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ECONOMICS DAY

SESSION:

**ANTI-CRISIS PROGRAMS: SCALE AND LIMITS OF GOVERNMENT INTERVENTION
IN THE CONTEXT OF MARKET ECONOMY**

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National governments are taking a leading role in stabilising the economic situation. What are the most efficient monetary and fiscal measures? What forms should government investment and the debate on nationalisation take? How can public-private partnerships effectively replace direct state interference? What measures should Russia take?

Moderator:

Maria Bartiromo, Anchor of CNBC's *Closing Bell*

Participants:

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

Transcript:**M. Bartiromo:**

Good evening. Thank you for joining us. Let me introduce Elvira Nabiullina, Minister for Economic Development of the Russian Federation.

E. Nabiullina:

Good afternoon, dear colleagues. First of all I would like to talk about our anti-crisis program and measures that we have already taken and are currently taking. This is why the session is called – “Anti-crisis programs”. The point is that for us the crisis began in the banking system, so our first steps were aimed at limiting negative developments in the banking system. Efficiency of the Central

Bank actions and the fact that we improved guarantees on deposits, I believe, have allowed us to minimise potential negative developments. For this reason I think that the key measure with which we started the anti-crisis program is quite efficient.

We had multiple discussions on whether to carry out the devaluation of rouble or not. The President has already spoken about this today. Still we believe that the devaluation has proved to be correct as well. Why? It was very important that we restored confidence, not only for economic reasons. We remember the lessons from the crisis in 1998, when people woke up in the morning and the rate had already changed. We have not allowed this happen again and we believe that it is very important in order to maintain confidence not only in economic policy but in the predictability of our policies as a whole. The measures that we have started to take as the anti-crisis program were mostly focused on social support. The fact that we support people in the first place is, I believe, is entirely correct. And when the federal budget revenues fell by a third we have nevertheless kept all our social commitments. Many people may consider it economically irrational. One keeps commitments when the revenues fall. But it is very important from the point of view of maintaining confidence and customer demand. During the crisis it is very important for us to maintain customer demand .

What have we not managed to do yet? Certainly we have not yet fully settled the problems of financing of the real sector of economy and transferring money into the economy. This problem was in place before the crisis as well but it was hidden to a large extent as our banks and enterprises could get imaginary money from abroad. However, when this problem was finally formed in the crisis conditions, we could not solve it immediately, nonetheless, we must. What are we going to do? I think, the main thing we have to do in the next year is to use the crisis to solve old structural and functional problems. And essentially, to focus on the modernisation.

Speaking about supporting the people we do not mean supporting people's income, but providing people with the opportunity to retrain, search for new jobs, search for more effective use of their abilities so that people could be more mobile. We also want to be able to support modernisation programs because modernisation is the road to development and this is still true during the economic crisis. We consider it very important to use the crisis in order to come out of it with a renewed economic structure. We understand that it is not possible today or tomorrow when the energy sector is a significant part of the economic structure but it is very important for us to move in this direction.

Institutions provide conditions for business. It is very important for us to create such rules of play that are clear to investors and will protect their rights and introduce the best corporate management practices in order to really create an innovative environment. Innovation is not possible without competition and protection of the investor rights. That is what we are going to do. We are often asked about the role of the state. I think we shall discuss it today during the session as well as the

scale of government intervention in the context of the free market economy. If a year ago forum participants were asked whether Russia would use the opportunity to take control of private assets, I believe many would have answered “yes, it would”. Fortunately, this has not happened. It is little wonder, to my mind, because our country was seriously inoculated against excessive government intervention due to our historical context. And perhaps we are less tolerant to strengthening of the role of the state than other countries. And now in the crisis we had to help both banks and enterprises, it was our responsibility, we did it to prevent increasing the state ownership. This support was provided mainly by granting and guaranteeing credit. Rarely did we take stakes in the companies’ capital but in these cases the companies were already public companies in the defence industry. We can say that there was no increase of the state ownership and we did not make use of the fact that many companies offered their assets to try to gain government support. Furthermore, we did not reject privatisation in the present conditions. Yes, it has slowed down. We would not like to sell assets now on a non-transparent basis with the price of the assets being hard to define, so we have agreed to carry out the privatisation only through transparent auctions. Also, Igor Shuvalov expressed an idea at the forum last year which implied introduction of the best corporate management practices in public companies, increasing participation of the independent directors, professional managers even in the Boards of Directors for large companies. We have already started doing this. Last year independent directors worked in the eighteen largest companies, this year, in more than forty companies. It means that management decisions are being made not by public servants but by people with real experience and reputation.

That’s why I see no risk of excessive government intervention in our country. There is no doubt that governments are improving their positions in many countries, it is an objective process. The government plays the role of an anti-crisis manager. In our country this role can be combined with the role of a moderniser because the modernisation we are carrying out is not possible without government aid. Nevertheless, I believe we show great respect to private companies and try to do our best so that the rules of play are clear to private business.

Certainly, the role of the state has increased during the economic crisis. First of all it means supporting the banking system. We understand the necessity of establishing transparent, clear rules. So when the President said today that we have not pursued any course for the creation of a single bad bank, one of the reasons was the extreme difficulty in evaluating assets when purchasing assets from particular banks. We want to establish the conditions that are suitably transparent, so we think additional capitalisation of banks is preferable and we shall take such measures further.

The second role which the state will play during the economic crisis, as I have already mentioned, is establishing institutes and creating clear rules.

This is all I wanted to say for a start. If it will be possible I shall also respond to points during the

discussion.

M. Bartiromo:

Yes, thank you very much, Minister. We wanted to make sure that you set the stage for us. In this regard we <inaudible> [09:29] and in particular the scale of limits of governments. So what you say really is what we are seeing playing out around the world. On the panel today we have members of business elite as well as government. And of course we are seeing these two sides get together more and more. Russia announced the entire crisis measures now estimated 10% of Russia's GDP. How do you expect Russia to look when we come out from this crisis?

E. Nabiullina:

We usually say and hope it will be stronger and more effective. The fact is that the crisis hit us in two ways, to my mind. The first one is that our economic structure is dependant on export and on export of some exchange goods. In case we do not get out of this excessive dependency on the export of oil, gas and other resources, the basis for our severe suffering will be maintained for future crises, although I hope they will not be on such a scale. That is why it is critically important for us to diversify the economy and the state is now carrying out the programs aimed at the development of new high technology sectors. We have concentrated financial resources in the development institutes. Many people criticise them, call them corporations but we are trying to introduce very transparent rules of corporate management there and use these state corporations for restructuring of assets in such a way so as to gradually withdraw from such corporations.

Secondly we take a number of measures, horizontal measures, if one can say so, to support innovation. These are tax incentives and other issues which are very important for us and which facilitate the introduction of innovations to all sectors of our economy. We shall invest in education and science, the basis for innovation, human capital. So I hope that slightly improved economy structure will be one of the elements and one of the characteristics of the Russian post-crisis economy. I hope that the crisis will not last long and our structure will change completely. We hope that the crisis in our country will come to an end a bit earlier.

Thirdly, we would like and we hope to come out from the crisis with an improved financial system. We need such a financial system which will generate income sources in our country. That is why we believe we can do it during the economic crisis, when we are emphasizing consolidation and concentration processes in the banking system. The crisis is the time for the most efficient things to survive and non-efficient to die out, so we are hoping for efficiency. We must become more effective having come out from the crisis.

M. Bartiromo:

So it sounds like you'll find the economy in Russia is one of the main priorities during this upset. Lord Mervyn Davies, your government has also taken extraordinary like the rest of the world in terms of ownership and taking stakes in various businesses, do you see an exit strategy? What might that be? And what are the implications of government taking a bigger stake in business?

