ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

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GLOBAL FINANCE: WELCOME TO THE UNKNOWN?

Securing Global Growth

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St. Petersburg, Russia

2011

The financial world has recently had to respond to range of new and unexpected socioeconomic, natural and manmade problems. The global collapse in confidence in 2008, the European sovereign debt crisis in 2010, political unrest in the Middle East and the earthquake in Japan are only a few of the problems that have shocked the world in recent times.

Moderator:

Ruben Vardanyan, Chairman of the Board of Directors, Troika Dialog Investment Company CJSC

Panelists:

Dr. Josef Ackermann, Chairman of the Management Board and the Group Executive Committee, Deutsche Bank

Maria Bartiromo, Anchor, CNBC's Closing Bell; Host and Managing Editor, Wall Street Journal Report

David Bonderman, Founding Partner, TPG

Herman Gref, Chairman of the Board and CEO, Sberbank

Richard Hunter, Group Managing Director, Corporate Issuers Group in London, Fitch Ratings

Robert Kelly, Chairman, Chief Executive Officer, Bank of New York Mellon

Alexei Kudrin, Deputy Prime Minister of the Russian Federation, Minister of Finance of the Russian Federation

Duncan Niederauer, Chief Executive Officer, NYSE Euronext

Elena Salgado, Vice President and Minister of Economy and Finance of Spain

Klaus Schwab, Founder and Executive Chairman of the World Economic Forum

Stephen Schwarzman, Chairman, Chief Executive Officer and Co-Founder, Blackstone; Chairman of the Board of Directors, Blackstone Group Management L.L.C.

Lars H. Thunell, Executive Vice-President, Chief Executive Officer, International Finance Corporation (IFC)

Announcement:

The session moderator, Ruben Vardanian, the Chairman of the Board of Directors of Troika Dialog, is invited to the stage with the following participants: Richard Hunter, Group Managing Director, Corporate Issuers Group in London, Fitch Ratings; Lars Thunell, Executive Vice-President, Chief Executive Officer, International Finance Organization (IFC); Duncan Niederauer, Chief Executive Officer of the New York Stock Exchange Euronext; Elena Salgado, Vice President and Minister of Economy and Finance of Spain; Aleksei Kudrin, Deputy Prime Minister of the Russian Federation, Minister of Finance of the Russian Federation; Dr. Josef Ackermann, Chairman of the Management Board and the Group Executive Committee, Deutsche Bank; Robert Kelly, Chairman, Chief Executive Officer, Bank of New York Mellon; Stephen Schwarzman, Chairman, CEO and Co-Founder, Chairman of the Board of Directors, Blackstone Group Management; David Bonderman, Founding Partner of TPG; Maria Bartiromo, Anchor, CNBC's Closing Bell, Host and Managing Editor, Wall Street Journal Report; Klaus Schwab, Founder and Executive Chairman of the World Economic Forum.

R. Vardanian:

Good day, ladies and gentlemen. I am delighted to welcome you all to our session. On May 25, when we signed an agreement with Sberbank to work together and for them to buy 100% of our shares, I knew that a difficult and complicated job lay ahead of me, but I never thought that Herman Gref would ask me to moderate such a difficult session, in which eleven of the most estimable and highly respected participants make up a single panel for a session during which we will be discussing some of the most serious problems facing the world today. It is particularly difficult when I find myself surrounded by people who themselves moderate the best sessions of the World Economic Forum, such as Professor Schwab and the famous TV presenter, Maria Bartiromo. But I will endeavour to work as professionally and as effectively as I can. We have a very tight schedule: one hour and fifteen minutes. I will tell you how the session is going to run. Unfortunately, we do not have that much time, so I will be asking the participants questions. I am extremely grateful that they agreed to this. We have decided that we will be giving the audience the chance to vote by answering two questions, and I hope that everyone will actively take part and answer the questions. This program will be aired at 9 p.m. this evening, and I hope that it will show us tackling those key questions that were raised during the clip shown earlier. We have been given an extremely difficult question: are we ready to face the uncertainty that we have been living with for several years now and to carry on living and working with the uncertainty that lies ahead? I would like to ask all of the participants of today’s meeting how they see the following two years. Should we be expecting a global world financial crisis or not? As you know, ‘Mr Doom’ – Mr Roubini – maintains that there will be another crisis in 2013 and predicts that there will be another collapse. But to what degree do the business representatives and the representatives of various governments agree with this? We have with us, at the session, representatives from both the banking community and from state direct investment funds. I would like to begin with the rating agency. Representing the rating agency, Richard Hunter. How realistic is it to expect another serious financial crisis in the next two years? Especially after Alan Greenspan began talking today about how it was unavoidable that Greece would default.

