aspects here.

If we looked back, just a year ago here, we all were talking about the fundamentals being strong and when it came down to what fundamentals were we talking about we talked fundamentally about 3 billion more people coming on to the planet in the next years. And that's the statistics which is really rigid. The economic crisis will not change that. Those 3 billion people will hit it they will be here until 2050. Most of them, 70% of them will live in cities. So there is a humongous requirement for industrialisation of those cities. If we don't believe in that scenario, we don't want our children to be on this planet and I'm not talking about the future generation. I'm talking about the ones that are already, today, are on this planet because 2050 is just around the corner. Right, so we better start thinking about a real good story and start thinking about how we get it back to where it was once.

Thinking about how do we get it back and I think that we have to give credit to the governments. How the government stepped in here when this crisis unfolded in our industry, the market price has dropped in five months by 60% that has never happened before since the trading of the metal started. Government stepped in worldwide. They coordinated each worldwide. And I believe you're seeing that stimulus program start working. We see that very clearly in China. The Chinese stimulus program works. We see in our industry that China has in the meantime gotten into a deficit while it comes to aluminium and has become a net importer of aluminium. The whole world has curtailed roughly 20% of aluminium as have we so you're seeing things are changing. On the alumina side we already see that there is a balance worldwide. In the US, we are seeing that from a cliff drop, it has gone into a bottoming out. It's not like there's a growth already there, but the early indicator show it has bottomed out. And that's already by itself very, very good news.

When you look to Europe, Europe kind of is a very, very different animal and has many, many aspects. And there are some good and there are some bad. When it comes to Russia, and I want to close with that, and looking just at our industry - Russia has, just to give you a couple of statistics, currently about 5 kilograms of aluminium consumption per person. And, unfortunately, the provider, the organisers of this conference also were not so kind to use the right packaging because there's a lot of advantages to aluminium. One is that it is an enormously sustainable material, 95% recyclability. In the US, when you throw an empty can away the can comes back fully recycled in six weeks. Seventy-three percent of all alumina that has ever been produced on this planet is still around. There's no other material that has such statistics. The average, here in Russia, it's 5 kilograms per person. The average consumption worldwide in developed economies is around 30-40 kilograms. So that alone shows you there's a huge, huge potential here in this market, at least, for our industry and I believe, also for other industry. I just want to remind those that are Russian

because I sometimes have the impression that you need to be reminded by somebody from the outside of the strengths that this country has. I've seen this country through that worst and through the best. You have one of the best general education systems, one of the best scientific education and you have a rich cultural tradition that shows in many, many areas. I tell you and you have an industry which is developed throughout many, many ways and natural resources and I could go on and on, and on, and on. You got to use it. You got to use it wisely and I think you can use it. And last point is you have a stable government. Remind yourself of all the great things that have happened here, all the great things that have here and lasted throughout the years. And I think then we can all enjoy future St. Petersburg economic forums where we are all upbeat again. Thank you.

A. Shokhin:

Demand for the best girls' friends, diamonds, is a sign of economic recovery. Their disappearance from girls' necks or hands is often a sign of crisis. Therefore I would like to digress into a subject of diamond exploration complex and introduce Sergey Vybornov, President, Alrosa Co. Ltd. Do you have any evidence of crisis recovery? How do the best girls' friends behave themselves?

S. Vybornov:

Mr. Shokhin, the most important thing is that girls are still there. Moreover, diamonds mined for the whole period of mankind history are all here. No diamond has disappeared; every carat is here. Average age of the oldest diamonds in Udachnaya pipe is 2 billion 400 million years and the Earth age is 2.8 billion years.

For example I can not understand neither optimists nor pessimists talking about getting out of crisis. In my opinion, we underestimate what has happened. Let me give simple example. A citizen has bought General Motors share for one dollar, then in a month he sold the same share to the other citizen for two dollars. Has GM capitalisation grown twice for this period? No, it hasn't. Meanwhile, let us say Lehman Brothers takes number of deals and based on their evaluations issues GM convertible bonds bought by investors. GM produces more cars; consumers get credits in banks and buy these cars. Therefore, as a result we have neither GM, nor cars as far as they have not been taken as pledge or Lehman Brothers. From my point of view greed is one of the crisis names. Moreover, there is no evidence that crisis is of exceptionally economic nature.

