

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 20–22, 2013**

**The Global Growth Agenda
ARE CENTRAL BANKS THE LAST STRONGHOLD OF ECONOMIC GROWTH?
Panel**

**JUNE 20, 2013
14:30–16:00, Pavilion 8A, Congress Hall**

**St. Petersburg, Russia
2013**

Moderator:

Herman Gref, Chairman of the Management Board, Chief Executive Officer,
Sberbank

Panellists:

Andrey Belousov, Minister of Economic Development of the Russian Federation

Jan Hommen, Chairman of Executive Board, Chief Executive Officer, ING Group
NV

Elvira Nabiullina, Aide to the President of the Russian Federation

Alexei Ulyukaev, First Deputy Chairman, Central Bank of the Russian Federation

Yu Yongding, Academician, Senior Fellow, Director, Institute of World Economy,
Chinese Academy of Social Sciences (CASS)

H. Gref:

Good afternoon, ladies and gentlemen, Forum guests!

We are beginning the panel discussion of the St. Petersburg International Economic Forum organized by Sberbank Russia. The title of the session is as follows: 'Are Central Banks the Last Stronghold of Economic Growth?'

Our discussion is being broadcast live on the RIA Novosti website, on the Sberbank website, and is also being broadcast by Russia 24. I would like to thank our partners, RIA Novosti and Russia 24, for their cooperation.

Allow me to introduce our distinguished speakers: Elvira Nabiullina, Aide to the President of the Russian Federation; Andrey Belousov, Minister of Economic Development of the Russian Federation; Alexei Ulyukhaev, First Deputy Chairman of the Central Bank of the Russian Federation; Jan Hommen, Chief Executive Officer and Chairman of the Executive Board of ING Group; and Yu Yongding, Senior Fellow of the Chinese Academy of Social Sciences.

Following tradition, we will begin our discussion with a topical film clip, prepared in collaboration with our long-time partners, business news channel CNBC. I invite you to watch this film, it is four minutes long.

Video presentation:

In August 2007 the world changed when BNP Paribas suspended three funds because of evaporating liquidity in the US securitization market. No one could have foreseen the scale of the crisis to come. The crunch in the sub-prime market caught policymakers by surprise, forcing central banks to flood the market with liquidity to stave off the complete paralysis of the financial system. In September 2008, the world changed again. "Too big to fail", the banking industry's greatest taboo, was broken: Lehman Brothers went down. And it was to central banks that markets looked again. But flooding the banking system with cash was not enough. The markets wanted more.

Newsreader (on the video):

“I can report right at this moment here that there is a coordinated fifty basis point global rate cut.”

Narrator:

And so began the inexorable decline of global interest rates. But as the financial crisis deepened, it became clear that conventional monetary tools were not the answer. Asset purchases were the next step. Quantitative easing has since proved to be the unconventional weapon of choice for the world’s leading central banks. They have shrugged off accusations that they are monetizing government debt.

B. Bernanke (on the video):

“There is a sense out there that both ‘quantitative easing’ and ‘asset purchases’ are a completely foreign, new, and strange kind of thing. Quite the contrary: this is just monetary policy.”

Narrator:

But USD 12 trillion of extra liquidity later, central banks seem to be running out of options. As monetary expansion continues to depress foreign exchange rates, the stage looks set for an all-out currency war. It is a charge policymakers deny.

C. Lagarde (on the video):

“We have not seen any such thing as currency war.”

Narrator:

Despite hints from the Federal Reserve that its asset purchases could soon slow, it seems the world is still hooked on easy money.

M. King (on the video):

“If we wanted to do more we certainly could do it, and the amount of gilts that are out there is increasing all the time.”

Narrator:

The European Central Bank continues to resist calls to undertake outright quantitative easing, preferring to alleviate tail risks in the eurozone by other means.

M. Draghi (on the video):

“The ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough.”

Narrator:

But promises to do whatever it takes have failed to prevent the bloc's debt crisis from making its presence felt beyond the borders of the euro area. Earlier this year, Russia found itself embroiled in the crisis engulfing Cyprus, as it teetered on the brink of an exit from the single currency.

J. Dijsselbloem (on the video):

“The size of the Cypriot banking sector is so large that we found it justified to also involve the depositors.”

Narrator:

The Kremlin held fast in its refusal to bail out Russian depositors in Cyprus, where billions of Euros had been amassed after years of capital flight. And the threat of rising inflation means the Bank of Russia has limited room for manoeuvre on monetary stimulus.

E. Nabiullina (on the video):

“The banking system has made significant progress, yet the rest of the financial system is still under development.”

Narrator:

Investors around the world are now trying to assess the next moves of major central banks, especially the Federal Reserve and the Bank of Japan. Signals pointing to the end of easy money have gripped markets in the past few weeks and unsettled investors, particularly in emerging markets.

H. Gref:

Many thanks to CNBC.

I would like to outline the set of questions that we will be discussing. We have attempted to establish the fundamental problems which are currently of interest to business and society in general. It is essentially these issues which have led many participants of the St. Petersburg International Economic Forum to be spending their valuable time sitting here in this hall.

The first question concerns economic growth and its dramatic deceleration, from 4% in the first and third quarters of 2012, to 2.1% in the fourth quarter, and 1.6% in the first quarter of 2013. What are the reasons for this deceleration of economic growth? Are we looking at a cyclical downturn? Is there nothing we can do to increase economic activity and the speed of economic growth? What measures can we take to restore economic growth rates and return to stable economic development?

After answering the first question, a second arises: what instruments of economic policy should now be used to accelerate economic growth? And, finally, a third question: who holds the reins and can drive Russian economic growth? Today this question is being discussed around the world, and a very active discussion has unfolded in Russia. Who has the magic wand that will help us to unlock the door to economic growth? What do we need to do in order to reach our desired economic growth rates, in both the short term and the long term?

It is precisely these questions that I would like to discuss with our distinguished economists. Today the word 'economist' is almost an insult. Somewhere I read a little joke: "Why did God create economists? To make weather forecasters look better by comparison." Nevertheless, these questions remain relevant, and we

would like to involve you, colleagues, in the search for answers. We will be asking you to vote twice, in answer to the questions. Everybody has a control panel. When the questions appear on the screen, select the number of the answer you most agree with and press the button.

The first question is relatively simple. Governments, central banks, and the academic community have been persistently searching for an answer to it in recent years: who is responsible for economic growth in the country? The first answer is the Government, the second is the Bank of Russia, the third is both of these organs, and the fourth is business. Switch on your voting mechanisms. Please choose one of the answers.

Colleagues, please excuse me, but I have fallen into a bit of a stupor. We took into account all possible outcomes, but, honestly, we were not expecting this reaction from the audience.

