



Lessons of the crisis and the Russian society in 2009

Lessons of the 2007-2009 crisis

- **Lesson №1** – The economic crisis is of global nature. Russia's problems arise from the national social and economic development model in conditions of globalization.
- **Lesson №2** – The Russian economy is going through the crisis simultaneously with European and US economies. Russia drastically differs from other BRIC countries – Brazil; India; China.
- The Russian economy and society are typical of Eastern European countries.

Lessons of the 2007-2009 crisis

- The key economic crisis figures are similar to those for Eastern Europe.
- GDP recession depth in 2008 – 2009 is about 8 percent.
- Decline in manufacturing - approximately 10-12 percent.
- Unemployment growth – up to the level of 6-7 percent of the workforce.
- The 2008-2009 fall-winter ruble devaluation – about 40 percent.
- Inflation in 2008-2009 maintains at the level of 10-12 percent.
- Reduction of capital investment – 19-20 percent.

Lessons of the 2007-2009 crisis

- **Lesson №3** – The international community lacks efficient methods for global economic policy coordination. Only unions and treaties with limited number of parties (European Union), or bilateral agreements are viable.
- The lack of common regulators for sectors of the global financial market (banking, equity, derivatives markets) is still an issue. G-8, G-20 summits and actions of the traditional international financial institutions (IMF, World Bank, IFC) have no tools for hands-on control over financial stabilization.
- US and EU regulators are quite efficient in operating within their respective currency zones – US dollar and Euro. Coordination of their efforts requires political decisions by relevant governments.

Lessons of the 2007-2009 crisis

- **Lesson №4** – Programs for development of a new international financial architecture – American, European, emerging markets' programs – have not been accurately defined yet and boil down to increasing influence of relevant states. Implementation of such programs will be the focus of post-crisis development.
- **Lesson №5** – Depth of the crisis and recovery speed are primarily determined by quality of social and economic institutions, and quantity of financial, labor, primary resources comes only second.
- Post-socialist economies of Eastern European countries are having harder times with the crisis, than the Western European economy.
- The crisis is primarily expected to end with economic growth recovery in the USA and EU. BRIC countries – Brazil, India, China – failed to become global «powerhouses for economic growth».

Lessons of the 2007-2009 crisis

- **Lesson №6** – Russian private businesses are not efficient enough.
- Creation of giant private holdings-conglomerates failed to improve asset management performance and upgrade production.
- Negative performance results of such over leveraged conglomerates – accumulation of immense external and domestic debt.
- Small and medium businesses are not innovation-based.

Lessons of the 2007-2009 crisis

- **Lesson №7** – Russian government regulation of the economy is not efficient enough.
- Transition of asset management to government-controlled corporations and joint-stock companies does not improve corporate governance quality and higher production performance.
- Monetary and budget interventions by Russian Ministry of Finance and the Bank of Russia prevented mass corporate bankruptcies, halted the banking crisis and stabilized the financial system. However, extensive budget spending and government bank loans have been only a weak stimulus for economic growth and recovery from the crisis.

Lessons of the 2007-2009 crisis

- **Lesson №8** – The Russian economy needs massive foreign investment. Investment potential of the Russian economy is not adequately supported.
- Giant holdings-conglomerates, both private and government-controlled ones, fail to provide for direct capital investment. Real investments do not result in modernization of the economy.
- The sole exception – the system of mobile communications – proves the general rule.
- Russian financial and banking system does not support transformation of savings into investment.

Lessons of the 2007-2009 crisis

- The pre-crisis state budget focused on creation of reserves and social needs.
- During the crisis the Reserve Fund, the National Wealth Fund and the federal budget combined have come short of covering expenditures for social purposes.
- Federal budget deficit (GDP, %):

2009 – 8,5 percent (apprising)

2010 – 6 percent (outlook)

2010-2012 – About 3-4 percent (outlook)

- **Lesson №9** – Investment resources, available to the Russian government, are insufficient even for social and production infrastructure modernization.

Lessons of the 2007-2009 crisis

- **Lesson №10** – The contemporary Russian society is a result of transition from agricultural, mostly rural society to an urban one. The global human society is experiencing such a transition nowadays.
- Results of the transition vary for different countries – countries of the «first», «second», «third» world, but the trend is a common one.
- The post-socialist Russian society is given an alternative – either sink into the «third» world for long, or achieve full status in the «first» world.
- Such alternatives have been available to any country over the course of XX – XXI centuries. Affiliation with one or another social and cultural «civilization» is not the determinant for development outcomes.

Lessons of the 2007-2009 crisis

- **Lesson №11** – The contemporary Russian state is the national state of Russian ethnos.

There are two alternatives for its evolution:

First, there is the alternative of developing a nationalist authoritarian regime.

Second, there is the alternative of building a democratic civil national state.

- The demographic trends, requiring massive workforce immigration after 2012, internal migration. As a result increasing interethnic tensions are the main challenge, answer to which will determine future of the Russian society.
- **Lesson №12** –Demographic, interethnic, energy, environmental issues are common to all countries of the Northern Hemisphere, including Russia. These are global issues of the modern world.

Lessons of the 2007-2009 crisis

- **Lesson №13** – The modern Russian state, society and economy are the result of the Fourth Russian Revolution of 1991 – 1993. The present phase of the state's evolution is the fall of this revolutionary tide.
- The political structure of modern Russia does not support modernization of the Russian society. The choice between democracy and authoritarian rule has not been final. The state of hanging in between democracy and authoritarian rule is typical of most countries in the global modern world, but it is not typical for the Northern Hemisphere: European Union, the USA or Japan.
- **Lesson №14** – To provide for sustainable development, the Russian society needs to implement institutions of the North-Atlantic and North-Pacific state and economy model.
- The best arrangement for securing favorable international conditions for such development today can only be a direct military and political union Russia – USA and intensive cooperation with NATO and European Union.

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