We have talked a lot about letters describing crisis development. I would suggest Russian letter "Ж" – not only because of its association with a well-known word. From my point of view it describes the complexity of the crisis development in a graphic form.

Diamond production business is really rather specific. Ultimate customers have not disappeared. In reality we sell emotions – joy, happiness, love. They are eternal. In fact recession in demand is

about fifteen percents and it is mostly based on emotions. A month ago I read analytics based on survey regarding sales on the last New Year Eve in the USA. Men with fortune of more than 20 million dollars were respondents of this survey. In particular they declared that they intended to reduce part of expenses for their love affairs. Majority, more than 80%. Apparently due to jewellery and diamonds. Naturally it is a temporary pause. All producers left the market at mining level. BHP, De Beers ALROSA. We did not sell raw materials. It allowed divesting stocks to the amount of about four billion from banks where they were stored as pledge of our clients. For the recent three months we have been observing the increasing trend and I think by the end of this year we will reach pre-crisis level of sales. ALROSA as a public company has got government support. The other companies reduced production, De Beers - by 90%. It is an unequalled measure. This is brief answer to your question. We seem to be OK.

A. Shokhin:

Thank you. May I ask you question? Your company specialises in diamond exploration and production business but some time ago you diversified your business and started projects in other branches. Has diversification been helpful during the crisis?

S. Vybornov:

Well, yes and no. In fact, in two nearest months we are going to sell our non-key assets. They are gas and oil, first of all. Their sale will give us additional amount of about 1.2 billion dollars for our balance, and it is good. On the other hand, at this session my colleague is present, who is from ALROSA investment group, that is our own investment bank. Two months before the crisis their company won the tender for iron-ore deposits. So, we've got four very good deposits in South Yakutia. Basically they are bigger than famous Kursk Magnetic Anomaly by reserves. Now we need to mine them. Here we face a problem.

A. Shokhin:

You've got no potential buyers, have you?

S. Vybornov:

We did not plan to sell them. They are our strategic assets. We have been looking for partners. In addition, we still hope to find them. We see great interest in China in this issue; the estimate of Chinese economy given here has been correct. Moreover, South Yakutia and China are practically neighbouring areas.

A. Shokhin:

Nod is as good as a wink. Thank you, Mr. Vybornov. I would like to give the floor to Anri Proglío, President and CEO Veolia Environment. When demand for many companies is running out as sands Veolia Environment does its best to treat water from sand.

A. Proglío:

Veolia is the number one company in the world for environmental services which means that we are number one in the water business as a matter of fact. They bring and are operating water for most of the cities in the world. We are the number one company in waste management. We are also number one in energy optimisation and public transport as a private company in the world. We are operating in 80 different countries, and as I have told you, we are the number one company in the world. What I mean, the crisis was originally and you all mentioned it, a crisis due to the financial area. The place that globally the world, the economical world, gave to the finance is one of the most important causes of the crisis that occurred mid 2007 and worsened last year in 2008. I think the world tomorrow, the economy of the future will be suddenly and significantly different from the one pre-crisis through the fact that, first of all, finance will be less important as part of the economy. The finance was 40% of GDP in such countries as the US just before the crisis. It will be down half of it in the future. And this is just an example of how I see finance as part, of course, of a significant part of the economy, but decreasing part of the economy for the world to come.

On the other hand, the world has changed a lot around the last century but in particular around the last years. Mr. Pandit mentioned the number of people living in the earth today is seven billion compared to one-a-half billion at the beginning of the 20th century. We will have nine billion people living on the earth in 20 years from now. Whatever the economy is, the number of people living on the planet will be nine billion in, let's say, 30 years from now. And we will be in a new world, in a world of density; the number of people living in cities increased tremendously around the last 15 years. One of two inhabitants living on the earth today is living in a city. Density of the population is a clear signal of a huge move of the world around the last 20 years and this creates, obviously quite a new model of needs in the economic field for the years to come.