Nobody wants to hold the Bank of Russia responsible. It is surprising, but 40.74% believe that the Government is responsible. Exactly the same percentage of voters chose the both the Government and the Central Bank. Finally, 1.8% – within the margins of statistical error – believe that business is responsible for economic growth. That is a very good foreword to our discussion.

Today is a unique day. In this unique city, a unique situation has unfolded: never again will you have the opportunity to participate in a discussion where there are four speakers who have a direct impact on economic policy. We have with us today the current Minister of Economic Development, two former ministers, and, if the papers are to be believed, one future minister. Who better to answer these questions? Furthermore, we have two managers of the Central Bank of Russia on the panel: the First Deputy Chair and the future Chair.

So let us begin our discussion. We would very much like for it to move at a quick pace. I would like to address my first question to Andrey Belousov, the Minister of Economic Development. Mr. Belousov, what, in your opinion, are the reasons for the deceleration of economic growth? Is this part of a cycle, or can we influence economic growth?

A. Belousov:

Thank you, Mr. Gref. First of all, I would like to comment on the results. It is possible that the answers would have been a little different if the question had been posed differently: who is responsible for the economic downturn, or for the deceleration of economic growth?

H. Gref:

And what answer do you think would have had most votes?

A. Belousov:

I think that the correct answer is the third answer. I do not really understand how business can be responsible for economic growth. Business can be responsible to its shareholders, to its proprietors, to society. Regulators are responsible for economic growth. The regulators are the Government and the Central Bank. Only together can they be held responsible or not responsible for something. Of course neither of them, on their own, has the full authority to implement any systematic action. If we consider that the deceleration of economic growth is caused by systemic and not cyclical factors, then the right answer would be the third answer.

Now let me turn to the question you have asked. The answer is both simple and complicated at the same time. It is complicated because everyone who is connected in one way or another to business activity has the clear impression that business activity is declining. Business activity is declining in our country: the markets have dropped, shipments have stabilized. Everyone has their own outlook on this process, and everyone describes it in their own words, but there is a general impression which, it seems to me, is also felt by those present in this room.

Let us look at the figures. In the first half of 2012, which we will use as a point of reference, GDP growth was 4.5%. It was 4.8% in the first quarter and 4.3% in the second – 4.5% on average for the first half of the year. From January to May 2013,

it was estimated at 1.8%. This is not really even estimation, but a fact, a statistical account. So, over this period, there was a drop of around 2.5%.

What else has fallen substantially? Let us look at investment: over the first half of the year, it fell by around 13%. And investment makes up about a fifth of GDP. By simple arithmetic division, we come to around the same 2.5%.

In my opinion, to explain this more formally, the fundamental cause of the slowdown in economic growth is the sharp drop in investment activity. We could begin a further discussion about why investment activity has fallen, but I will not go there. I will give answers to the questions which will probably follow: who is to blame, and what is to be done? Over lunch, while we were preparing, Mr. Gref said that we would have a unique moment today: we would have intellectuals gathering on the stage. Therefore, our questions will also be the questions of the intelligentsia: who is to blame, and what is to be done?

As we see it, three important circumstances occurred in 2012, which were of systematic significance and which were not observed previously. The first was the strengthening of the rouble. This began immediately after the crisis. In 2011, the devaluation effect was exhausted, the effect of the weakening of the rouble, which began in 2009. In 2012, we had already found ourselves in a favourable position. By March 2013, the rouble had strengthened by about 20%.

The second circumstance is the growth of real, or nominal (whichever term you prefer), interest rates. Today, interest rates for loans in roubles for a period of more than a year are in the region of 11%. That is the average, but in practice these interest rates can reach 12–13%, depending on the quality of the borrower and the capacities of the bank. At the same time, interest on deposits in roubles for a period of more than a year is currently at 8%. This gap, this discrepancy, this margin – call it what you will – is today at the record level of 5-6%. This was not the case previously, this is also something new.

The third circumstance which should be mentioned is the increase in natural monopoly tariffs, which has continued all these years alongside the strengthening of the rouble. The price in dollars of gas offered to industrial consumers has doubled

since 2007. Electricity tariffs slightly more than one and half times higher, and wages in dollars are around 1.6 times higher. Together, all of these factors influence investment. These factors, of course, lead to a rise in costs. A direct link can be observed between the effect of these factors and the fall in investment, which, as I have said already, almost 100% explains the reduction in GDP growth.

I would like to say, by the way, that interest rate and exchange rate trends are areas which are the responsibility of both the Central Bank and the Government.

H. Gref:

The main question is: can we influence these factors in such a way that will accelerate growth? Or is the drop in investment an objective process, resulting from a whole series of factors?

A. Belousov:

All processes here are objective. But, as Mr. Kaganovich said in his time, any objective cause has a title, a forename, and a surname. I think that this is the result of a whole series of factors, including some changes in systemic policy. I believe that these processes are reversible, that the Government and the Central Bank have leverage which will allow them to lower interest rates.

H. Gref:

There is one suggestion, but that is for the next round of discussion.

A. Belousov:

We are now observing how perhaps one careless word has led to changes on the currency market.

H. Gref:

Thank you very much, Mr. Belousov! I really did say that we have intellectuals here today. For this reason, I have a request for you all: try to be a little less intellectual

during our discussion. I ask you to be brief and clear, for we would like you all to have the opportunity to discuss things with one another.

Mr. Ulyukaev, if possible, please explain your perspective on this problem.

A. Ulyukaev:

Thank you!

First of all, regarding responsibility: to whom is the Government accountable? To the taxpayer, that is the case all around the world. Taxpayers' money can be spent in various ways. Depending on circumstances, priorities could be the social sector, education, science, or support for the economy.

The Central Bank is responsible to those in possession of the national currency. On the liabilities side, it has obligations, expressed in the national currency, and it is answerable to all of those who hold them. Therefore, its main priority is the stability and efficiency of the national monetary system. It goes without saying that this creates the basic conditions for economic growth – but the connection here is not direct, on the contrary, it is somewhat indirect.

Secondly, regarding the deceleration of growth: my conviction is that this is a result of the influence of several factors, mainly of an objective character. The first factor is the stagnation of global demand, which has been ongoing for a few years now; the second factor is the exhaustion of opportunities for the reestablishment of growth in the Russian economy. Dynamic growth was observed during the years of restorative growth: a long wave of restorative growth after 1998, and a short wave of growth after 2009. But with the current level of industrial capacity, and current employment, restorative growth is no longer possible. It cannot be stimulated by means of using existing industrial capacity. It is possible to get out of this dead end in restorative growth – and here I agree with Mr. Belousov – through investment activity, which is currently growing very little.

