

## THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

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### ANTI-CRISIS PROGRAMMES: SCALE AND LIMITS OF GOVERNMENT INTERVENTION IN THE CONTEXT OF MARKET ECONOMY

Moderator:

**James Turley**, Chairman & CEO, Ernst & Young

**Elvira Nabiullina**, Minister for Economic Development of the Russian Federation

**Catherine Ashton**, European Commissioner for Trade

**Lord Mervyn Davies**, Minister for Trade and Investment, Great Britain

**Waldemar Pawlak**, Deputy Prime Minister, Minister of Economy of Poland

**Vikram Pandit**, CEO, Citi

**Mikhail Prokhorov**, President, Onexim Group

**Stephen Roach**, Chairman, Morgan Stanley Asia

**Dr. Dieter Zetsche**, Chairman of the Board of Management, Daimler AG

**The panel participants largely agreed that intervention by the government in the economy is inevitable in times of crisis; the question is one of balance.** One of the major issues discussed was the timing of the exit and the exit strategy, as well as the extent of the intervention.

According to the panelists, the Russian government has contained the increase in state ownership, providing credit to private corporations instead. At the same time, the state has not closed its privatisation programme and has introduced best corporate governance practices within state-owned companies. The government aims to take advantage of the crisis to modernise the economy and encourage innovation, accompanied by the creation of institutions for future business development. Diversification remains a major priority via investment in certain sectors via state corporations and fiscal stimulus.

It was pointed out that intervention is likely to be temporary; however, it will be largely dependent on the pace of the economic recovery. If the recovery is moderate, there will be no easy and quick exit strategy for the government. The panel concluded that intervention should take place, but not protectionism.

The financial services industry was the first to be severely hit by the economic crisis. Banks were unable to fund themselves without government intervention. One panelist said that any intervention beyond the financial sector would be viewed skeptically. From a practical standpoint, the Russian government should have several priorities: stimulation of demand, a

rouble exchange rate which is not pegged to the oil price, and cost cutting across the board. These goals could be achieved through a lower CBR rate, a freezing of natural monopolies' tariffs, and fighting inflation by making structural changes in the economy. As a result, businesses and government would be able to cooperate to deal with the crisis, the budget deficit could be reduced and the number of good private borrowers could increase.

It was noted that the government needs to deal with the fall in trade due to the unavailability of trade finance. The issue is how the state would support trade if the industrial sectors are in trouble.

It was commented that better regulation from the government is needed, which could prevent future problems rather than those applicable after the crisis. The panelists noted that the regulators specific to each market are needed. There were proponents of systemic regulator concept, including better coordination globally. That said, economic crises are inevitable and the issue will not necessarily be resolved through greater regulation.

The opinion in the session was that emerging market economies are largely dependant upon the US consumers. As such their economic recovery is subject the recovery of the US consumer demand while the contribution of emerging economies is still relatively modest. On the other hand, it was noted the emerging economies find the domestic growth drivers and would decouple from the developed growth and recover faster. Overall the economy has seen the dangerous growth over the last two years fuelled by the artificial things, like housing bubble on top of the credit bubble. Going forward the states should create growth through restructuring and innovation.

The panel concluded that the global economy is in a transitional phase. It is diversifying away from being driven primarily by the US consumer demand. This is one of the challenges facing governments around the world and could result in lower rates of global economic growth over the next few years.