First of all, it's a world of density as I told. It's a world of scarcity. Access to primary services and needs in almost every country in the world for water, pure water, waste water treatment, energy is increasingly higher than a few years ago. The needs and the use of primary energy was multiplied by eight in a century and will increase by 30% in 15 years time which gives you an example of needs, of just energy. It means the sustainable development cannot be envisaged we thought - this tremendous move in this kind of huge needs of populations and move the economy in quite another

way of how we lived it in the past, which means that we have several drivers that will occur. One is the green development; green economy would be part of the recovery and the development of the economy of tomorrow. It's obvious that access again to these services, to water, waste, energy services and transport to such a development will be a significant part of the needs in each and every country in terms of infrastructures, in terms of technology, in terms of how to operate these services.

And it will create a new very significant potential for growth in most of the countries in the world in particular in huge urban areas that you can focus on. The second differentiation is that the state and the government will be part of this new economy. We forgot about this, meaning that business as such knows the world apart and that political was another world and these two worlds separated from each other around the last years. And today we discover the fact that government, meaning public needs, has to be in connection with the business as such and with the business world. And the stimulus plans in every country that are requiring more and more investment, money, efforts from national or local governments, national or local politicians would be part of this new developing world. And so what I think that it will be a U, W or whatever again is not an issue. The problem is how to manage, to refocus energy, the money, the skills to the real needs of the population. The world of tomorrow, the improvement of the economy will be the consequence of refocusing skills, energy, talents and money to do real needs to industry rather than to finance, and to the real needs rather than to anything that has to do with speculations as such. And again, public infrastructure, green economy and public, private partnership, meaning cooperation between public decision and private efficiency would be part of the recovery of the economy of tomorrow. This is my strong belief and regarding this kind of consideration such businesses like ours can be part of the answers and not only of the questions. This is about what I mean of all these. Thank you.

A. Shokhin:

I've got this question to you, Anri. Your company has been working in many countries of the world and as far as I know some of your personnel working outside France exceeds the number of personnel working at the headquarters by several times. How big is demand for green technologies? Necessity of these technologies has been widely discussed for the recent time; they are included within frameworks of anticrisis measures in the USA and other countries. Do you think that demand for environment-friendly technologies is growing in the period of crisis?

A. Proglia:

Obviously, yes. We can just focus on some examples desalination, reuse of water. Part of the

technologies that are used today, for instance, in China, in Australia, in Singapore of course; and the key question, for instance today, in California, Southern California is access to water from Los Angeles down to San Diego, they have no more access to any water. It's not a question. It's not more a question; it's an urgent need of solution. So this is an example - reusable way of producing energy for renewable. This is another issue; how to manage to avoid using too much energy and to bring some efficiency on energy needs; how to manage morbidity in big urban areas, which is a huge problem for each and every of the big cities in the world; how to manage to reduce greenhouse effect coming from housing, from transport, from waste. This is another example. We have a lot of examples. Coming to the people, to the technologies and to the skills, and the people and the tenants, we have today 340,000 people working in the company; two-thirds of those people are not French, which means 228,000 people are from other nationalities whether they are Chinese, American, Russian or whatever. So we have a lot of people coming from all the parts of all the continents.

A. Shokhin:

It would be good if we could agree with Moscow Government on issue of traffic management. It would be good both for ecology and survival of those who spend several hours a day in traffic jam. I would like to give the floor to Igor Serov, CEO of United Industrial Corporation. The Corporation works in many industries starting from shipbuilding and coal production up to finance and mass media sectors. Did the fact that your Corporation is represented in different industries help you for survival in crisis?