I will say a few words on individual points. I do not consider the strengthening of the national currency to be a problem. Generally speaking, strengthening of the national currency always occurs precisely in periods of restorative growth. When we had the

highest economic growth rates, the effective exchange rate of the rouble rose by 9–11%. In 2013, the rouble's effective exchange rate has not grown. So, it does not really influence the national economy. I will not go into a lengthy discussion of this now; I will just say that the exchange rate has a different effect on different branches of the economy, and an especially significant effect on those in which there is active investment activity. Today, our investments are highly dependent on the import of technology and components. This is a double-edged sword, and we need to be very careful.

Regarding interest rates: today, our average interest rate on credit for a period of more than a year is 10.2%. In recent years, interest has been wavering between 10% and 11%, and it is currently a little lower than usual. Whether this is a lot or a little, I do not know: possibly it would be better if it was a little lower. But that is a question for business.

What I completely agree with is what was said about natural monopoly tariffs. Firstly, the increase in tariffs leads to increasing costs for business. This year, we have observed an unprecedented phenomenon: a sharp fall in company financial results. Economic returns are decreasing before our very eyes: this has never been the case before, not counting the years of the crisis. This means that we – business, the Government, and everyone else – have stopped managing our costs properly. This includes costs related to the workforce: we know that the rate of increase in wages is almost double the rate of increase of labour productivity. Added to this is the significant factor of rising natural monopoly tariffs. The main thing is that the competitiveness of our businesses is declining, which means that we are stripped of any ability to accelerate economic growth purely through exports. This also decreases the possibility of self-funded investment. And yet, self-funding is currently the main means of investment for businesses.

Finally, one last thing: the investment programmes carried out by natural monopolies are a significant source of growth, comparable in many respects to state investment. We are not always sure that these investments are effective, but

investment programmes are closely linked to tariffs. Here I fully agree with my colleague, and I believe that this is a very important question.

H. Gref:

Thank you very much. At the same time you have given us an answer.

E. Nabiullina:

I believe that the slowdown in economic growth is due to two main reasons. The factors which, in previous years, enabled economic growth have stopped working in Russia. Firstly, the constant growth of export revenue has ended. If we look at export trends in 2012 in comparison with 2011, we see that there has been a sharp fall. Secondly, the post-crisis restoration of industrial capacity is no longer a functional factor. Other factors, such as the strengthening of the rouble or the increase in interest rates, play a certain role, but much less so than these two. This means that our economy must find new growth factors to push it forwards. In my view, such factors should, of course, include an increase in labour productivity, lowering costs, and more private investment. This would shift the discussion from the sphere of monetary and credit policy to a completely different field –institutional, structural reform.

I would like to remind you of the concept of potential growth rates: usually these are rates that are possible in given institutions and within given structures. As I see it, our economic growth rates could now be at 3–4% – perhaps closer to 3%. There is no need to confuse them with our desired growth rates, which we write about in strategic documents, and which reach 5–6%. The achievement of these figures requires that we work seriously on improving the investment climate.

At the moment, growth is less than 3–4% – that is to say, less than our current potential. With the help of short-term instruments, we could fine-tune budget policy, monetary and credit policy, and take further measures. But their effects would be small. The main thing is, of course, structural and institutional reform.

And now to the question: is it possible to influence economic growth? In my opinion, it is possible, but it means that all participants in the process must be involved. The Government and the Central Bank create the conditions for economic growth, but economic growth itself, of course, happens thanks to business. I was frustrated that it was not possible to give the answer 'the Government, the Central Bank, and business' to our vote earlier. Ensuring economic growth is a common task. The Government and the Central Bank are obliged to create reasonable and predictable conditions, in order to earn the trust of business. That is the fundamental task. The role of the Government, in my view, includes the creation of an investment climate and institutions that are capable of gaining the trust of business. The Central Bank must create the macroeconomic conditions, ensure that inflation is predictable, and help to lower it. It must also ensure a predictable currency policy – and here I mean currency policy, not currency exchange rate. We will probably have the opportunity to talk a bit about the currency exchange rate, but we must have predictable policy. In my view, this is the main way to influence economic growth.

Thank you!

H. Gref:

Thank you very much. The first disposition is more or less clear. I will summarize what has been said.

For all Russian participants in this discussion, the factors determining the deceleration of economic growth are obvious. We did not answer the question 'Who is to blame?' We will consider this unnecessary, that all of this happened on its own. The main thing is to answer the question 'What is to be done?' In this regard, I would like to turn to the two foreign participants in our discussion.

My first question is addressed to Mr. Jan Hommen. In Europe, we see the same thing happening that we see here. The situation in Europe worries us, because 50% of our imports and exports come from this region. Tell me: do you believe that it will be possible to influence economic growth in Europe? If yes, how can this be done? And a second question: do you believe in the eurozone, where labour productivity is

two and a half times greater in some countries than it is in others? How is it possible to ensure economic growth in the eurozone, if labour productivity in its southern regions is two and a half times lower than in the north?

J. Hommen:

Europe, I think, is a very special case, and I believe that your slowing growth in Russia is partly the result of the lower growth that we have seen in Europe. You are talking about growth rates of 2.1%, going down to 1.6%, but in Europe we are in negative territory today, except for maybe Germany, which is still doing quite well. Most other economies are either flat or in the negative trend. There are many, many reasons for that. After the crisis, it became clear that it was a very deep crisis of too much debt in too many parts of society, and not just in governments but in the private sectors as well. Then the leveraging, I think, is still taking place, and is having an impact on the ability of economies to grow. On top of that, in some parts of Europe, you have seen that productivity relative to other parts of Europe is very low or failing to keeping up, where the big countries like Germany and others are still doing relatively well on that front. This means that you need to do significant restructuring, and that is painful. We have seen unemployment rates of 25% with youth unemployment of 50% in the southern part of Europe, particularly Greece, but also Portugal and Spain. Those are rates that are not acceptable, and I think we will have to do whatever we can on the restructuring part: restructuring the labour and the labour laws, making labour more flexible. But at the same time, wage costs have gone too high relative to productivity. Also, there needs to be government restructuring. They have to do a better job at collecting taxes, so the budgetary systems need to become much more sophisticated than they have been. All that will require time. It will not happen overnight, but you can already see some progress being made, in particular, in Spain. We have seen that there are now some companies investing in Spain because labour costs have come down significantly, and I think we need to see more of those signals. In my country, the Netherlands, we have a very special issue: we have a lack of confidence, in the sense that

people, consumers, are basically on strike. Nobody is buying anything, basically for two reasons. Firstly, the housing market has been quite depressed, and people are still anticipating that housing markets may be lower next year than this year, which is not inducing people to buy homes. Secondly, of course, we have the banking crisis. All over Europe, we see that banks are struggling with the new environment. They need more capital, but at the same time, the new regulations, Basel 3, will require time before they are fully adjusted to that. Although we have made good progress on recapitalizing most of the banks, there is still work to be done. In particular, there is the formation of the bank union in Europe which is now taking shape; the ECB is really taking charge on that. I believe if it can be done next year, it will make a big contribution to the stability of the economic system and the financial system and have an impact on economic growth.