R. Hunter:

We obviously asked Ruben to be quick today, and I will try and be quick and start with a 'no' to the global financial crisis. It is interesting that some of the speeches earlier this morning were talking about reflecting on the fact that with a lot of what happened in the crisis in 2008, the root causes have not been fixed. But I think we are less concerned about the global financial crisis.

If we were picking on particular regions, one area that is very obvious to isolate is China. We have already stated publicly that the banking asset growth there has been four-fold over six years. We think there is a reasonable chance for a banking crisis, but equally, it is one that China can afford. You know, they might shave down from one rating to another, but it is absolutely not a case of China becoming Greece. I think the bigger issue for us, when you look at regional crises going forward right now, immediately, is the eurozone.

And I think if you broaden that back out to a question for us all to consider is that it is really down to the success or failure of the policymaker, the official sector approach right now and the degree to which if that gets off the rails (in the particular instance we are seeing in the eurozone, with the fragility that we see at the moment for, if you like, the Washington-consensus approach to things, fragility at major international institutions), if that consensus is broken as we are looking at fixing the eurozone crisis as we see it today, it is going to be a much bigger issue.

That is a swing factor, the extent to which that policymaker consensus stays relevant to how the solutions are actually found.

R. Vardanian:

So is that 'yes' or 'no'? Will it happen or will it not?

R. Hunter:

Will it happen or will it not? To the global crisis, no: we have already seen the individual sector banking crisis right across Europe; there is no potential for another one. If you look at where the individual ratings are, the question is, how is that remedied?

R. Vardanian:

OK, thank you. Lars?

L.H. Thunell:

I do not believe in a big crisis either, but I think we are going to see a whole string of smaller crises, so that we jump kind of from one ice block to the next one. And the reason why I do not think this will kind of explode into a big crisis is, firstly, that I think we learned a lot from the financial crisis that we just went through and I think people are scared now, so I think they will put all their efforts together to fix every little crisis. And the other thing is that you have got significant growth in most of the emerging markets, and that is a very strong underlying trend on that side. So that would be my…

R. Vardanian:

OK, Duncan.

D. Niederauer:

Ruben, what I would say is, well, I think it is unlikely in the next couple of years. I think we just have to be aware of a few facts that all have to do with one of the other themes in this panel, which is about the pace of technology and how everything accelerates as a result. So if you look back 50 years in history, at that time, they would have been saying, "We have an asset bubble or a financial crisis about every ten years."

If you look back to about 20 years ago, you would have said now it was every seven years; now, if you think about it today, it is sort of looking like it is going to be every three to five years. So there is no doubt that these kinds of bubbles, these crises, are happening more and more frequently. And it should be obvious to us why that is, right?

The information is flowing faster; more people have access to information than they have ever had in their lives. That means markets react faster, which, as we have seen in the most recent crisis, will tend to strain liquidity. It particularly strains liquidity—at the risk of sounding self-serving—in markets that are less regulated, less transparent. So if the info is spreading faster, the markets move faster. At the same time, we know innovation always stays ahead of regulation.

And if technology is enabling the pace of innovation to accelerate, then I think it is going to be incumbent on all of us to not let the 'perfect' be the enemy of the good, and when we think about re-regulation after these more frequent crises, we probably have to move more quickly, take a risk that we are not going to get it all right—but history tells us that is almost impossible anyway—and let us just try to get moving as fast as we can, accepting those other variables.

R. Vardanian:

OK, Ms Salgado?

E. Salgado:

Well, thank you. I do not see, really, a global financial crisis which would be possible (or likely, at least) in the future. But I have to say that we need to recover investor confidence, and we need to recover by doing things, not only by promising. So it is time to deliver in transparency, deliver in regulation, deliver in coordination, and also to give more importance to a word that has disappeared, which is 'ethics'.

R. Vardanian:

OK, thank you.