Lord M. Davies:

Well, about four-and-a-half months ago, I was a banker and now I'm in politics. And I think that on both sides of the fence, I would say there are some huge lessons to be learned from the crisis which you can't have a conversation about the crisis without reflecting on what the lessons to be learned are. Firstly, we do need one set of accounting rules. And, across the world, we do need one way of governing and regulating the financial services industry. And, out of every crisis, there is an opportunity. And I think, internationally, there is now an opportunity for the international community to come together and agree to a set of rules on regulating what is the key industry, the financial services industry. Now, in the UK, in the same way that other countries have had to do, we've had to intervene in what has been a fundamental crisis in the financial services industry. Now, I view that intervention as temporary. We've got to put the banks back into good shape and then the government has to get rid of the shares of the stake as soon as possible. But the governments can only do that if there are fundamental changes in the financial services industry. This is an industry that I worked in for a long time and, basically, it has to change because it is a fundamental industry to a successful economy and to a successful global economy. So I think that governments have intervened. Hopefully, it will be on a temporary basis. And that's how we see it in the UK. But it is fundamentally important that the G20 actions and all the issues that were discussed are implemented, and that there are some significant changes and, not least, in the management of boards, the remuneration, the pricing of risks, and also the governance of these institutions. Because if it doesn't change, we will have another crisis in a few years and we just can't afford it.

S. Roach:

Let me just come back to you on that one point. We're all operating under the presumption that these interventions are temporary and, therefore, there are well-thought out exit strategies that will allow the governments to tamper with ownership stakes and for monetary authorities to normalise monetary policy. I think this is all dependent on the state of economic growth around the world. If you get strong recovery, sure, you can pull out and we can go back to a pretty resilient world and governments can reduce their stakes and interventions. But my sense is we're going to have a very

anaemic weak recovery in the world that is not going to be capable of easy and quick exit strategies from government ownership stakes and, in particular, from Central Banks who have injected so much liquidity in here. And every time we're going to try to take the patient off the life support system, the patient's going to have a risk of a significant relapse. So I worry more, Mervyn, about the asymmetries of this intervention, that it is not as easy to get out as it was to get in, and that we may have gotten in over our heads.

Lord M. Davies:

I knew that the economist would immediately respond and ask me a question. Look, I think that these...

S. Roach:

That's why they put us next to each other.

Lord M. Davies:

Yeah, exactly. These were unexpected events. We've had a lot of unexpected crises over the last decade, tsunami in New Orleans, you name it. They've all led to huge volatility. We've also had huge changes in energy prices. So business planning, financial planning in governments has been difficult; increasingly challenging. So this was a global challenge. Governments intervened and I think that, yes, getting rid of the stakes will depend on how vibrant and strong the capital markets are. What we've got to accept is that governments have had to intervene in one or two industries in a way that they never would have predicted five or ten years ago, but because they were fundamental to stability. I'm still optimistic that this is an industry — financial services — that will be restructured, will be re-thought, and then the stakes will be put back within the next few years. I think there are now challenges, it's moved from financial services into automotive. I think the big question for governments, it's fine to intervene but what we must not have is protectionism. So you've got to keep certain industries going, but you mustn't have protectionism. It's a difficult balance.

M. Bartiromo:

I'm going to come to Dr Zetsche in a moment but I want to get Vikram Pandit in here because Vikram, you really have had a front row seat in the middle of this intervention of government in business. Can you give us a sense of how that's working, and what kind of an implication have you seen as a result of the US government taking a stake in your company?

V. Pandit:

Right. Well, first of all, let me say both Steve and Mervyn are right. That's what happens with two economists, you can't judge which one is more correct than the other. But let me step back and you have to talk about what position we're in and why. And the starting point is that we had a situation with immense issues of confidence. There were systemic issues, post the failure of Lehman Brothers; there was market failure. That's one aspect. The second aspect — that was very clear — is that we had a government and system which had a clear philosophy. The private banking system is the right system to have on a long-term basis. This was not a question of economic or financial architecture; it was a question of a moment in time when there were things that were going wrong. And, I guess, the last part was it was very clear to everybody involved — not only our bank but many of the American banks — were in the position where the economy was going from stability to instability. At some point, it would go back to stability and you needed a transition plan to get from here to there. And when you really think about the transition plan, we think about capital and ownership which, I think is important, but you've got to step back. When you think about what happened in the US, the government actually offered guarantees for funding. Banks couldn't fund themselves without guarantees from the US Treasury, US Federal Deposit and Insurance Company. The Federal Reserve Bank opened up its funding, sources as well, for banks. So the intervention was quite substantial. The intervention was in the form of equity. It was in the form of guarantees to preserve funding. It was in the form of Federal Reserve making money supply and liquidity available to banks — a massive intervention for a one-in-a-hundred year kind of event that you see — but always the clear view that this was not about the economic model, it was really more about help into transition from one stable equilibrium to another. Now, Steve's right in the sense that we don't know when we'll actually see that stable equilibrium, although we're seeing promising signs of stability. The financial markets are doing a lot better but this is by no means a foregone conclusion that all the bad news is behind us. We are optimistic, but you have to be cautious. In that scenario, the position that the US is in means that every bank has to work with its regulators to come up with a capital plan, to say, "How are you going to fund yourself?" This is not about repayment of equity only. "How are you going to fund yourself? How are you going to get liquidity?" When you have the full plan, then on a bank-by-bank basis, you can have an exit strategy, of course punctuated by what happens in the economy. That's very, very natural. I think Mervyn's also right. Coming out on the other side of this is not only banks saying, "I am now back to being private;" but what it means to be a private bank is going to be different because we are going to have a very different governance architecture going forward. We need to be cognizant of that. And some linkage between getting away from government intervention and having the right governance structure is going to be important. They are talking about it in the context of compensation principles. Things of that sort

are all happening. Let me come back to the bank, whether it's ours or any other. The President of the US and the administration, the Chairman of the Federal Reserve Bank, the Treasury Secretary, they've all been very clear. They have no interest in running banks. That's not the point. Their interest was in the stability of the financial system and helping transition from one stable economy to the other. And they have been very true to that. And so while we all continue our regular conversations with our regulators, capital plans, stress tests, all of which are good, we feel good about those things up to a limit. But the point is that we are responsible for managing this company. And, frankly, that is the right answer if you believe it's not about the architecture, it's about a transition plan from one place to the other. I think that's where we are.

M. Bartiromo:

So what should that transition look like? And I'm coming to you, Mikhail, in a moment; but, Dr. Zetsche, tell me, has this helped? Many of your rivals, certainly in the United States, have gone bankrupt. And this, after a lot of government intervention.

Dr. D. Zetsche:

First of all, I think that, without a doubt, governments have had to intervene in this moment of crisis in the financial sector because everything else is based on the financial markets, of course. Now the discussion, how long should and how long will the governments stay involved in this regard, and how likely are these risks according to Stephen that they could pull out too early and then the patient would fall back into a coma. This is one way to look at it. But, on the other hand, how fast the economy will recover depends not only on a stable financial system, but, as a consequence, on the availability of funding for the economy as well. And the more the governments intervene, the more they increase their public deficits, the less money is left for the private sector. And so it works the other way as well. When they stay too long and get too involved, then we won't be able to figure out which is the prerequisite for stabilisation of the financial sector. And one conclusion for me is very clear: any intervention which goes beyond the financial sector has to be looked at in a very sceptical way and will, in many cases, avoid the necessary development of any economy with any structure which are <inaudible> from the Minister that she expects to get out of the crisis with her country in a stronger way, because inefficient parts die and efficient parts become stronger, not if there is intervention, which is why it's exactly the natural process which any economy needs. And that's exactly the risk we are seeing now. We have elections, we have all kinds of political pressures, we see the jobs which are at risk in a company which is failing. We don't see the jobs we are weakening by maintaining weak parts of the total economy.