H. Gref:

Mr. Hommen, you did not say, do you believe in the future of the eurozone?

J. Hommen:

I believe we have only one way to go, which is the way that we have taken, and we will have to finish the job, and do it with the conviction that I see at this moment in the European Union, in the leaders of Europe. The conviction is there, and I believe it is the only way to go. We have no choice. We cannot break it up. We have done analyses on breaking it up. It would be extremely painful and would not help the economy at all.

H. Gref:

Thank you very much.

Colleagues, I will draw some conclusions. We believe that this discussion is entirely relevant, because now we need to move on to the second part: to the examination of tools which could be used to improve economic growth. I would like to ask our distinguished participants to vote once again. The questions you are voting on are

formulated from that same logic that Mr. Belousov was talking about. We predicted that he would say just that, because we read the Russian press carefully. In it, we read that there are four basic things which must be done to increase economic growth. These are: to weaken the rouble, to reduce natural monopoly tariffs, to lower bank interest rates, and to improve the investment climate. Colleagues, please turn on your voting devices, and vote for the measure which you feel is most relevant.

These results are also very interesting: it is clear that we need to discuss this. Weakening the rouble got 2% of votes; 16% of voters believe that reducing tariffs could help; 15.4% are in favour of lowering bank interest rates. And 68% of voters have spoken for that strange and mysterious beast in our country that goes by the name of 'the investment climate'.

Colleagues, let us move on to the second part of our discussion. It has been suggested that we start once again with Mr. Belousov, and examine all of these measures more closely.

The first measure is to weaken the rouble. We know that the traditional means of getting out of an economic recession is the relaxation of monetary policy. This means was thought up by John Maynard Keynes during the Great Depression. He formulated his idea in the 1930s, and, in general, it helped. It helped the United States of America in the 1930s and a few more times after that – in 1973, in 1985, in 1991, and so on. This tool for stimulating economic growth has become very widespread. But the very same Keynes who thought up this very agreeable measure – which does not require anyone to exert themselves, aside from the monetary authorities – said another thing: there is no such thing as a free lunch. Therefore, while we examine these measures, I will immediately ask the question: who pays for the lunch?

Reducing natural monopoly tariffs: everyone, in general, supports this measure. The question, again, is who pays for this lunch.

The third measure: lowering bank interest rates. For me, this is a topic of great interest, and I would like to hear about the mechanisms for lowering interest rates.

Here, in my opinion, the price of lunch will be reasonably fair. With regard to the investment climate, there is a consensus, and I think that it is possible to outline the main measures that should produce an effect in both the short term and the long term.

A. Belousov:

To some extent, the reduction of interest rates, and taxes which have not been mentioned here, and the possibility of reducing natural monopoly tariffs, depend on the investment climate. In fact, not just to a certain extent; there is a direct link here. If we reduce the problem to economic factors, that is, to the rules by which businesses act in the economy, then I am probably not saying anything new here. We have areas which, during one period or another, come to the forefront. In some places the situation becomes a bit worse, and in others a bit better. On the whole, I am proceeding from the idea that a fatal decline in the investment climate, which could bring about such a downturn, has not happened in the last year. That is confirmed by the figures. Against the background of the deceleration of investment activity, we have a reasonably stable and material influx of direct foreign investment every quarter into the Russian economy, including in the first quarter. Even if we do not take into account the TNK-BP deal, investment amounts to USD 16–17 billion per quarter. That is a good sign. It means that direct foreign investors believe in the Russian economy and are coming to us. And as a rule, they cannot be fooled. It is possible, of course, to talk about various events: Sergei Guriev left the country, and so on. But all the same, I believe that these events are not so fatal, and cannot be the reason for the downturn.

It is difficult to say that we have reached the limits of our industrial capacity: surveys of the directors of companies demonstrate the opposite. They show that the main limiting factor is demand. As much as we would like to believe that we have achieved the limits of our industrial capacity, it is currently lower than in European countries and the United States. It is lower than before the crisis, in 2007. Why is the potential for restorative growth suddenly exhausted in 2012? Honestly, I do not

really understand it. For me, the main reason is that we stifled the growth that was observed in 2011 and 2012 with high interest rates, increased tariffs, and the strengthening of the rouble – a stronger rouble is also an increased cost. From a business perspective, these are, as you know, synonyms. So, we know have an increase in costs; here Alexei is absolutely right. Revenue has not grown since 2007, not even in nominal terms. Why? Because costs are rising. Industrial capacity is growing, but revenue is not. But costs are rising, because natural monopoly tariffs are increasing, and the rouble is strengthening. If we add to this the current level of wages and high interest rates, it turns out that we have suppressed entrepreneurial activity. The question is: how can we reanimate it?

Unfortunately, the reverse process is rather complicated. The main question is, will entrepreneurs trust the authorities or not? I believe that we are capable of reducing interest rates and approaching the strengthening of the rouble in a more balanced way: all of this is in the hands of Ms. Nabiullina, she knows how to deal with this. But the main thing is trust. And in order to gain the trust of entrepreneurs, the Government must first of all clearly explain what it is planning to do, and guarantee that the rules of the game will not change.

It must also give signals that it is once again possible to increase industrial activity. There can be two such signals. The first is slower increases in natural monopoly tariffs. The second is to execute a tax manoeuvre. I believe that we now have the opportunity for this. A tax manoeuvre would transfer the tax burden's centre of gravity from business, and from businesses, to consumption. This displacement must happen smoothly, accurately, and carefully, but it must happen.

H. Gref:

Mr. Belousov, let us move away from taxes, we have achieved a consensus on this: I think that if we put it to the vote, we would receive 99.9%. You mentioned a key phrase: it is very important that business clearly understands what the Government is going to do, and how it is going to do it. We do not understand what the Government is going to do, or how, and that is the main point.

May I ask two questions? The first question is: how do you intend to weaken the exchange rate of the rouble? The second is: how do you intend to lower interest rates? Natural monopoly tariffs are reduced as a result of a decision by the regulatory authority. But how, with our relatively liberal monetary regulation, is it possible to manage the currency exchange rate? How can bank interest rates be managed in a situation where the financial sector is entirely market-driven? This is an open question for now.