Mr Kudrin, your opinion: will there be a crisis in the next two to three years?

A. Kudrin:

Very briefly, please. First, we find ourselves in a very difficult environment surrounded by uncertainty, and the fundamental indicators of economic growth are extremely weak. Second, over the next two years, we must change our development models: interest rates must go up and the budget deficit needs to be significantly reduced. There are clearly poor banking assets; in this sense, we have some very difficult challenges ahead of us. As I see it, a reduction in the United States' budget deficit will give us a lot of food for thought. This is the main factor, and it is not only European countries such as Greece that need to reduce their spending. Americans will have to face up to this. And this is a serious political challenge. Apart from this, we know the difficulties the eurozone faces—the financial system—but there are also challenges from developing countries. The growth in China may turn out to be insufficient: the 'overload' will either end well or come to an unfortunate conclusion. I would say that I'm 25% sure that in the next three years, there may be a significant movement: maybe not a world-wide recession, but a significant recession among the larger areas of the economic world.

R. Vardanian:

Thank you. We have heard opinions from organizations and state representatives, and before we turn to Maria and Klaus, I would like to hear from the private sector, from bankers and representatives of private equity funds.

R. Kelly:

I do not think there will be. The governments have learned a lot over the last two and a half years. The world is completely awash with liquidity. And you have to remember that now the banking system is much healthier than it was two and a half years ago. The balance sheet is stronger. There is a lot more liquidity out there. There has been a lot of capital raised in the United States. Capital levels today are actually 70% higher than they were before the crisis, and I think transparency has been much improved with stress tests.

So there is a lot of risk out there, and there are tail events that one would worry about—that we could have a global crisis—but the odds do not seem high at this point.

R. Vardanian:

Thank you. Mr Ackermann.

Dr. J. Ackermann:

Well, I must say, in 2007, I think it was, in June, I was in New York at a similar get together, and everybody said similar positive things. I learned a lesson. I am a little bit more sceptical.

The series of uncertainties and the series of crises Lars Thunell alluded to is, for me, a big challenge. I think we have the US imbalances in the real estate sector. We have the huge fiscal challenges. We have asset inflation in parts of Asia. We have the European debt crisis. We have uncertainties in Northern Africa and in the Middle East. If this all comes together in the perception of investors, I think we could again, be challenged in quite a substantial way.

I do agree with everyone else that the system is more resilient. I think they have done a lot to cope with it, but my answer would be, "Yes, it could happen, but we are more resilient and better prepared for it."

R. Vardanian:

Thank you. Mr Bonderman.

D. Bonderman:

Well, I would say the scariest thing is that everybody on the panel thinks there will not be a crisis, because every collapse is preceded by a bubble. Over-optimism always leads to disaster. And if you look at what has happened on Wall Street over the past three decades, it has been that way every single time. So that is the scariest thing.

If you look at the numbers, they are not too good, but they are not awful either; and if you look at the major economies, there are problems raised. The US is over-leveraged, has a weak government, and is not, obviously, moving in the right direction. The eurozone is challenged, although I think the euro has to hold together because any other result would be too costly.

There is chaos in North Africa and Egypt, but then there is always chaos in North Africa and Egypt. China is in a bit of a bubble. Their markets are trending downwards, but then China is always in a bit of a bubble. Markets are very volatile.

So when you add up the pieces, they do not look great, but they do not look terrible. And so I too am basically thinking there will not be a major collapse, although there may be individual fires. But as I say, again, the warning is that we are all optimistic, so probably it pays to be a pessimist.

R. Vardanian:

Okay, thank you. Steve, what is your view?

S. Schwarzman:

As I get to be close to the last speaker on the same topic, I feel a little bit like Elizabeth Taylor on the wedding night of her seventh marriage. I know what I am supposed to do, but how do I make it new and interesting?

I think, as to Alan Greenspan's comment on Greece, if you just look at the numbers, I do not understand how that country makes it, and it is almost like we are delaying something for the benefit of increasing capital in the banking system, and whether we do it one more time. Ultimately that problem is going to have to be dealt with.

The technology issues are really fascinating, because as things go into this mutual feedback loop, you can destabilize a system that should not be destabilized, because everybody feels they ought to be destabilized. And that is a tough one to handicap.