M. Bartiromo:

This is a very, very important point. I want to ask you one quick question before I move on to some suggestions on what the transition would look like. How do you think the global automotive industry will look in one year? How many players will there be? What does it look like?

Dr. D. Zetsche:

Well, the way it's ended so far, we will have the same amount of players there are, and everybody will get weaker.

M. Bartiromo:

Mikhail, let me turn to you. There have been an extraordinary amount of programs in place and, Catherine Ashton, I definitely want you to weigh in on this because the government action has been extraordinary. What do you suggest, Mikhail, in terms of the highest priorities; the best themes that are actually working? Because some people are confused that there is so much stimulus out there. They're not sure which stimulus is best and which is actually most effective.

Mikhail Prokhorov:

Thank you, Maria. But I have a brief comment to make on the previous discussion. Now I know for sure which country supports free market economy more than anyone else – it is Russia. As far as I know the state makes private companies in the West to invest. We do things the other way. An owner comes and says “Take our shares, we are the best”. The state says “No, we respect the private ownership. We'll extend your credit”.

And now to the main point. As ever in our country there are uncompromising debates between monetarism and Keynesianism. And in the crisis the debates have become so sharp that it reduced to bloodletting. I'm not a follower of either of the ideologies; practice is the main criterion for me. And I have made a paradoxical conclusion that generally speaking the measures and tools of both approaches are the same. The only difference is priorities, in a sense.

The monetary approach has been the main prevailing factor in our country for many years. In practice it comes down to two basic priorities and postulates. The first priority is that struggle against inflation is the most important thing and the credit rate must not be lower than the rate of inflation. And secondly: the rate of the rouble practically depends on oil prices. Such is the diversified or modified currency board. Such situation has both its advantages and disadvantages as any other model. The obvious advantage is the opportunity to fight inflation by monetary methods and there is an opportunity in the present situation to remove inefficient industries and it certainly provides the opportunity to increase confidence in the rouble and strengthen it.

But as any other model this model has its obvious disadvantages as well. The foremost of them is that unprecedented efforts of the state to come out of the crisis are not always supported by the business for several reasons. Firstly, access to the elite business rates amounts to 20-25% per annum, which under the stable rate is actually the value of the dollar. If we cast a look on the average margin, business margin in the overproduction crisis conditions, it accounts for 8-12%. What is actually going on? Business which takes the credit of 25% or as it is common for us creates reserves beyond the business or in a sense replenish the long chain of future bad debts. So not all business follow the policies the state tries to implement. In other words, if a business believes that it will not survive then it is known that the credit will be bad. This signal is the key, since progress should only be in one direction.

Besides such tough approach leads to small profits in the economy, respectively, to small volume of investments which business can afford and to great deficit which during, say, two years must kill our hard-accumulated reserves. I do not think the monetary model is bad or good, it is objective as it is. I just think that this model may have already played its role, its effect becomes more and more minimal. So other priorities can enter the active discussion in our country as in all other countries.

It seems to me that three priorities can be considered at the present development stage. The first one is promotion of demand. The second one should be having the rate national currency based not on the oil price but on, for example, the rate of the budget income for reducing budget deficit and keeping or increasing our reserves. And the third one is total reduction of expenditures.

Looking at the three priorities I think the following measures can be taken in addition to those with which the state is already on. Firstly, drastically drop of the rate of the Central Bank so that the companies that have an access to credit could not only earn and pay back interest but also have some profit for development including financing innovation.

Secondly, I believe freezing of natural monopoly tariffs to be very important. What is going on now? The main argument of the natural monopolies is: if the tariffs are frozen, we shall have no innovation. Innovation must be searched for, innovation resource is the reduction of expenditures. I believe our natural monopolies have a 20-30% reserve for innovation resources.

Thirdly, I would suggest not to struggle against the inflation by monetary methods but to start structural changes in the Russian economy. Under estimations of some experts the global-local monopolies automatically create 6-8% inflation in Russia. In short if the inflation is lower than 8% the economy is shrinking by definition. I also think it is necessary to choose the priorities clearly. It is impossible to reduce all by 30% without choosing the priorities. It is necessary to fully finance the priorities, otherwise the conditions which caused the crisis will not be implemented.

That's why I adhere to the approach that if these priorities are considered it will lead to the following. This will give a common signal for state and business to solve a joint problem. This will

create a better environment for the banks to grant credit, more potential borrowers will appear whose margin can stand the interest rates and who can be credited. This will reduce budget deficit and respectively result in one important thing. In other words we shall deal with inflation by restructuring especially regional monopolies. I mean the system for housing and communal services, I mean trade and local transport which is practically not regulated unlike the large natural monopolies.

Certainly we shall not forget about the risks concerned with such an approach. I see two risk factors. Yes, inflation can increase. But I do not believe it can increase dramatically, I have a logical explanation for this but it is another question. And the second negative thing: this will make weak companies die out more slowly than the first approach. This is my approach. Thank you.

M. Bartiromo:

Which is also what Dr Zetsche said. We would like to hear from the audience as well. You have voting devices at your seats. And, let me ask you this question, you will press the green button to activate it, and press 1 or 2 for your answer to this first question, so that you can weigh in on the conversation. And the question is, do you believe governments will step aside and give up business ownership within three years? We're using this three-year timeframe. Press 1 if you believe "Yes, three years is ample and governments will step aside after three years;" and press 2 if your answer is No. And we will wait for you to vote on this. And, in the meantime, let me turn right now to Waldemar Pawlak of Poland. And if you will give us your take on government's ownership of business and whether or not you believe there is an exit strategy.

W. Pawlak:

I think what's very important in this problem is a good balance between regulation, government activity, and the market. In Poland we have twenty years of experience in transformation from a socialist economy to a market economy. And we have now, relatively, a very good position because Poland is one country in the European Union which has had positive growth in the first quarter of 2009. And it's the effect of our strong transformation. We concentrate our activity on our main goal. One goal is active society, an innovative economy, effective institutions, and better regulation. Active society because the concept of civil society hasn't got a dynamic which is important for us today because now we need active people. For example, when looking at the model of centralisation; of central management in countries. In this country, a lot of people look at the top, what the government does, what the top management does. When you have decentralisation, everybody thinks how to solve the problems. And I think that in Europe, a very important principle is the subsidiary principle because it's an interesting key to building a balance between

centralisation and decentralisation. Innovation is very important because now, in the new economy, you have to eat and cook. For example, when you look at an internet corporation, when you look at, for example, open source, you can exchange knowledge, you can exchange information. You have your own content and you have new concepts and new explanations from other partners.

M. Bartiromo:

I guess the question is will government ownership kill that innovation? I mean, that's really one of the worries. As we look at this chart here, our audience has the majority saying, "No, government will not step away from business within three years." 62% of you said No; while 37% of you said Yes. So do you think that there is a risk?

W. Pawlak:

You know, I remember a very interesting joke. Twenty years ago, we changed our system in our region, especially in the Central Eastern Europe. And, today we have a big crisis, which <inaudible> financial institution. And some of my colleagues who work in banking say that in a communist economy, the government organises the nationalisation of banks and destroys them.

M. Bartiromo:

Right.

W. Pawlak:

The capitalist is completely different because now, after the collapse of private banks, everybody is of the opinion that it's the role of the government to organise nationalisation to support the banking system.

M. Bartiromo:

Wait. Is this a joke?

W. Pawlak:

We need balance. We need a good role of government. And we need a good role of the market. We need balance because it's more important for the future.

M. Bartiromo:

Thank you, sir. I actually would like to get Catherine in here because I know, Catherine, you have a very important meeting, you will have to step away shortly. My apologies, Jim, but we will get to

you momentarily. Catherine, you obviously have seen an impact of all of this from your position in terms of trade, in terms of commerce. Give us a sense of where we are.