A. Belousov:

As I understand it, you are talking about regulators in the broad sense? This question is not for the Government, but rather for Ms. Nabiullina: the establishment of the exchange rate is the prerogative of the Central Bank and it is somehow not very proper for me to talk about this, as a minister. Where the lowering of interest rates is concerned...

E. Nabiullina:

Excuse me, may I interrupt?

A. Belousov:

One moment. I would readdress this question to you, Mr. Gref: how do you intend to lower interest rates? In Russia, 50% of loans in roubles which are given for a period of between one and three years come from four state banks. If we look at loans granted for a period of over three years, the figure is 80%. Therefore, I have a question for you: how do you intend to lower interest rates?

H. Gref:

Understood. Thank you very much.

E. Nabiullina:

Mr. Gref, may I interrupt? You, I think, asked the question, how do we plan to manage the currency exchange rate? Could we begin by answering a different question: why manage it?

H. Gref:

That is a very good question. I have prepared a special slide dedicated to the currency exchange rate. We must have a very clear idea of the consequences of reducing the currency exchange rate. Today we are calling the reduction of the currency exchange rate an absolute blessing for the economy. I am not entirely convinced of this. Exporters will applaud us, but will those who operate on the internal market applaud us? Will the population, for whom this will immediately result in inflation and a devaluation of their income, applaud us? Will the local producer applaud us for reducing consumer demand? Perhaps the consequence will not be diversification of the economy, but the preservation of the existing economic structure.

And so, who is paying for lunch? I have indicated all the downsides of this policy. If possible, give me some counterarguments.

E. Nabiullina:

Not all, not all, not all!

A. Belousov:

I think that many of the people present here know how the Japanese 'economic miracle' ended. The economic growth rates in Japan were roughly the same as in China: 6%, 7%, 8% annually. This continued until 1985. In 1985, a famous agreement was signed at the Plaza Hotel. The United States and a series of other countries demanded that Japan change the exchange rate of the yen, and Japan agreed to this. The yen was revalued at one and a half times its previous value, following which Japanese economic growth rates fell to 2%. Today, in order to

restore growth rates in Japan, among other things, they are trying to apply a devaluation of the yen. That is the first thing.

The second thing is this: I would like to remind you of the efforts made by the United States to secure a revaluation of the yuan from China. That is no secret. Why was this necessary? In order to raise the competitiveness of American goods in comparison with Chinese ones. That is the reason for managing the exchange rate.

E. Nabiullina:

Allow me to make one remark, Mr. Gref. You have pointed out the minuses, but it seems to me that there is not a single minus among them whose existence we convinced ourselves of only a few days ago. Even an attempt to publicly announce that we are transferring to a managed exchange rate system excites fear in businesses: they do not understand what will happen with a managed exchange rate. After we transferred to a more flexible exchange rate, businesses began to understand that we do not influence it, that it is necessary to hedge monetary risk and so on. The mere insinuation of a transfer to a managed exchange rate, to the possible weakening of the rouble, will lead to extremely negative consequences. We must not forget this.

H. Gref:

Thank you very much.

Mr. Ulyukaev, all the cards are in your hands.

A. Ulyukaev:

Thank you!

Firstly, regarding the exchange rate: according to data from various countries, there is no direct connection between the exchange rate and economic growth, outside of the macroeconomic context. The euro was wavering between 0.6 and 1.4 in relation to the dollar. The Brazilian real, the South African rand, the Korean won, the Polish zloty – the currencies of countries with similar problems to Russia – are wavering

between 2.5 and 3 times the currency basket. In the economy this, in general, is hardly reflected at all. It is too complex a question to be put to the vote.

Furthermore, there are examples of active economic development with a fixed currency exchange rate and with a floating currency exchange rate. But there are no such examples for countries where a temporary solution was adopted, where a managed float regime was established. Here we can see a clear polarization. Only the largest oil exporters, for example, the countries of the Persian Gulf, persist with a fixed exchange rate policy. The majority of other countries have transferred to a free floating policy. There are hardly any transitional measures. The way I see it, this is a one-way street. It was possible to stick to a fixed exchange rate for a relatively long time. Now that we have rejected this, there is unfortunately no turning back.

Regarding the conclusions of the vote: you know that I really want to beat Mr. Belousov in this discussion, but I would like to win honestly. It seems to me that this is a matter of the formulation of the questions. I voted for the improvement of the investment climate, like the majority of you, but that is simply a desire, it has no relation to mechanisms. The remaining three measures are connected with the application of instruments; you could agree or disagree with them. We were simply voting for everything good. Therefore the victory was a little dishonest.

Regarding investment. An interesting phenomenon is being observed: direct foreign investment in the Russian Federation is not declining, the figures are not at all bad. However, according to research by the European Bank for Reconstruction and Development (EBRD), investments in Russia are the most profitable there are. In other words, we are paying the highest price for investment. Consequently, global investors evaluate the risks of investment in Russia as quite substantial. I suggest we think seriously about this, because we cannot keep increasing the cost of attracting investment resources forever.

H. Gref:

Foreign investors, like Russian banks, do not understand that the risks are actually very small. We need to lower everything.

A. Ulyukaev:

Yes, probably. This morning we were discussing with investors what kind of return on capital there is in Russia. They say 20–30%, and do not want to even talk about anything lower. Why is that the case? Obviously, things are not comfortable in other areas: there is no guarantee of return on capital, which is another thing. The lack of investment convenience is compensated for by the high rates of return on capital. This is a problem which we must think about. We need sources of growth, and we must understand that we must pay for these. And still, the most important thing is the investment activity of Russian business. Demand for the rouble, unfortunately, is not increasing; the outflow of capital, unprovoked by any special measures or events, is not decreasing. This means that we do not have a stable demand for the rouble. This demand, in my view, is not very elastic in terms of interest rates for credit. Thank you.

H. Gref:

Mr. Ulyukaev, a question about interest rates was readdressed to me. May I readdress it to you? We made an interesting table, which looks at the interest rates of the central banks, starting in 2007. It is clear that the interest rates of our Central Bank are a little counter-cyclical in comparison with the interest rates in the rest of the world. What do we understand that everyone else does not?

A. Ulyukaev:

Everyone else understands it as well. What can the central banks do? They cannot change the principal conditions or create the main stimuli. Central banks can buy time. So, the European Central Bank (ECB) has lowered its interest rates to the lowest rate in history. During the time that this interest rate is effective, governments

and business communities will take decisive steps and implement structural and institutional reforms. A low interest rate cannot be supported forever.