Yesterday—when was it? The day before—the stock markets around the world were off 1.5% to 2% because one of the rating agencies said that the French banks may be downgraded because of their Greek exposure. Well, everybody knew what their Greek exposure was anyhow. Everybody knows what is going on in Greece, and why would you get so excited about it? But that is what markets are, and that is a risk.

It appears that the all the firefighters know that there are little fires going on, and so they got their hoses out; they are prepared. And that means you should probably be able to get through this phase in the system. I would say I have more confidence in China, regardless of what the interim numbers are. These are very wilful people with an enormous financial reserve and a complete commitment to creating ten million jobs a year; and they will do almost anything to do that.

So I think we will find a way, but it is not going to be easy. It is not going to be pleasant, and if you read newspapers or listen to news or watch what is going on your screens, you are going to have a lot of uncomfortable moments over the next two to three years.

R. Vardanian:

So tell me, as priests say at a wedding: yes or no? Will there be a crisis, Steve?

S. Schwarzman:

Little crisis, and we will get through it.

R. Vardanian:

Thank you. This reminds me of an old joke, when in the 90s, a journalist asked Boris Yeltsin to describe the situation in Russia in one word. He replied, “Good”, so the journalist tried to continue the conversation, saying, “Well, can you give me something more? Can you describe the situation in two words?” Yeltsin responded, “Not good”. It seems to me that we have a very similar situation.

Professor Schwab, you have been moderating the World Economic Forum for forty years. You know more than anyone what the majority of world political and business leaders thinks. In your view, what should we expect over the next three years?

K. Schwab:

Let me just answer your question first, and I would say neither 'yes' nor 'no': it depends on leadership. If I listen to all my colleagues here at the panel, it is very clear that the world is moving much faster. We have technology, which we cannot necessarily always cope with.

So what I want to say is that the world situation has become so complex. We have several economic forums publishing a global risk report every year. And we define global risks, which mean risks where everybody would suffer if the global community does not get its act together.

So it is like having 37 balls in the air. My big question is: how long can the political system cope with this situation?

We are overstretched. In thermodynamics, you would say, we are approaching a systems collapse. So the next G20 will probably be a very important moment in order to show whether we still have the will, whether we still have this feeling of togetherness to really address the issues in a more active way.

If I may just make a last remark in this respect, I look and see a European crisis. I think what is disturbing (and it has been mentioned) is not so much the size of the crisis. It is how the crisis is handled. So, a lack of leadership, which in itself leads to a loss of trust of people, and suddenly leads to a situation where people emphasize more with local and national issues instead of global solutions. This makes life for politicians much more difficult to address those global risks.

R. Vardanian:

Thank you. Maria, you have interviewed a huge number of businesspeople and politicians. Today, you are one of the panellists and not the moderator, which is something that you are not accustomed to. In your view, whose opinions were the most compelling? As someone who, due to the nature of her work, manages to talk with a large number of people, what do you think about this?

M. Bartiromo:

Thank you very much. I think things are very fragile right now. If you are asking, "Will there be a crisis in the next three years?" obviously this is a very difficult prediction to make for anyone. If you put me against the wall to ask me such a question, I would probably say, my gut says, "No. Not to the extent that we saw in 2008." But having said that, will we have another crisis? Absolutely. We will have another collapse, because free markets are messy. At some point, yes, we will see the upset once again.

But the bigger issue, I think, is what are we faced with? I think, broadly speaking, when you look across the world, we are faced with a few issues that are very much similar, and that is that we are looking at a slower growth story globally, whether it is the Western world, where you are seeing the growth slowdown because of debt levels, or whether it is inflationary pressures, rising currencies, like what is happening in Brazil or China, actively trying to slow down the economy.

We are at a moment in time where we are looking at a slowdown in the global economy today. I think one of the other major issues that we are all faced with is the regulatory environment. We are seeing at least an effort to have a standard across the world, which of course it is very difficult to do, given the different economies and different mentalities.

I think we have to be careful not to overstretch in terms of too much bureaucratic government oversight. When I think back to 2008, and I am reminded that AIG had 400 agencies overseeing it, and 400 agencies missed the debt in leverage that was happening, it is a reminder that more government is not necessarily good government in terms of the regulatory environment.

We have to be very careful not to have rules so strict that they actually choke off the lending activity and opportunities for growth.