C. Ashton:

Thank you, and I apologise that I have to go early than I would have liked because it's a fascinating discussion. I mean, indeed it's been a remarkable two days for me. I just want to bring a couple of points on that. The first is that we've definitely seen a drop in trade. The figures vary every time I look at them. The last figures I saw have potentially dropped between 11% and 13% of trade which is enormous in terms of revenues for our economies. The second, of course, is that alongside that, one of the victims of the economic and financial crisis has been trade finance. And, estimates again, that we've seen a drop of about 90% of the available finance with trade. And you'll remember in the G20 in London that countries have indicated up to \$250 billion available for trade finance. The trick, I think, for many economies is going to be how to get that money down to some of our small and medium companies, particularly across individual economies. Whether you do that through the financial institutions who are best placed to do that because they're operating in localities or whether, in some cases, it requires government action, this is for those economies to work hard on; it's a real pressing problem. But I also wanted to make two other brief points. The first is the point that was made earlier by Mervyn on protect versus protectionism, as I describe it. And the Minister and I have had quite an interesting debate. We've had some good conversations in the last two days about one person's protect as another person's protectionism. It's very, very important in my view that we are able to support business and commerce and services through this economic downturn but it's got to be "support in order to." And it's the "in order to" question that is critically important. The Minister described the Russia she hopes to see, more efficient, more effective economically. Well, that's part of the "in order to." You protect in order to see the business of the future which will look different to the businesses that went in to this economic crisis, not least because technology changes manufacturing very quickly, and because innovation provides opportunity. And with the challenges we face for the future — not least on climate change — there are real, real opportunities to business within that as well. But it raises a dilemma too, and it really is the dilemma of the car industry which my colleague was describing. And that dilemma is also about how you make the best of the opportunities on trade multilaterally and bilaterally when you have sectors of your economy and your industry in real trouble. And I know that as a trade commissioner, as I try and negotiate agreements across the world, when I see the potentially difficult decisions that governments have to make — which are political decisions about trade — against the backdrop of a combination of the individual sectors being in real trouble, you are challenged by that trade deal, and the car industry is a good example, and where they also face the inevitable electoral cycle. And

I raise that because whenever you say trade is a solution, everybody nods. Everyone. Whether it's business, whether it's government, they all say it's the answer. But, actually, when it comes to the practicality of making that happen, it really is also about some seriously hard choices.

M. Bartiromo:

Jim Turley?

J. Turley:

Yeah, Maria, I think the explanation behind the split in the vote is that you're going to see different governments exit at different times. I think that we're dealing broadly with two separate issues we've been talking about. One is what to do about the banks and financial institutions; and the other is what to do about the fiscal stimulus that's needed in the economies. And while there's been a very high level and very welcome level of global coordination and cooperation on this, I think in the execution, you'll see differences. Without making it too simplistic, almost every bank in crisis in history has been solved by a culmination of three things: providing liquidity, injecting capital, and cleaning up the balance sheets. And I think there's been a level of coordination around the first two. I think the third element of cleaning up the balance sheets is still a work in process, and is being done somewhat differently geographically. On the fiscal stimulus side, Ernst & Young has studied the 24 leading economies around the world. And you're seeing some similarities with some differences. I think two-thirds of those 24 have made some significant reductions and indirect tax. About half of the 24 have reduced personal income tax, or have put in place increased research and development credits. Slightly under half have reduced corporate tax or provided accelerated depreciation. So you're seeing fiscal differences. Yes, our birds have to fly. But I think we're in the middle of a game-changing time. And so I think while the coordination's good, I think governments were actually going to think about this in many ways like companies do. We've done some research around companies and, largely, companies are thinking about and experiencing a stress pendulum. On one end is how to secure their present. It's about cash. It's about financing. On the other end is how to maximise and optimise their long-term future. And it's about acquisitions. In between, they're protecting assets, they're changing their business, and doing whatnot. The best companies are looking at both the short-term and the long-term. I think that one thing that is a game-changer here is these times have probably accelerated the shift to the emerging markets. And I think it's something we all need to pay attention to.

M. Bartiromo:

It sounds like everyone on the panel agrees that we were and are in a moment in time where government intervention was absolutely necessary. And the real issue and question here, as Mr.

Pawlak so eloquently said, is the balance and how to achieve that balance. So, Minister, let me ask you that about Russia, with regard to achieving that balance. What do you see as the most important item on your agenda in terms of ensuring that balance is achieved?

E. Nabiullina:

I have already said that I see this balance in limiting the role of the state at the present stage. To my mind there is no need to take large stakes in private companies. Certainly we must support the banking system if it faces problems. For the time being we do it by granting subordinated credits without dramatically changing of the banking system's capital structure. Certainly the role of the state as the effective regulator is increased. I mean it is very important for us in these conditions to provide for the regulation not for taking the stakes and direct intervention which will lead to increasing the state's role as the owner. At least we are trying to avoid it.

But the question we should solve even if we shall have to take stakes and intervene is exit strategies. It is very important to understand who will be motivated for this exit, who will be the figure insisting on the exit. It can be self-limitation of the state in which we want to believe and which we are trying to stick to but generally there must be somebody who will be responsible for the motivation. It can be the companies themselves that have got the capital. Another way is to define some plans, ways and commitments of the state concerned with the exit from the capital at the moment of taking the stakes. I think it is very important now that the rules of play are clear to the private business from the very start. Because I'm worried about the fact that there is a rather careless attitude to the state taking stakes. There are limits of the state taking stakes in the capital. We feel them slightly and if we do not see these top limits we are not afraid of them.

Such an attitude is characteristic for the world community. I think it is dangerous and we should pay more attention to the issues on how we pull out and who is the figure which insists on the exit from the capital.

M. Bartiromo:

<Inaudible> Minister, because right now the conversation globally seems to be what does the regulatory environment look like when we get out of this, and how does the oversight change. Steve Roach, you made a point earlier in bringing up the idea that's been talked about recently, a so-called systemic risk regulator. Why don't you give us your thoughts on this new type of regulator that you discussed?

S. Roach:

Well, I think it's a terrible idea and I think the world is coming to the conclusion that this is the right thing to do because, usually, when politicians are faced with problems that they didn't anticipate,

they didn't predict, they didn't understand, their answer is therefore to come up with a new bureaucracy that will take the heat off of them. This is a very classic response. I think what we need to do, Maria, is make certain that the existing regulatory policy and supervisory structure does a better job and doesn't allow this type of mess to happen again. And here I mean, the securities regulators, the various exchange regulators, we have to have better rating agency models and, most importantly...

M. Bartiromo:

Because we had a structure in place.

S. Roach:

Yeah, we had the structure. They just dropped the ball. And, most importantly, the group that I think made the biggest mistake in all of these are these cherished Central Banks, especially in the United States — my home country and yours too — that allowed the US to lurch from bubble to bubble to bubble, and allowed our regulatory system to go from one of discipline to self-regulation and abrogated its responsibility over the excesses it billed in mortgage markets, the banking systems, securities industry, the shadow banking system. I think in looking at anti-crisis programs — which is the title of this session — we got to really deal with the deep philosophical question and that is, "Do we always want to have policies that react after the crisis, or do we want to have policies that aim at pre-empting the next crisis? And this is a deep question that needs to be addressed in this debate. And I think coming up with a new systemic regulator is a smokescreen. And the politicians love smokescreens because that means they don't have to do anything tough.

M. Bartiromo:

One thing about Steve Roach, you are candid and straight to the point, and we love that about you, Steve. Will you take that, Mr. Pawlak, you're a politician? Tell us how you view Steve Roach's comments.