By the way, we could recall what is happening with the balances of the central banks. The balances of the majority of central banks – the Federal Reserve System (FRS), the ECB, and the Bank of Japan – have increased more than threefold. This means that the central banks bought something bad on the market – low-quality debts, low-quality obligations, low-quality assets – and gave the market liquid assets. The question is, can a central bank constantly acquire low-quality assets and hold them in its balance? This is a very delicate and complicated issue. Formally, we can, of course, proceed from the understanding that inflation and inflationary expectations differ between countries. It is one thing to have an interest rate of 0.25% when inflation is 1.5% or there is a risk of deflation. It is another when inflation is at 7.4%, as we had this year. These things are not comparable.

Central banks must operate with their own interest rates. The Bank of Russia has recently taken a few steps: I have in mind the rates for the provision of liquidity in the economy for the long term, relatively speaking, from three to 12 months. We should probably think about some equivalents to what is called quantitative easing, increasing the volume of assets which can be used as collateral, increasing the volume of net loans offered by banks. Perhaps it is worth moving away from the orthodox position, which states that central banks provide short-term liquidity to support transactions in the economy. It is possible, and even probable, that in such conditions we must fund business. That is an unorthodox measure for central banks, but the banks are looking at it as a temporary measure, aimed at reanimating business activity.

But all the same, we must understand that the main thing is to create comfortable working conditions for all holders of the national currency, first and foremost domestically.

H. Gref:

Mr. Ulyukaev, you have once again mentioned an excellent word, 'easing', everyone likes it very much. We need to ease something in order to live better. Keynes talked about this as well: economics is a closed vessel, if you take something from one side, then there will be less of it on another side. There is the balance of supply and demand. There is a very clear relationship between the rising cost of assets and the productivity of the corresponding business. The balance of supply and demand is a key concept in market economics. Keynes suggested quantitative easing in hard times: injecting a small amount of money into the economy in order to raise demand. Let us say that our economy cannot survive with the current interest rates: let us add a bit more cheap liquidity and create a special mortgage rate. People will begin to buy flats, houses, and so on; construction will begin to develop, as happened in the United States of America; and things will become a little easier for everyone. It is far from certain that that these liquid assets will not to some extent go into the stock market: that is impossible to regulate. Still, everyone does well; everyone buys cheap assets, and earns money.

Not everyone manages to get out when the reverse trend begins. Yesterday, Mr. Bernanke announced that perhaps he will begin to withdraw these liquid assets from the market at the end of the year. At this point, all sorts of unpleasantness arises. Whoever does not manage to get out is too late. There is even a special formula, which describes the behaviour of fools on the market: everyone has already turned in the opposite direction, someone is buying, and you are still selling. These fools are unlucky – they are bankrupt.

Let us return to the Russian economy. Today we say that last year, more than 1% of economic growth occurred thanks to consumer credit, which you struggled all year with without success. This year consumer credit is continuing to develop, growth rates are in the region of 40% annually. You have very strict mechanisms. You raise and regulate your interest rates for the provision of liquid assets and debt provisioning: in this way, corporations fall within the limits. We do not separate the regulation of consumer and corporate credit. Banks are raising interest for everyone on the market: both deposit rates and investment rates. Where is there for the poor

farmer to go with your easing, and with your easing mechanisms which have not been adjusted in any way? Where can the poor farmer go when he does not manage to get out of the market – the real estate market or the stock market – when you finish with the policy of easing?

A. Ulyukayev:

First of all, the cost of an asset, unfortunately, does not always correspond to its profitability. For example, the profitability of the business of Sberbank is constantly growing, but the price of assets, unfortunately, is changing in a somewhat different way. It depends on a huge number of different circumstances.

Secondly, there is a difference between the use of fiscal and monetary stimuli. Fiscal stimuli are more practical, because they involve the redistribution of a created national product. This redistribution may enable qualitative economic growth, and it may not. Whereas monetary stimuli infringe on the interests of current holders of the rouble, the national currency, for the sake of future holders. It is reminiscent of the inflation of joint-stock capital: you made an additional issue for somebody's benefit, but current holders find their rights infringed upon. It is exactly the same with monetary stimuli. Therefore it is necessary to be very careful with them.

When I talk about quantitative easing, I do not rule out the possibility that it could be more long term in Russia than in other countries. The fact of the matter is that the balance of the Bank of Russia has changed insignificantly in the past few years. Our gross credit amounts to a little over RUB 2 trillion, while net credit is a little more than RUB 1 trillion, and there is no clear trend towards rapid growth. This means the possibilities here are rather great. From my point of view, this could be measures which are based on a relatively healthy foundation: the expansion of mortgaging instruments, and the lowering of discounts for repurchase agreements. This lowering must not be cyclical in nature: it is necessary that it provides an opportunity for more quality funding for a large number of banks. It is true that a lot of banks, unfortunately, do not have high-quality assets in their balances. Why? The higher the quality of the asset, the lower its profitability. In order to have many high-quality

assets, you need to manage your costs well. Managing your costs is very difficult work. Many would like to shift this responsibility onto the Central Bank, onto some other instrument. This tactic seems to be not entirely correct.

H. Gref:

I have one more question. Yesterday at a meeting with entrepreneurs, the topic of Central Bank policy in the struggle against inflation was again discussed. The business community acknowledged this policy as not entirely justified. They say that a third of our inflation is made up of natural monopoly tariffs. A third of inflation. That means inflationary expectations plus inflation introduced from outside: the growth of food prices and so on. And only a third at best depends on monetary factors: that is basic inflation, which can be regulated, or 2%. You regulate it with the help of a big tap of liquidity, trying to influence inflation as a whole. Turning this tap, you create a liquidity deficit on the markets, and you enable a sharp increase in interest rates, making them positive in relation to inflation for the first time in our recent history. In this way, you put pressure on economic growth.

The question is: do you believe that it is possible to combat inflation by monetary means alone with this kind of inflation structure?

A. Ulyukaev:

Mr. Gref, tell me the names of those who are slandering us, and we will discuss this with them.

Life would be much easier for us if we were responsible for basic inflation. Theoretically this would be more correct. But inflation is to a great extent a psychological phenomenon, it is an issue of communication with society. We cannot explain to people that everything is fine with basic inflation when they are going into the shops or to the market and seeing how prices have changed. We cannot explain to business, which sees how costs are rising. And we say, guys, this is not our problem, with us everything is fine. Do you remember what happened to Raikin?

Are there any complaints about the buttons? The buttons are sewn on well, but the suit cannot be worn.

Therefore, unfortunately, monetary agencies across the whole world are not responsible for basic inflation but for the consumer price index. It is not entirely correct from a theoretical perspective, but from a political one, it probably is.

But here, the level of collaboration between all participants in the game is very important. The Central Bank, the Ministry of Finance, and other authorities. I am prepared to admit that we have what is called 'overshooting'. We, perhaps, aim too high, trying to complete what is unfinished in the area of tariff regulation.