I think the rise of the BRIC countries is really the story of the day, as is the demand coming out of China, even though we are looking at a slowing economy, relatively speaking. So I think today investors globally are faced with some really important and different issues they might ever have been. They are dealing with the slowing economy, but they are also looking for growth and innovation where they can find it. I think they are finding it mining, they are finding it in technology, and they are finding it in healthcare. I think the demographics of the world are really dictating that change.

R. Vardanian:

Thank you. I would like to thank all the panellists, and I would now like members of the audience to vote on an answer to a question that I would like to put to everyone taking part in today’s session. You will find the voting apparatus next to you. The question will now appear on the screen: how many countries, in your opinion, do you think will default over the next few years? I think that this will also be the definitive answer to another question that we have touched upon today: how long are we going to be living in uncertainty? Three different answers to the question of how many countries will default have appeared on the screen. 1) None; 2) Between one and three; 3) Four or more.

Thank you. I should say that the heads of large corporations and investors are somewhat more pessimistic. If we are not talking about a global financial crisis but just about the number of countries that will be forced to default, then this could occur even among developed countries. Thank you.

I would like to move on and ask a specific question of each of you. I will begin with Duncan Niederauer, Chief Executive of the New York Stock Exchange. It was recently revealed that you may be merging with Deutsche Börse. This raises the question: where are we going? Globalization, technology, mergers: all this indicates that a controllable environment with a uniform infrastructure is being formed. To what end: a united world stock exchange, electronic trading without the need for brokers, where auctioneers make huge profits and where the stock exchange becomes a private company making a profit? Or does the stock exchange actually exist to provide a reliable infrastructure for those participating? How does someone who is trying to create the largest stock exchange in the world see the future of the stock exchange market?

D. Niederauer:

Thanks, Ruben.

So, I would like to give a little background, first, on our industry, because Ruben is right: it is a tension—hopefully a healthy one—that you have exchanges in some parts of the world that had demutualized and become for-profit enterprises. And in other parts of the world, this demutualization and that transition has not yet taken place. So if you think about it, it was only really in the last decade that exchanges around the world started to make that transition. Now because our industry is increasingly an applied-technology industry like many other industries, it is an industry that lends itself to building scale and lends itself, therefore, to consolidation. Because even if you, as the video said, even if you continued to regulate the exchanges locally, the underlying infrastructure… it is just too obvious a strategy to try to deploy a common infrastructure across many, many regions, many, many products.

Technology, in our instance, has allowed us to scale into products and into regions in a way that really could not have been envisioned just a few short years ago. It has not only enabled us to transform our company's technology but also transform our company's strategy at the same time.

Again, if you go back just five or ten years, the business of an exchange was very centred on trade in the markets. Companies listed on your exchange, if you had discovered prices on your exchange, you sold the data that came from those prices that were discovered, and that was the extent of your business model. And from our point of view, technology has enabled us to move along the value changes like other industries would, where we can provide new services, we can get into new products more easily. And then whether you consolidate or not, it puts you in a better position to be a service provider to your clients in a way that, particularly post-crisis, turns out to be very valuable.

So what are some of the new services? It is risk management services. It is being in position where our biggest customers can outsource pieces of their infrastructure to us. And then to Ruben's question, what it quickly morphs into is, "Can we be a provider of this technology service to other exchanges in the developing part of the world?" So I, for one, think more consolidation in our industry is inevitable. You need to be a skilled player to be successful.

But I do think, to go back to my point about the video, yes, we operate globally, especially in a regulatory environment after a crisis. That is when nationalism rears its head again and many countries become appropriately protective of their local rules and regulations. So the portfolio of businesses we operate, while very much a global one, is, in many instances, operated locally at the national level. And whether consolidation continues into Asia, into Eastern Europe, etc., it is far too early to predict, but I think the next form it will take is scaling the technology the way I described to be a technology partner and infrastructure provider.

R. Vardanian:

Thank you.

I would like to put a question to Robert Kelly, Chief Executive of America's largest bank. During our forum in February, one of the heads of the world's largest hedge fund said that we heavily criticize Europe and the eurozone, saying that there are problems with Greece. But at least in the eurozone they have Germany, a country that is carrying the weight of the whole of Europe on its shoulders and is developing successfully. But the United States does not have anything like Germany, and that is why they have a much more serious problem. The majority of states have serious budget deficits—California is bankrupt—but of late, we have been constantly trying to discuss problems in Europe. In your view, how worried should we be about the situation in America? What is in store for the American economy in the near future?