I. Serov:

I think that the fact of our Corporation presence in different areas, different industries and branches helps our development nowadays. At the same time, notwithstanding situation with global economy and economy of the Russian Federation, there is no area unaffected by this crisis impact. I believe that there are several factors determining recovery of different branches of the economy; and it is true for all our businesses. If we look at our economy as a whole and our branches in particular I would like to dwell on literally two or three factors that can influence it. First, this is regulation of financial sector. I'm not going to talk about new regulators or limitation of financial institutions opportunities. I mean a rather simple issue – access of companies to credit market. Nowadays there are a lot of bad credits and debts in the system and if banks do not acknowledge these bad credits and write them off it will lead to long-term stagnation. Burdened with non-working assets banks will face problems with capitalisation, liquidity and, naturally, access of real sector to finance will be limited. Today the USA have written charged off about 510 billion dollars, a rather large

amount, and they already have certain result – nowadays financial institutions which used to take stabilisation loans from government institutions, can raise money at open markets and repay stabilisation loans. In Europe this figure is much lower, a little bit more than 150 billion, the lion's share is attributed to Great Britain, in Continental Europe amount of write-offs is a little bit more than 40 billion dollars. It is expected that by the end of 2010 this amount will reach 750 billion, and this issue decision making is still ahead. At present amount of eventual losses is unclear, and that is why it is still unclear when we are able to continue crediting of real sectors of economy. Stimulating the domestic demand is the second factor I mentioned above. Today we have been talking about protectionism. We can discuss it and its sequences for a long time. But the measures taken by governments for support of certain companies in different countries border with protectionism, they are quite short of outpassing this border. That is why expectations based on export growth getting one or another country out of crisis faster than others can fall short. Here is the favourite example of the Forum participants - People's Republic of China is a traditional importer of rather significant volumes of steel. From 2001 to 2007 its metallurgy industry has grown with rates of 20% per year. In 2008 this rate has fallen to 2% and nowadays open discussion is taking place regarding limitation of steel import to the country and certain protectionist measures. That is why a rather important task for any region includes growth or stimulating of domestic demand; countries with growth opportunities for such demand will be the first to get out of crisis, most likely. Finally, I would like to discuss cooperation of government and private sector. Naturally, long-term investment projects are more subjected to crisis. Governments of many countries have taken measures on recovery or support of financial sector; in acute phase of the crisis these measures are absolutely correct but insufficient, especially when we speak about Russia where many industries require more substantial investments. Due to deterioration of economic conditions many of these projects become low-profitable; at the same time value drop of companies limits opportunities to get into open markets and to finance these projects directly.

Just a couple of examples from the industries we work in. First of all, shipbuilding. We consider the shipbuilding to be one of the most important industries of the Russian Federation, especially considering development of Arctic shelf in the electric-power industry. Today shipbuilding industry in the whole world is in rather poor condition. If we review orders of all global shipbuilding yards, in the first quarter of 2008 there were 823 orders, in the first quarter of 2009 – only forty two orders, it means that the demand is twenty times less now. Sure that in this situation it is a rather risky to build new business facilities for private sector. Government can influence the situation by long-term programs for some ships building. The situation in the coal sector is approximately the same, but there is a lot being done. In 2007 the Russian metallurgy was fast growing; more than 90 % of facilities were busy. The next step included consumption of high-quality coal, and of course it

led to prices increase at the end of 2007- the first half of 2008. The situation lowered profitability of metallurgy industry. In general industrial analysts forecasted the situation quite long ago. It occurred due to insufficient investments into the sector in 1990-ies. If we review the today's situation, this production is going to be reduced even more in mid-term perspective and after the recovery we will face the situation of lack of coal in large quantities. Here again government can influence the situation and render assistance in the development of new production facilities. I believe that these three factors are fundamental for recovery of our company and all Russian and global industries.