Mr. Gref, I will let you in on a secret – the others cannot listen. My colleagues in the Central Bank have more than once prepared the appropriate documents addressed to the Government and the President, which point their arrows at natural monopolies and their tariffs. I have always said: colleagues, let us not sign and send this, because it is not entirely correct to evade responsibility in this way. This is our sphere of responsibility, whatever there is in it. Some say that we are responsible for a third of inflation: I believe that we are responsible for more than a third. Nevertheless, the responsibility is shared.

Here is a simple example regarding liquid assets. For a certain amount of time, there was a lack of coordination between the activities of the Central Bank and the Ministry of Finance: it was related to the allocation of resources withdrawn from the economy. There is a budgetary surplus, resources are withdrawn from the economy, and government deposits in Central Bank accounts grow – deposits for which the Central Bank pays nothing to the Government. And the finance sector experiences a deficit of these resources. Therefore, it is imperative to coordinate the policies of the Ministry of Finance and the Bank of Russia regarding borrowing on the market and the allocation of these deposits. If there is no coordination, problems will arise.

I would like to note that this is not an infringement of the independence of the Central Bank; this is the normal coordination of government policy.

H. Gref:

Thank you very much, Mr. Ulyukaev. Mr. Belousov, I will now answer the question you addressed to me.

Where is there for the poor banker to go if he 'overshoots', aiming for a third of inflation, but ending up answering for the whole 100% because of his hyper-responsibility? That is the first thing. The second thing is: when there is an artificially created deficit of liquid assets on the market, I always want to give the Central Bank a telephone with the number of the Minister of Finance, so that they can call each other from time to time and share the responsibility with each other. The result of this lack of policy coordination when there is a surplus budget – the sterilization of the whole quantity of excess funds, withdrawn via taxes and sunk into the Central Bank – will lead to me being obliged to raise interest on deposits, attracting more and more and competing with banks that deal with consumer credit at interest rates of 30–40% and higher. I have no other option, other than to raise deposit and interest rates.

Another question: can we lower interest rates? We cannot: we exist entirely within market conditions. Can the Central Bank lower interest rates? Easily. One of the leading Russian experts said that banking interest is determined by three components. The first is the cost of funding, but we have already made it clear that the cost of funding depends, unfortunately, on the volume of liquid assets on the market. Here there is nothing we can do. The Central Bank can provide a lot of cheap liquidity, the cost of funding would fall, but what would happen with inflation remains an open question.

The second component is risk. Can the Central Bank influence the cost of risk? It is said that the banks overestimate risks. Distinguished experts, who have never worked in a bank, allow me to explain that risks are measured by banks exclusively through the Central Bank's regulatory documents: these are known as provisioning rules. For every transaction, for every borrower, a whole series of factors are taken into account, and that is the cost of risk. At the end of this year, the Basel II Accord

will be brought into effect, in which all procedures connected with the evaluation of risks and provisioning are strictly prescribed.

The third component is the bank's margin. You said that there has never been such a gap between deposits and investments. I would like to note that our margin over the last two years has fallen consistently, and rather sharply in the last year. If we lower our margin, the question arises, who is paying for this lunch? The banks are the only players on the market which need capital in order to function. If we lower our margin, we will have no capital, and we will not be able to give out credit. The demand for the proportion of capital is growing: over the last year, Sberbank's capital alone fell by more than 2% as a result of fulfilling regulatory demands. This process will continue in the future. If our margin is lowered, we will simply stop providing credit, we will not be capable of turning over a credit portfolio.

Is it possible to change all of regulations relating to capital adequacy? It is possible. Who will pay for this lunch? It is very dangerous to play with these two components – the estimation of risks and the undercapitalization of the banking system – because they affect the interests of all depositors in the country. We are paying for this with the stability of the financial system, and this is, perhaps, the highest price we could pay in the attempt to stimulate economic growth.

But there is one unique country where everything has worked out, where interest rates are somehow regulated, where the yuan is weak for some reason, where economic growth amounts to 7–8%, whatever you might say about it.

My question is for our distinguished Chinese guest: what do you do in China which we in Russia are unable to do?

Y. Yongding:

I do not think I am in a position to get involved in an internal debate with my Russian friends because I am an outsider. But when I look at that chatter about interest rates, I feel very weird. How was it that in 2008 to 2010 when the global economy was in deep recession and every country was suffering from lack of effective demand, did you have such a high benchmark interest rate, as high as 12%? I really

cannot understand it. Perhaps there are only two possibilities: one is you were suffering from very high inflation in 2009. Is that true? Were you suffering from very high inflation? More than 10%? If not, then I have doubts about the policy's appropriateness. Then there is another possibility: the huge capital outflow, capital flight. You have to raise the interest rate to stop this capital flight. If you did not face that kind of situation, then I cannot understand why you set your interest rate at such a high level. I think that is really not good for your economy's growth. This is my impression. I am sorry, I should not get involved! Secondly, you talk about a very low growth rate, 1.6% growth. I think your inflation rate is something like 6%, right? This combination, to me, is also not very good. If you have a very low economic growth rate, how can you have an inflation rate of 6% or even higher? In China, in my experience, when you have a very low growth rate, something like 7% – very low by Chinese standards – then the inflation rate must be very low: 1% or sometimes even lower than 1%. Then the government will use special fiscal policy and accommodating monetary policy to stimulate the economy. Then growth will pick up after, say, four quarters or so. When the growth rate reaches around 10% and we will suffer from inflation, and the Chinese government will shift their policy direction. The fiscal policy will not be expansionary. It will become neutral, and the People's Bank of China will try to tighten their monetary policy. Then we will see a slowdown in the growth rate, while, at the same time, the inflation rate will slow, and so on. This is a cyclical thing. But it is a rare situation to have a high growth rate and a high inflation rate. For me, this is sort of a Phillips curve. You have a very steep Phillips curve, which means that the Central Bank's role is very limited, because whenever you use expansionary policy to try to stimulate the economy, inflation will go up. Really, I am sympathetic with our Central Bank Governor. There is really quite little that you can do, but my impression is that your interest rate is too high. You can lower your interest rate. I do not think that it will harm your economy; your fiscal position is good and your external position is okay. I do not think there will be huge capital outflow from cutting the interest rate because other countries' interest rates are at 0%. I think you should lower your interest rate, and because your fiscal