R. Kelly:

Well, that is a good question.

I would say each of the major regions in the world have their own unique issues. Certainly, Europe has it with Greece and the other countries that are under stress right now.

The US has a unique problem. Firstly, it is the debt and deficit issue, which, frankly they are behind a number of European countries in dealing with that. Hopefully we will get underway in dealing with the federal government debt ceiling, as well as deficits, this year. But I do worry that real, serious efforts will not be made until after the election, in 2013.

I am feeling a little better about states and municipalities than I was six months ago from the standpoint that the muni bonds have rallied pretty substantially over the past six months. Taxes are picking up at the state and municipal level a bit, and increasingly you are seeing states and municipalities starting to deal with their cost issues. So I was very worried about it in November; a little bit less so at this point.

The other issue that is sort of unique to the US is the whole issue of housing. Housing is down 34% to 35% from the peak. We had the unique issue of Fannie and Freddie, which need to be dealt with, and the housing market needs to get back into private hands eventually.

Hopefully, we are not really experiencing another double dip in housing in the United States, but it is starting to feel a little bit like that. But housing has gone down so much and our inventory backlog, because of foreclosures, has risen so much that it does feel like housing has another 5% to 10% to go before it reaches the ultimate bottom.

For a lot of young people, I remember five years ago, they were all complaining that they could not get on the housing ladder; they could not afford to buy a house. That is no longer a problem. More of an issue now is, "Are you confident enough in the stability of housing prices? Are you confident about whether you can get access to credit?"

Certainly, the banking system is so much healthier today than it was two years ago. Hopefully, we will have most of the housing issues behind us over the next six to twelve months.

Beyond that, our issues are similar to Europe's. That is, we are all suffering to some degree from the rise in commodity prices, and more and more Americans are spending more of their disposable income on fuel, and spending less of it on

other disposable items. But the good news is we have savings that is finally going up in the United States that was negative five years ago.
And other than that, the other issue that we are facing along with Europe is a stubbornly high unemployment rate, and we have to get people back to work. We have got to have growth in the United States, we have to have growth in Europe again, and the best way to do that is to focus on what is going to create jobs over the next five to ten years. Let us not focus on little things at the margin; let us focus on the basics and get people back to work.

R. Vardanian:
Thank you. Richard, I want to ask you about the role of rating agencies.
Everyone heavily criticizes credit ratings agencies in different ways. On the one hand, everyone says: how is it that America is suffering from these sorts of problems but their rating isn't going down? Or, it went down, but a lot later than everyone predicted? People talk about the situation in Greece. On the other hand, when one of the ratings agencies announced that the rating for French banks was going down, the French government put out a statement that this would influence the whole system and would have an extremely negative impact on all businesses. How can ratings agencies strike a balance that accurately reflects what is actually going on in the financial sector in real time, but steer the process in a given direction or exert an influence on the process through delay or jumping the gun? In your view, what needs to be done and how will you resolve this problem?

R. Hunter:
Yes, so this is the frequent problem, the circularity. We are either too early, or we are too late. We cause the problem, or we see the problem only after it has occurred. It is a common problem, but you do have to recognize that we have just sat and listened to all the panellists today to some extent hedge about what

their view is on the likelihood of a generic crisis over the next couple of years. We have to put, and our competitors have to put, a letter or symbol on every issuer, from the people who make this microphone, to the country that we are sitting in, as to the likelihood we think of there being a crisis and a default.

We are guessing the future. And we have done huge things to improve the way in which we attempt to guess the future. But you either attempt perfection in that art, or you recognize you have to reduce the impact. I mean, I was really struck by Steven's comment. I did not realize the entire market had come down 1%, which is kind of astonishing when you think it is a relatively predictable comment about one set of banks in one country that is not really going to threaten anybody's solvency there.

This is the point where I used to say, "Take us out of regulation. You would not force people to read just three newspapers. Why should you force them just to listen to three rating agencies?"