A. Shokhin:

Thank you. Several days ago the Russian Prime Minister visited Finland. Chairman of the Board of United Industrial Corporation also visited Helsinki within framework of Round Table for the Russian and Finnish entrepreneurs; he also visited Finnish shipbuilding yards. He said that the yards were excellent but it was a pity to see them dry and empty. While discussing this topic with Russian and Finnish business the Prime Minister pointed out that there will be orders, including ice-class vessels for Stockman. The Baltic Sea also needs appropriate vessels. I see that there will be rather severe competition between companies of different countries to execute such orders. The same refers to Gazprom; you know that the consortium includes Statoil Hydro, Total and Dutch Gasunie. Value for money will be the main criteria here. In other words, getting out of crisis includes not only waiting for orders to be placed, but also readiness in competitive situation, even if national government gives some price preference to national manufacturers.

Dear colleagues, we are getting over our schedule. That is why I decided not to make closing speech myself, but asked Sergey Guriev to do it. He is a well-known Russian economist and he knows the global economy well and all the main theories including those describing crisis.

S. Guriev:

Thank you! I'll try to make a very brief speech. I agree with Klaus Kleinfeld that during the crisis nothing can be predicted. None of econometric models work in the crisis period. We can do nothing about it. This is the time of structural changes when it is necessary to revise parameters of these models in real-time mode, and that is why forecasts are changing so fast. Here is a simple principle – the forecast for the Russian economy growth has been changing approximately by half a percent per week since September. That means that forecast for 2009 shifted from 8% up to the present minus 8%, and the forecast was changing linearly as experts reviewed their models. The same experts made absolutely different forecasts.

Each participant had to vote for a letter. Besides letters looking upwards like “W” there are letters

looking downwards like "M". It is not easy to tell what is going to happen. Seriously, bearing in mind what we know about crises history, it is a normal crisis, but a very big one. All the crises are crises of expectations and ideas; all crises are bursted bubbles. This one was a very big bubble. Our economy is highly globalised. Nobody knows when the next bubble is going to appear and how it is going to burst. There's no need to be afraid of it. It is just difficult to be inside of a crisis. In the beginning of 2008 I wrote a column in Forbes magazine – I wrote that crisis would continue two years basing on the analysis of previous crises. There are studies, which prove it. This forecast seemed to be very optimistic – two years?! – It's just nothing. And now, when even the first year of the crisis is not over yet, it seems to be very painful. Inevitably we will observe increase of government debt in developed countries and inflation, which will decrease the burden of government debt.

However, long-term problems seem to be even more important. Both Anri and Klaus spoke about the nearest decades. There's a problem for the nearest decades – besides people to be born in developed countries there are old people, who will become older and live more on account of new health care technologies. It is absolutely unclear how developed countries will reform their pension scheme; it's even difficult to talk about. Government debts of developed countries are just nothing in comparison with pension liabilities in America and Europe, if they are calculated fairly.

The other question is where the next bubble will form. It is evident that such bubble will be formed, even as a result of anticrisis measures taken now. Will it be at the market of energy-saving technologies, alternative energy sources, health care technologies or new agricultural technologies?

In my opinion if we start talking about economic recovery, getting out of the global crisis, it means that we stopped being too sensitive to the crisis itself. There is light at the end of the tunnel, and we'd better take easy the fact that crises happen, that we cannot predict them and that our models do not work during crisis period. Thank you.

A. Shokhin:

I think there's no need to summarise. I would like to thank all participants of our discussion. Unfortunately, due to time limit we could not include you, dear colleagues, in discussion through questions and answers or through voting. On one hand, we should be glad that this crisis is not a global disaster. On the other hand, it doesn't mean that we can do nothing and wait, whereas Russia is concerned, for external demand to pull out economy of the crisis, because some other countries take more actions, such as China, the USA, etc. This crisis is global. We stopped looking for guilty parties as we used to do in the beginning of the crisis. Any governments and monetary authorities can be blamed guilty if they do not take effective and successful actions to minimise consequences of the crisis and actions to build post-crisis models. That is why all of us are responsible for this –

analysts, governments and business. The result depends on our joint action. I hope that next year we will be able to summarise and to answer questions such as “what was that” and how to implement post-crisis models for modernisation of national economies and international financial and economic relations. Thank you. Good-bye.