position is very strong, the government should introduce certain a stimulus packages; for example, investing more in infrastructure and so on. I do not think Russia's infrastructure is better than China's. So there are a lot of things that you can do to make your growth rate higher and, at the same time, you will control inflation. Then I would like to say a few words about inflation. This inflation is really not due to excess demand. You do not have excess demand. There is something related to competitiveness, in labour costs or maybe bureaucratic things which raise these costs. You have a leftward shift on your aggregated supply curve. The supply side of your economy is problematic. You need to do something about the supply side of your economy. You could combine expansionary monetary policy and fiscal policy more and speed up reform to improve your competitiveness and lower your costs of production. Then I think the Russian economy will be in really good shape. As for the RMB exchange rate, I do not think that the RMB exchange rate is a big deal for you, because we are not competing. The Chinese RMB has appreciated more than 30% since 2005. Perhaps the RMB is now the only currency that has not been devaluing for many years. Other countries' currencies are devaluing very rapidly, but I do not think that is good for China, because if you devalue your currency, you increase your trade surplus. You will buy more treasury bills and so on, which means you are lending more money to the United States. They do not want the money; they want to inflate away the debt burden. If you want to do this, do it, but I do not think China should devalue the RMB so that China can export more to the United States, so that they can get more real products, and in exchange we get some IOUs in greenbacks. That is not a good deal. China's policy is to readjustment and change China's growth pattern so that we depend on domestic money. That is very important. I think Russia, as a very big country, should restructure its current structure and pay more attention to domestic money. I think the Russian economy is one of the greatest economies, and you have a great future.

H. Gref:

Thank you very much.

Colleagues, we have literally five minutes left. I would like to ask one more question to Ms. Nabiullina. Regarding the weakening of the rouble, Mr. Ulyukaev said that in various countries there are various practices which can be successful or unsuccessful. Ms. Nabiullina, please tell us, is there a connection between the economic structure and the weakening of the exchange rate of the national currency? If 50% of our demand comes from imports, are we not stepping into those pitfalls we want to avoid?

E. Nabiullina:

Mr. Gref, you have answered this question, I have nothing to add. Before suggesting the weakening of the rouble's exchange rate, we must clearly understand which areas will benefit from this and which will lose, what the result will be as a whole for the economy and the population. In my view, if someone suddenly wants to move to a managed exchange rate with a weakening of the rouble, the result will be that we support a small number of export sectors, which are currently facing serious limits to selling on global markets: we do not know if it will help them to materially develop their production and thus ensure us economic growth. Meanwhile, it will have a negative effect on the process of modernizing our companies, which need to buy imported equipment, and on the main thing, on consumer inflation. All this will be done at the expense of the citizen. You are asking who will pay? The citizen will pay.

If you will allow me, I will return to a very important question, the question of interest rates. Our approaches are different, but we all understand that economic growth must be based on the growth of investment. The figure of 20% is very low; we need to raise the share of investments. These investments must come from somewhere. Company profits are declining, our financial markets are not developed, and it is very difficult to attract borrowed capital onto the financial and banking markets. Therefore, everyone is looking to the banking sector. And really, interest rates are high enough to finance long-term investment projects.

But how can we lower interest rates? If we lower them administratively or quasi-administratively, we will simply get a lower volume of credit. Banks will begin to move away from granting credit to companies at set interest rates, because the real risks will be higher.

We can, of course, attempt to relax the monetary and credit policy of the Central Bank, and provide longer-term, cheaper refinancing mechanisms. I would not say that this is impossible. We need to expand deposits, expand the banks' access to the refinancing system, but do this carefully, because our inflation is really very high. It is important that the money which the Central Bank injects into the economy does not disappear with inflation and in the outflow of capital. The way I see it, if we move carefully, it is possible to do this. The conditions for reducing interest rates will arise. What must we do, that we previously paid little attention to because we did not have such problems? We must lower the costs for banks, lower the risks. We see that in the banking business there are a multitude of regulations; banks have many unnecessary costs and these can be lowered. It is necessary to lower the risks connected to the borrower. Our bankruptcy legislation does not work well, and borrower transparency is low. Banks give fully justified reasons for why they do not give money to small and medium-sized businesses: not because small and medium-sized businesses are unable to take it, not because of a lack of projects which would give returns on this money. Simply put, this business is not transparent owing to a series of circumstances: corruption, fiscal burden. It goes on in the shadows, it is incomprehensible to banks. We must make business more transparent and create a credit history bureau, not just for individuals, but also for legal entities. There are a multitude of institutional measures which could be taken in the banking sphere in order to create the conditions for reducing interest rates for bank loans.

I think that this must be done, because the task of lowering interest rates on banking credit is really worth doing. Of course, the fundamental condition for reducing bank interest rates is the reduction of inflation. Inflation beats all, and it is impossible to overtake it for short-term effects under any circumstances.

Thank you.

H. Gref:

Thank you very much.

Mr. Belousov, your concluding remarks.

A. Belousov:

I believe in the power of the Central Bank and Sberbank, which form the basis of our banking system. I believe that they will act in coordination and that this will become the guarantee of economic growth and prosperity. I am sure that today, the keys to economic growth are in the hands of Ms. Nabiullina, as well as your own.

H. Gref:

Thank you very much, Mr. Belousov.

Mr. Ulyukaev, if the rumours published in our media are to be believed, you still hold the keys to economic growth, as the head of the Central Bank. But it is entirely possible that tomorrow you will lose them, having become the Minister of Economic Development. Tell us, in whose hands are the keys to economic development?

A. Ulyukaev:

Mr. Gref, remember the classic words: do not read Bolshevik newspapers before lunch, and in general, do not read any sort of newspapers. You are always referring to the newspapers. What of them?!

Now for some concluding remarks. Everything is just beginning, there is nothing to conclude. We have before us some important tasks; there is a lot of work ahead. We talk a lot about the investment climate, about objective factors. But still, nobody has changed the fact that we need to work a lot, and hard. God loves those who work hard. Let us help God to love us, let us work a lot, and let us work well.

Thank you.

H. Gref:

I would like to thank all of the esteemed participants and experts who took part in today's panel. The truth is that there are no magic solutions to such complicated questions. We have witnessed a good discussion. We have witnessed a discussion between representatives from various branches of economic power. I think that it was an absolutely sound and proper discussion: the keys to economic growth, as the majority of people here – more than 60% – believe, are in the hands of the Government, the Central Bank and business. I would add to this trio those government organizations which are not directly subordinate to the Government, but upon whom the investment climate depends to a very strong degree. These are the courts and law enforcement agencies, security services, and the army. If they are not effective, we will not be able to increase economic growth rates. Each of us must take up his burden.

In today's unstable world, true value is not in resources, or even in the ability to quickly mobilize them, but in having a clear answer to the question, "What are we going to do?" I hope that after this discussion, all of the participants in today's discussion will have an answer to that question.

Thank you very much.