I think what we are seeing now—and this technology angle is very interesting—is the fact that it has reached so much further than just bond prices, is implying that the volume of blogosphere commentary and the volume of information that investors and also lots of other people have to absorb every day is really forcing people, actually without any kind of regulation, to go to a more limited number of channels to get their information.

There is little we can do about that. We are big into competition. We support competition, and competition will only thrive if over the long run we do not call so many that are wrong after the event.

R. Vardanian:

Thank you. Stephen Schwarzman, I would like to ask you a question about private equity. Who is to blame? Pointing the finger is not a favourite pastime in Russia alone; we have seen that everyone, the whole world over, likes to seek out the guilty culprits. Very often, traders, bankers and private equity funds are the types of people that journalists like to accuse of all types of deadly sins, guilty or not. Just recently, the Governor of the Bank of England expressed surprise that the degree of public anger had only now reached the level that would be expected from the crisis that took place in the world. In your view, will this anger towards financial institutions that took part in allocating capital continue to rise or will we see a reduction of this hatred and unwillingness to understand the importance of institutions at work in the industry?

S. Schwarzman:

Well, there are a lot of questions that were embedded in that, Ruben.

First, on the easier one regarding private equity, which David Bonderman can certainly speak to as well as I could, if not better, that for some reason our industry attracts some heat.

All of us have struggled to figure out why. Our industry basically exists to raise money from pension funds and insurance companies and other fiduciaries, and invest it buying businesses and improving those businesses.

The faster they grow when we sell them, the more money our investors make. And so we enhance that with the use of debt in certain circumstances, and in certain circumstances, we do not.

It is basically a model that works with high returns and job growth, which the World Economic Forum studied and found out that the job growth for private equity over that five-year cycle ends up being, at least as good as what you would call regular public companies.

The other thing that journalists got totally caught up in was the fact that private equity companies were supposed to be unstable in a crisis and were going to contribute in a significant way to destabilization; that turned out to be utterly untrue.

The statistics are that the private equity industry performed better than public companies, but you do not see those articles being written for whatever reason. I guess people do not like to admit when they were catastrophically incorrect.

But I think that there is some issue that creates this focus on the unknown: how does this all happen? There are some issues of transparency, which have been more or less dealt with, frankly. A number of us are public companies; there is very little you cannot learn about us.

So I think in a way there is an envy factor, that people who do this activity when it works right, they make a bunch of money, and that is tied into a broader issue, which was the second thing that you asked, which is the general hostility—in certain countries more, in certain countries less—to the financial community generally.

Part of that comes from, not firms like ours in particular, but other firms being at the locus of the financial collapse.

Manufacturing securities, the whole financial system came up with triple A securities that ultimately were not triple As. They were probably triple Cs. They were bought around the world; everybody was victimized by this, and there is anger on the part of unemployed people and other people whose lives were changed in a negative fashion. They are angry, and they want to be angry with somebody.

Surprisingly, they never seem to get angry at regulators. I do not know why. They did have a job to do. That anger needs to land someplace, apparently, and it lands on the financial community.

One looks at the political and regulatory response to that, which, itself, if it goes too far, will damage the system and the same people who are frustrated.

In certain parts of the world that is gone (mostly Asia); in other parts of the world, it is dissipating, like the US. In other parts of the world, that kind of anger is alive and well, particularly in the UK, given the size of their financial institutions vis-à-vis their economy.

So this is something that has to dissipate over time for the goodness of the restart of the global economy.

R. Vardanian:

This is an old story. Michael Milken said that some have suffered a great deal more than those who lost money on junk bonds, but at the same time, none have paid the penalty as much as those who issued the junk bonds. There was a very good discussion about this during a conference with Michael in Los Angeles.

I would like to turn to Señora Salgado, the Spanish Finance Minister. An American politician said that Christmas is a time when children tell Santa Claus what they want, and we pay for it. Now, with budget deficits, we tell the government what we want, and our children pay for it. Tell us, please, how we should deal with this in a way that does not end up with children paying for what adults want. How can the government find a balance between the fact that there are currently some very serious issues – social instability, unrest about current events, a high level of unemployment – and despite this, people are putting off their problems, leaving it up to later generations? As Finance Minister and as former Minister for Social Policy in Spain, what solutions are there to this problem? Where is the balance?