W. Pawlak:

I think it's very important that everybody works hard. And I think now we need better regulation. We also need a better balance between regulation and the market because when problems come to us, in my opinion, from very sophisticated markets, especially derivative markets, and we have no information on the scale, nationally, how many transactions there are between two parties, because a lot of transactions are on the non-regulated market and we have no information on this. At the moment, we have no complete information about this crisis. And we need global regulation

especially as transparency is more important than control because when we have information, we have the possibility to react appropriately. And very important is respect for regions and country. I saw a very clear example. When we discussed about <inaudible> package in Europe, we had a very strong conflict between Poland and European Commission and some countries because they say every regulation have to be unique for all countries. In Poland, we have a different situation because we base our economy on coal and we need a different approach like a country such as France. They base theirs on nuclear energy. I saw a very clear picture for our colleagues. Before, Soviet engineers built a very effective shaving machine. That was a very, very sophisticated tool. When a man put his head into the machine, five seconds later he was shaved. But once they asked the question <inaudible> but people have different faces.

M. Bartiromo:

Right.

W. Pawlak:

No problem.

M. Bartiromo:

So what you're saying is...

W. Pawlak:

No problem, only before the first shave.

M. Bartiromo:

What you're saying is you don't necessarily need new regulators, but you certainly need regulators that are specific to each market or geography. And you also need regulators overseeing markets, in some cases, that are unregulated, and sort of too free.

W. Pawlak:

I've worked a few years on the Warsaw Commodity Exchange. And I think it's very important on the market, especially on derivative markets, that there is information and a common policy.

M. Bartiromo:

Transparency.

W. Pawlak:

Transparency and a common policy because when we have this then we have the same picture of the situation. When we have different transactions, when we have various different names for different instruments, then we sometimes don't have a good basis for analysing the situation or solving problems such as the ones we have today.

M. Bartiromo:

Which leads me on to the question of whether we need some kind of coordination in terms of regulation, globally really. Vikram Pandit?

V. Pandit:

I think both points are very important. I think, Steve, the concept of a systemic regulator is just a symbol. And the symbol to me is the fact that, and I think we can agree on this point, that we really had governance problems in every area that you can think of, right from governance in the sense of talking about the central bankers feeding the bubble. Well, you know, I don't know how to think about that when the central bankers thought their mandate was inflation versus growth, and financial stability was not part of the mandate at least for one central banker that I know really well. These are governance issues as well. And then you go to the UK: they don't need a systemic regulator, they already have one. It's the FSA. Their regulatory structure is pretty clear but there are governance issues that come out of this. So the systemic regulator concept, in some ways, is an important concept in the US because, believe it or not, we believe in competition in everything, including competition amongst regulators, okay? And so, at some point, there has to be a coordination point that says whether it's the Fed or somebody else that...Actually, you know what? I can see the whole picture. There's something incredibly important about that. Now, whether or not that would have stopped everything we can see, by definition life is almost always about anticipating some of the problems in the future but most of the problems that have occurred. And I don't know of any system that's going to be perfect to anticipate that, Maria, to the point of the fact that we need global coordination. I couldn't agree more. The wonderful thing about globalisation is we can all be better off; but on the other hand, when things go wrong, they really go wrong. And when you think about the concepts, the derivatives that have been discussed. There is a lot to talk about around the world in terms of exchange structures. Shouldn't CDSs be not only in clearing houses but also in exchanges? By the way, if we had just done that, that could have avoided a lot of issues; things like what happened with Monoline Insurance Companies, or AIG, or things of that sort. There are numerous issues that come up that suggest different levels of coordination. And it is something that's worth a real debate. I agree with Steve in the sense that it's too early to jump to

conclusions and say, "It's really about a systemic regulator, it's really about the debate." I do believe though that debates should continue, and it's a pretty good debate, we don't have all the answers yet, but at least people are asking all the right questions.

S. Roach:

Let me just raise one point, Jim. Let's just remember how we've done this in the past. Back in 1946, the US Congress passed the Full Employment Act that forced the Fed post-depression to aim at full employment. It was fine for 30 years, and then they blew it. They had huge inflation so the Congress went back and changed the mandate. 1978 said, "We pass this Humphrey-Hawkins Bill, you've got to add price stability to your policy mandate." Thirty years later, they've blown it again. So you're right, Vikram, the Fed felt it was targeting price stability. Well, guess what? This crisis is all about the fact that the targets — the mandates — were faulty. And so now let's go back and change the Fed's mandate again and Central Banks and tell them, "Focus on financial stability. Avoid these destabilizing asset bubbles." You're right about the global coordination. That's absolutely critical, but let's make sure we've got Central Banks on the right page looking at the right problem. And don't go back to the sort of, "Well, all I had to do is focus on my price target. Don't blame me. I had the wrong target." <inaudible>

M. Bartiromo:

Vikram, rebut, rebut.

S. Roach:

But Jim said I was right, Vikram.

V. Pandit:

Okay, let Jim go ahead.

J. Turley:

I think Stephen's right that you may or may not need a separate institution. But, to me, the positive part of the debate — which is what you were saying, Vikram — is the issue of systemic risk, is more on the agenda that it's ever been especially in the United States. And I think that, you know, put aside what the Fed's focus was, I think we need to look not just at how institutions — they are themselves significant systemically such as city are looked at — but also across all of these institutions, in the shadow banking, in the CDS business, and that's where the issues of clearing the houses and exchanges are really important. And so, I think you're on the right track.

M. Bartiromo:

I just want to jump in and tell you that the Minister has a very important meeting with the President, President Medvedev, as well as the President of the Philippines. She apologises and thanks you all for being here. And I want to bring in Mikhail because what we are dancing around right now is something that Mikhail actually mentioned earlier as really what he felt should be the priority and what shouldn't be the priority.

M. Prokhorov:

Today's discussion on the balance between state and business involvement and its regulation is similar to the philosophical discussion on what comes first: the chicken or the egg. Always when a crisis occurs most politicians want to find such a model of regulation so as to forget about crises, work quietly and maintain their political rating. But the attractiveness of the market economy consists in the fact that this is impossible. If we look back on history we'll see that firstly junk bonds were invented then they were regulated, then high technology companies' shares came, they were regulated, then derivatives came, they were regulated again, so the problem of balance is everlasting. The attractiveness of the market economy consists of the fact that disturbance of this balance is settled through crises in which the strongest survive, so this philosophical discussion will be constant from one crisis to another. And the qualification consists only in the fact that the coming crises (they are unfortunately unavoidable) add to competitive advantages of each country or each strong company while the weak ones die out.

J. Turley:

Can I?

M. Bartiromo:

Yes, please.

J. Turley:

I agree with that. I want to go back to Steve's point. If you had financial stability to the Fed's mandate, they are the systemic regulator by definition and to Jim's point, all you need to do is not only pick up the banks, but pick up the insurance companies and the rest of the financial system. Don't forget, one of the wonderful things in the US is that we ran a shadow banking system, away from the banking system and I do not know what the right numbers are, but I know at least 50% of the credit creation came from the shadow banking system which did not have overarching

regulation of any client.

M. Bartiromo:

And so now what, Vikram, I mean does that industry ever come back? Who picks up the slack of that 50% in lending and what are the implications?

V. Pandit:

To me, that is perhaps the single most important question that is out there in terms of financial architecture and financial structure, because the minister of trade talked about the absence of trade finance, but it is not only about trade finance. There is a clear rationing of credit that is going on, and if you look at where it is happening, well the banks are trying to do as much as they can, there is some rationing there and I cannot tell you that they are not trying to be prudent. Having said that, their shadow banking system, which was the source of a lot of credit around the world through securitisations, finance companies, people financing Caterpillar tractors so they could go sell heavy equipment, that part of the market is shrunk, and then you get back to saying, should we do something about that, because that is the essential weak link in credit creation. It is going to have an impact on growth going forward, again you come back to do you need some policy changes? Do you need some policy decisions to help spur the shadow banking market or do you let time take care of it? Another sort of question about government intervention or not. These are all difficult questions.

