

## **Discussion panel of macro-economists**

**«Perspectives of financial markets in Russia» (10-11 December 2009)**

**(Conference of the National Securities Market Association (NSMA), shortened transcript)**

Brochure, May 2010

**M. Ershov**

There are a few facts that are to be reckoned with when evaluating the situation as it goes forward. It is evident that the renewal of US growth is most likely continue. The effects of global imbalances however are likely to play their role too. The countries with excessive resources which stem from balance of payments surpluses coupled with high savings rate will continue providing funds to the deficit countries with high consumption. The planned budget deficits in major economies will support such tendency. Unprecedented volume of US budget deficit, which exceeds \$1.5 trln. for 2010 as well anti-crises measures which are in place show that deficit reduction may take a long time.

The inflow of funds needed to finance the deficit are likely to push interest rates (which are already low) down, thus decreasing return on financial operations. As a result, low yields will force banks and financial operators to seek for higher returns making them less scrupulous about asset quality. They will also have to resort to higher leverage in their balance sheets which may also increase returns. In other words we may witness the emergence of the situation which to a large extent was behind the crises the world economy has lived through recently.

There is also another risk-factor which is to be considered – abundance of global liquidity when high growth of world money supply is not supported by the appropriate increase of GDP. In particular, we saw an almost two-fold growth of the monetary base of the dollar, reaching USD two trillions. This money will search for areas to be placed which may lead to high migration of funds, creation of new bubbles and increase volatility.

When it comes to Russian economy we all remember that a heavy reliance of the financial sector and banks on the international funding in the absence of adequate internal sources of financing has aggravated crisis developments for the companies when their access to foreign markets was closed. Let me remind to you that the build-up of external debt of Russian corporate sector (banks included) was very quick, reaching almost \$500 bln. (from very low initial levels) over several years.

In 2008, the Bank of Russia was totally right in pointing out in its official paper on monetary policy for the next (2009) year that, for the first time over many years, amidst the crises, they were adopting absolutely new approaches to form money supply where domestic sources would play the

major role unlike it had been before, when export revenues and international debt were the main source of growth of the rouble money supply (as such borrowers and exporters were selling their hard cash for roubles and then channelling the roubles in various ways into the economy).

New (2008) approach had to diminish external risks, increase the role of interest rates and transmission mechanisms in general, allowing better access of resources for non-export sectors, thereby contributing to their structural transformation and structural changes of the economy at large. The market perceived that as a right step due to new circumstances.

However if we open the document of monetary policy which appeared a year later - for 2010 and onwards, we will see that the old pre-crisis approaches reappear again - with external markets and external funding being the main source of money supply for the future. With crises risks still in place such policy reversal may look pre-mature. It may create anew the risks that took shape before the crises and will diminish the buffers of domestic money-supply creation that the economy may need in the future. We thus have to be aware of these - old and new, domestic and international factors as we enter the post-crisis environment.