M. Bartiromo:

Dr. Zetsche, I think your viewpoints are important on this, because you seem to be on the other side of the debate in terms of this government intervention and maybe that it is different when it comes to the automotive industry versus the financial services industry.

Dr. D. Zetsche:

I think we are coming very much to the same conclusion just because of that credit crunch, we have to look on the one hand at who can offer the funding and that is certainly this 50% which is gone, and less leverage on the equity and all of that. This gives you less funding, and the other question is who takes the available funding and that is where I come back and say if all the money which is left is absorbed by the government, then there is nobody financing Caterpillar or even Mercedes, which I can't imagine.

M. Bartiromo:

We hope not.

Dr. D. Zetsche:

OK, so I think that at the end of the day, growth is only possible with funding, and whatever we do, we have to live with less money being available for higher cost, but the question is to what extent and then on the one hand we have to deal with the financial sector and how we can get it back to a healthy status as fast as possible. On the other hand, while the government intervenes too much and absorb the remaining part of funding, I think we are approaching the same objective.

M. Bartiromo:

You know Jim Turley I want you to weigh in on one thing, I know you have a point of your own to make, but I wonder how this would look if we turn is upside down for a minute because we are talking about the government's ownership of business and talking about the potential for negative implications, but what about the negative implications of government spending all of this money, propping up businesses. Can we afford it? As a government, where is this money coming from?

J. Turley:

Well, I think that is an important question what I'd like to do before we get to that though is we are right on the cusp of linking this banking crisis to the recession in my opinion, because when we are seeing the trade card disappear, when we are seeing the loss of what Vikram talked about; the sort of non-bank-shadow bank credit — I am curious hearing from Vikram and Steven and others on what that's doing to the consumer credit, because at the end of the day when I travel around Asia, when I travel around Russia, when I travel around many parts of the world, they are all saying when is the consumer going to get back in the game and China's economy is going to be largely driven by when the US consumer starts buying again which goes right back to consumer credit issue and so, Vikram, I think these issues are all closely tied.

V. Pandit:

I think that's right. I will let Steve answer that, he is better at answering these questions, but I guess you go to the US and talk about auto finances. It is very hard to get loans to buy cars. Car sales are down dramatically. It is hard to get certain types of mortgages to buy homes. There is no question that a lot of the growth that we saw the last five to seven years came from credit creation through their shadow banking system and a lot of that has been curtailed and it is really affecting consumer demand which really gets to the point that while we are seeing stability, this could be a very slow recovery in terms of real growth going forward, and I've got to tell you the best way to get the

government out of the companies and how to get the intervention going, and that is by growing as much as you can. Growth solves all problems and you have to earn your way out of it and so we still need more intervention from the government, so let's look at policies that drive growth, its innovation, its globalisation, trade finance. Let's think about what is going to drive investment — tax policies that increase competitiveness. We are in the middle of one of the biggest, or at least a massive restructuring of the global economy from an economy that was driven by the US consumer and credit creation to an economy that has to be driven by different growth factors. That transition is painful and so the policy focus, if you want to get governments out of what they are doing, has to be driving growth.

S. Roach:

Let me just say, and this is not meant to complement you, but that is exactly the issue. The issue is about what is going to drive growth. We had a period that ended about two years ago when growth was dangerous, in the case of the United States, and that is the biggest consumer market in the world which shapes all these other economies we are talking about. It was driven by consumers extracting equity from a phony housing bubble by using a phony credit bubble. That is dangerous growth. We do not want to create growth that is artificial and ultimately comes back to bite us. What we want to do is create growth the way you just described it; through the restructuring innovation and investment in human capital and we have got to get to a new growth model, this is why financial stability is so important. If we let these jokers go back to creating growth the dangerous way, the next crisis is going to be worse than the one we are in right now, but if we make certain that we move away from a system of reckless system self-regulation to one that has discipline and a much more of a careful management of our financial system that avoids these destabilizing asset bubbles, then we can make this transition that you're talking about. So we have to be really careful in understanding the link between our financial system of intermediation and the growth model we all aspire to, which is a stable and more sustainable model in the future. This is the fundamental issue.

M. Bartiromo:

Steve, in a minute we want you to address Jim's question about the consumer. I also want to get Dr Zetsche in here, but first let me ask you to vote one more time on this question, because all of you have to operate your businesses and invest and put money into work regardless of what is happening in the environment around you. We would like you to tell us where the bulk of your investment dollars will flow in the next five years? Will it be Russia? Will it be Asia? Europe? USA? Or other? I am not sure what the sound effects are about but we hope you will vote on that.

One for Russia, two for Asia, three for Europe, four for USA, five for other. Dr Zetsche: you were going to make a point, please do so.

Dr. D. Zetsche:

I only want to agree with Steven and Ed, the government should invest on infrastructure, in education and innovation, and not in maintaining companies who are in the brink of extinction, because that is not creating growth and not, and I agree with that as well, in consumption which is just kind of fake, <inaudible> consumption of the future.

M. Bartiromo:

Are you saying the US government should not have saved GM?

Dr. D. Zetsche:

I think that the problem of the US auto industry was created more after 9/11 0/60 credits which created unreal demand and now it is answered with lack of demand, than by wrong products they developed, and we are about to do the same again with all the scrappage programs and all of that, so that is going to consumption rather than addressing the real growth triggers which are education, innovation and infrastructure.

M. Bartiromo:

Very important point Dr Zetsche, thank you for that, and really interesting results from our voting. Thank you very much for weighing in here. 17% of you said you will be investing in Russia, but a full 55% of those who voted said Asia was the place that your investment dollars will be flowing in the next five years. 14% of you said Europe. 11% USA, and 1% other, really interesting. Steve, why don't you comment on that? Is that where the growth is in the world? Is it Asia for the next five years?

S. Roach:

Well Maria, I am now the chairman of Morgan Stanley Asia, so I want to thank all of you for supporting the decision; the career choice that I made, but everybody is caught up in this notion that we have now moved in to the Asia Century and it is a catchy phrase, it is a romantic vision, and it certainly makes this type of voting look accurate and hopeful, but you've got to think about what Asia is today and what Asia has got to be in the future to justify this type of move. Asia is an export machine. Pure and simple. The Asians will tell you, well, we have really stimulated internal demand, do not believe them, it is an export machine. Look at developing Asia, the numbers are

clear; in the Asian financial crisis of 1997 and 1998, 36% of the region's GDP went to exports. Today that number is 47, so the region has become more dependent on exports than before. If that is not going to work in a weak global climate, Asia has got to do some really heavy lifting in terms of stimulating internal private consumption, so your numbers are going to be wrong, the 55% of you who voted this way, if you cannot come up with a model that generates internal private consumption from Asia, and to Jim's question, what about the American consumer — everybody wants the American consumer to come back — forget it Jim, it is a pipe dream. The American consumer is finished, toast.

M. Bartiromo:

What do you mean finished? They're not coming back?

Dr. D. Zetsche:

I happen to agree with him; that's why I wanted to hear him talk about it. I don't think the American consumer is going to come back the way they were, because, while Vikram may have wanted me to argue with you, I largely agree that there was, not really a phony consumption based on a phony housing — I might use slightly more diplomatic terms — but I agree with you.

S. Roach:

OK look, here is the story Maria. In the final 25 years of the 20th century, US consumption averaged 67% of US real GDP. In the first quarter of 2009 — the last quarter we have data for — that number is 72.4. This is a massive increase. We didn't do it on the basis of the economy's internal income generating capacity, we did it on the basis of leveraging two bubbles, property and credit, both of which have burst, and so the consumers have been hit by the bursting of a property, above all the credit bubble, also an equity bubble, an employment bubble. The consumer has record levels of debt and still has inadequate savings. So the consumer, which has been growing for about 4% a year for a dozen years, I think over the next three to five years the American consumer growth rate is going to go from four to about one to one and a half percent. It is a Japanese-like outcome.

M. Bartiromo:

What does that mean for China?

S. Roach:

I will not say that China is toast. I do not know what the Chinese word for toast is, but China's external demand model, that has been underpinning their exports, is in trouble and the Chinese, by

the way, who I meet with every week they don't get this. They think that the US consumers are coming back next year, not this year, for basically two reasons, they call them <inaudible> and Obama.

M. Bartiromo:

Think about something positive to say, do you have anything positive to say at all?

S. Roach:

I am bullish on two things right now. I am bullish on India, which I think has really done a good job of bringing the micro and the macro together and now they have a government that is not going to be constrained by politics of coalition management. The story in India, when I was in India just a couple of days ago, I think is really terrific, and secondly, I am bullish on CNBC.

M. Bartiromo:

All right. Thank you for that. Dr. Zetsche.

Dr. D. Zetsche:

I do not know if it helps us too much if we see this all in black and white. I mean we can blame the Americans based on consumption on money, which they don't have to earn, and the Chinese or the Germans for that sake, for exporting without consuming at home. Ultimately, trade is about buying and selling and in all economies you have to try to be competitive and the better you are at that, the better you will be on exports on a global basis, and I don't think you should criticise Asia for that. On the other hand, by being able to create funds through export, you can start to build more and more consumption and when you are so critical about the Chinese story, I think, one very strong element of it is just demography. There are a lot of Chinese around and we feel good about having sold in March and April and May, every month 50% to 70% more Mercedes this year than last year. So, there is some consumption, which is very healthy for us, at least in that part of the world, and so I think it is not that much black and white, but we need more schemes which try to combine the strengths of different nations in a better way than we did before, where it was about "you do this, and you do that".

M. Bartiromo:

Very interesting point. Thank you.

W. Pawlak:

I would like to concentrate our attention on the aspect of the currency and the currency exchange rate, because when you look, for example, at the rate of the Euro and the US dollar between 2001 and 2002, one dollar was worth 90 cents. For example, when an Opel car cost 10,000 Euro, in the US it was only 9,000 dollars. But in 2008, we have a completely different rate of 1.6 and you have to pay for the same car, the same production, the same energy, the same labour cost and you have to pay 16,000 US dollar for the same car. I think the currency market, which is a very important element of global order and the relationship between currency and hot money, which sometimes goes too fast on a global scale.

M. Bartiromo:

It is an interesting point and currency has certainly been one of the hot-button issues all day, actually. Mikhail, do you have any thoughts on that? On currency and the exchange rates. I know that you were very critical earlier, well not critical, but making suggestions that we need to know the priorities and the easy money was something that you mentioned earlier. So give us your sense of the priorities and how the <inaudible>.

M. Prokhorov:

This is the cutest point as great changes have occurred in the currency rates and this problem is relevant to everybody. We solve it as follows: if it is difficult to secure oneself under the law of small numbers, then if one has large group or great opportunity to invest, it is necessary to have diversified assets which have a sectoral insurance on the one hand and are balanced so that to minimise currency risks on the other hand. For example, we take the following steps when dealing with currency: we keep some part of the cash in dollars, and there are golden companies' shares against it, respectively if it is necessary to have rouble business, then it is necessary to have worldwide competitive business which has large amount of rouble gains. Thus we take 6-10 diversified assets which are in different trajectories both for sectors and currency. So both in case of fall and in case of growth of the world economy our assets basket is secured and in whole we always win.

M. Bartiromo:

I'm sorry Mr Pawlak?

W. Pawlak:

I think managing of currencies is only possible in the short-term because large, long-term changes between currencies have a much stronger influence on the economy. Prime Minister Koizumi talked

about the experience between America and Japan and it's a very interesting example in the 18 years of the previous century when Japan was a good export for the US market. The rate of the Yen to Dollar was 270 Yen per dollar. After the operation which organised <inaudible>, the exchange rate changed to 100 Yen to the dollar, and from then on, the economy in Japan had big problems. Now, they talk about deflation instead of inflation, and sometimes when currencies are too strong, increased deflation is more important. A very interesting example is the Euro zone because the Euro was relatively too strong. The Euro now is very important in the global economy, but the Euro is high against the dollar. That's my opinion.

M. Bartiromo:

Vikram?

V. Pandit:

Maria I want to go back to two things: One, obviously, I want to go back to government intervention again, and then I want to also compliment Steve with something I'm going to say, the return of this government.

M. Bartiromo:

There has been a 360 up on this stage!

V. Pandit:

I know. Steve is right. It's all about the GDP. Going through what we're going through, which is a once in a hundred year event with most governments around the world committed to the market economy, you've got to complement them for approaching crisis management by doing what they thought was right and doing it on time and very well in very important ways in saving the financial system around the world. Maybe their concepts went a little too far. They didn't do enough. But those are on the margin I think; issues that we're always going to debate, but a lot of the governments have done the right thing. They've really worked very hard to stabilise economies, stabilise the financial system and the one thing that we're going to agree on is all of us, myself, people who have received any help, the government, we can all agree that we want out as soon as possible. Let's all agree that that is the goal, and it's really a question about having taken some extraordinary steps in an extraordinary environment with a real view of getting out of this as soon as possible. The real issue is GDP. It goes back to where Steve started. It really is about that, because the seismic change that has occurred by having a broken business model around the world. However you look at it, the business model that drove growth and drove prosperity around the world is not the business model of the future. And we don't know where that model is going to be.

We do know we need the Chinese consumer. We know we need the Indian consumers and the Russian consumers. We need a diversified consumer base. We know that. We also know that we need to drive growth. I guess the point I want to come back to is we think about intervention in the context of how we are going to get out of banks, what we're going to do to get out of this. I think that's an important point. But the fact is that I think policies and government intervention are here to stay with us for a long time. Because it's all about restructuring global economies and that's a long task, and we're here relying on the governments and their central banks around the world to do what they can to help stimulate a different business model. That intervention is not complete. I don't think that's going to be done for a while and that's why you see surveys of people saying that their government is not going to get them out of it. It's not about the companies. Some companies will get out, some won't. It really is about how we're going to need their help and those policies have to be with us for a long period of time.

S. Roach:

Yeah, let me just put an exclamation point on that. I agree 100% that the exits and the companies that have taken government help getting out is clearly important. I think the governments have done all the right things. I think what's really vital is the next step because as several have said, we need entrepreneurship. We need innovation to help drive the growth in the future, and one of the risks that I'm worried about is as the next phase of reregulation takes place, because as Steve said at the outset, whenever there is a crisis, the regulators want to do something. And if the something starts impacting the entrepreneurial class, if you will, and becomes so binding, it stifles out innovation, then I think this growth will be a long way off. So I think making sure we put in place policies to encourage innovation, to encourage early stage financing capital formation for new ideas, and do so in a way that also full stop eliminates protectionism at the same time. Those are the two things that I worry about from here that could easily get in the way of growth if they creep in.

M. Bartiromo:

Let me ask the audience to vote on another question. And speaking about growth and money and printing money, what's your bigger worry in the next three years, inflation or deflation? Number three would be stagflation. One, two, or three. And I do want to come back to what Vikram said in terms of GDP. Mr. Pawlak, I think you want to add something?

W. Pawlak:

I think the differences between growth and development are very important because sometimes I think we concentrate too much on growth, only in financial calculations, but I think also

development is very important. If we look at the model of the European Union, because we have a relatively small common budget: it's about 1% of our GDP, we haven't found a common policy, common agricultural policy and also money for cohesion funds. I think mixing order in ownership will be important because now, we look at the end result when in fact private ownership is best overall. We have other forms and now we have private, government, cooperatives and many other models. It's good for a very concrete task and we need a very adequate model for this concrete task. We need a balance between different tools which we use for our life and for building development.

M. Bartiromo:

Tools in terms of stimulus?

W. Pawlak:

Uh-huh.

M. Bartiromo:

And development. Thank you so much. And interesting results, the majority in the room worried about inflation, the minority, deflation, and 39% stagflation. Steve, what are your thoughts on that?

S. Roach:

Well it follows, Maria, that given all the stimulus that's in place right now together with the results of the first poll, people are not convinced in an effective exit strategy in the next three years. It's the same group there. The three-year time frame is the global economy that will then hopefully start to recover. We got a stimulus in place. It's consistent for them to worry about inflation. The thing that you have to keep in mind though, is given the severity, the global recession we're in right now, and the major gap that's opened up between supply and demand in major labour and product markets around the world, it's going to be hard to close that gap in a three-year period and with that big gap, these concerns that this group is expressing about inflation may turn out to be not necessarily wrong, but premature. Can I just come back to one of the things, Maria, and that is, you know, Vikram and Jim and I've tried to do this and Deiter was also doing this, talking about the drivers of growth. This is a session that's focused on sort of the financial crisis, but I think implicit of what we're all saying is that the financial system of the financial markets are serving an important intermediary function in getting credit and capital at the right places. And the right places ultimately are what will allow finance to drive growth. And what the group has also identified, and this audience is sympathetic to it, is that growth is going to shift from the developed world to Asia, and I'm delighted to hear how many Mercedes are being sold in China right now and that the Asian

consumers are going to sort of take over from the tired American consumer. Let me just give you a couple of numbers here that underscore the huge challenge that it will take the world to get there. Last year, the United States, 4.5% of the world's population, was a 10 trillion dollar consumer. Last year, China and India combined, nearly 40% of the world's population, was worth 2 trillion dollars. Pretty hard for 40% of the world to fill the gap left by 4.5% of the world in going from a 2 trillion to a 10 trillion dollar consumer. So this is a big challenge for the world. It's also a big challenge for Asia and I wasn't being critical of China and other developing countries for exporting. What I am critical of is their failure to really build on the social safety nets that will create more broad-based and robust consumer demand cultures in this huge part of the world. There's a big challenge for the global growth story and the post crisis architecture for the global economy.

J. Turnley:

Steven, what do you expect US consumption to be? It was 10 trillion dollars last year. What's your prognosis for next year?

S. Roach:

Well, you know, about 1%. Oh next year? Well, by the way Jim, it's going to shrink by 1.5% which is unprecedented for the US and maybe next year it will grow, if we are lucky, by two.

M. Bartiromo:

So is it fair to say we could bump along the bottom for the global recession for a little while or are you actually expecting things to deteriorate from here?

S. Roach:

No, I think, you know, we'll have a recovery. I've never seen a recession not followed by recovery. It's just going to be a weak recovery, Maria, and what worries me, you know, as a market guy, that financial markets around the world are now anticipating fairly strong and vigorous recoveries. I mean you're on CNBC, and I never sleep and I watch you in the middle of the night in Asia. So, it's so great to see you in person and you have all these sort of frothy guys on there talking about how this is not a bear market rally, and this is a beginning of a new secular move and the markets are going to just keep going up forever, you know, in a week, global climate, I think those prognoses are going to turn out to be very wide of the mark.

Dr. D. Zetsche:

Just reacting to the point you just made, of course, it's obvious that starting from a large base, small

growth has more of an effect than a small base with a higher growth and that's a fact between the US and China today. On the other hand, we're not just talking about next year. Pull us out of the recession. We need the US, and without the US market, there is no chance, not from China nor India, nor Russia, nor even Europe can pull us out if the US doesn't kick in. But I think we are talking about their mid-term and long-term perspectives. Just take as one example the car market, where meanwhile China has a larger automotive market than the US. Still, for the car, the revenue is somewhat different and slower, but still not matched. So, all together, this is one market where we already have an equilibrium after years and years of 56% growth in China and no growth or decline in the US. And I think that this will not be the last one, but we will see more and more consumer markets just by the number of population. We will be able to achieve a balance and therefore, mid-term and long-term, I think it's still right to invest in that market as before.

M. Prokhorov:

Our discussion is becoming pessimistic for some reason; I would like to add some optimism. We have voted for inflation or stagflation today. Speaking about Russia I'm afraid of stagflation as it is very difficult to come out from it. Nevertheless if we are speaking about trend, GDP's role and what movements will be significant, it is obvious to me that the emerging markets are the main trend which will help the world economy out of our current troubles in a sense. It is no wonder, the development is cyclic. If we look back to the 18th century we'll see that 55% GDP was produced by China and India together with Pakistan, it was one country at that time. Nowadays the global world is facing the return of these tendencies at a higher stage, so I think that the emerging markets which Russia will not only actively join but also lead will redistribute the world's GDP to their part and it will be the main growth driver in the world. M. Bartiromo: Due to resource base or what? M. Prokhorov: This refers not only to natural resources but also population and the opportunity to establish new infrastructure quickly and effectively which will advantageously differ from traditional economies of the developed countries as these investments are rather hard to set aside. I do not say that this trend will have no contradictions, that economy of Europe and America is historically condemned, I don't think so. The thing is just that there appears a historical chance for the countries with emerging markets to break through the gap much faster than they could be under normal evolution.

M. Bartiromo:

One comment on inflation and deflation. I think the risk of inflation is more probable in countries which have relatively weak currencies and deflation can be in countries where they have a too strong a currency and I think it is a big problem because now the exchange rate is changing to fast

in relation to the real economy because when you organise modernisation of the industry and when the currency changes very quickly your work has no effect. In Poland we have an interesting observation after last year because our currency changed <inaudible> now it is weaker by about forty percent in relation to Europe and it is working like a motor in a car because it promotes our exports and it is a natural barrier for imports and our growth is on a relatively good level and its' effect also in our country. We have got a balance between service and production and between service and industry. Industry <inaudible> concrete value, which is very important in the time of crisis because people need good food and good products for example a very interesting picture is on the market for example, clothes, in the men's clothes' market we have a depression in the women clothes' market we have a very good situation and this is a very interesting example that women promote development and promote growth.

M. Bartiromo:

<inaudible>

J. Turley:

Talking about women, my wife said to me about four or five months ago that she said, I know there is a recession on Jim but I have chosen not to participate. I said what do you mean? She said, "I am going to pretend that I did not get the memo."

M. Bartiromo:

That is good.

J. Turley:

You know I think when you asked Mike about is it resources. I think it is human resources is going dry. But I think at the end of the day if the last growth spurt was in some ways driven by the real estate bubble, the credit bubble and the US consumer they were not moving in to the middle class they were just stretching beyond their class. I think you are actually going to see millions and hundreds of millions of people moving into the middle class in Asia, in India, in Eastern Europe and I think that is going to help drive some growth.

M. Bartiromo:

Yes, just one last comment. I do agree with both Jim and particularly Mikhail in the sense that I see very few reasons to be pessimistic. You have got to look at how much we have achieved through one of the worst scenarios that anyone can expect and having had a front seat I know how bad it

could have been versus where we are today we are seeing early signs of stability. I am not saying all the bad news is over but I see a lot of reasons to be optimistic particularly because of what Jim said. Globalisation is a wonderful thing and the amount of talent we have around the world says that this restructuring and this reinvention of the economy around the world is going to be faster than it has ever been before. So I look at this and I am really looking forward much more in an optimistic way to say thanks for everything that has been done but there are a lot more reasons to be optimistic than pessimistic.

M. Bartiromo:

And so we end on a resilient and positive note. Thanks everybody. This session is closed.