E. Salgado:

I think so. But first you have to convince people that they have done nothing wrong. This is not their fault. It is simply that we have been growing in a non-sustainable manner. We have got a lot of imbalances, and we have to reduce them. And we have to reduce them for the sake of growth, a future for the sake for our welfare state, and this is something which is not easy to convince people to do.

And of course this is what I say when I say that we need some robustness in the future, because what we cannot accept as citizens is that the same that has happened will happen again. And even if this is because we have started talking about regulation, coordination, solidarity, burden sharing, really we have done very, very little in that.

So of course, I can ask my citizens for some sacrifices. They probably have to make some, mostly in solidarity and, I think, behaviour, but of course they have every right, every right to ask that this does not happen again. So I think like this—if we are good at convincing them, we have put in all the tools, all the regulations, all the coordination, for this not to happen again, then I think we will have all the complicity of the citizens. Without the complicity of the citizens, you can do nothing.

R. Vardanian:

Thank you. Lars, you are the CEO of IFC, with 183 member countries. Your task is to help countries develop, but at the same time, you also make money as a commercial institution. International organizations and the role they play in what is happening in the world have come under a lot of criticism. In your view, how should we change the role and the function of international organizations to meet today's new requirements? Are there any new challenges, or new mandates that you need to receive? The EBRD's mandate stipulates that it should operate not only in European countries, in countries in Eastern Europe and in CIS countries but also, for example, in countries in the Middle East and North Africa. To what extent, do you think, should your mandate be changed, and in what direction?

L.H. Thunell:

Well, I think our mandate, as being the private-sector entity of the World Bank, is enough. We have the mandate we need. There is a discussion, of course, about who should control our board, and that you have within the World Bank, you have it with the IMF. And that is a debate, I think, that is very sound and valid.

But if you look at what is happening right now, the people are looking at the huge need for development. We did not have that as a risk up on the video, but you have billions of people in poverty. You have got two and a half billion people without water and sanitation. You have got a kid dying every 15 seconds while we are sitting here, because of lack of water and sanitation. So there is that need. And that means that we have shifted—and I think that is what is happening with all these institutions—much more towards the poor.

We are talking about the emerging markets growing, but if you start to look at the countries, it is the BRICs. It is the Turkey. It is Mexico. It is not really the poorest of the countries, even though Africa is starting to come now. And that is what I think. You also see much more inequality in these countries.

I think what we see now in the Middle East region was the result of that. All these young people—the demographics—people without jobs. And I think that is a major risk, because right now, all these people see this because of the media, because of social media. They have access. So their expectations are going up. They are saying, "Why should I not be a part of this?"

And that is what I think is the role of an institution like ours. We can only work with the private sector, but moving in that direction. That is happening, and that is why we have been allowed to grow much more than we had done historically.

R. Vardanian:

Thank you, Mr Ackermann. There is the opinion that a discussion about Greece is not a discussion about how to save a country but a discussion about French and German banks and how taxpayers in Germany are again being asked to pay for problems in countries that fall in the eurozone. To what extent does this opinion hold true? To what extent will the situation with Greece's debts lead to the collapse of a united eurozone as predicted by Roubini? Or is it, after all, an issue that will be resolved not only by agreements between governments but also between financial institutions? To what extent does this factor influence today's decisions, including the current decision concerning the eurozone?

Dr. J. Ackermann:

Oh, thank you. Let me say three things first which are very important. It is not a euro crisis; it is a debt crisis on the periphery, and each country has a somewhat different history. Secondly, it is not necessarily a banking issue, because out of the 350 billion, only part of it is really in the banking system, and of which, a very large part is in the Greek banking system, in the European Central Bank and in public sector banks in some countries.

So in that sense, for many banks, including my bank, this is really not a serious issue. The third one is it is not a question of Greece alone, and that was one of the major mistakes we made many years ago: we felt a 2.5% contribution to European GDP is marginal. It is not, because the perception is that you could have contagion into other and even bigger countries.

That is why we have to be so aware of that. Now, there is a problem of—and Klaus, you have alluded to that—of having to correct something, and we have still got this, well, we have an imbalance, and we have to say very self-critically: why have we funded and been capable of raising over EUR 300 billion of debt for Greece at very attractive rates? Why have financial markets not been putting more discipline on these countries? Because many of the challenges in terms of economic power, in terms of export structures, were well-known in terms of productivity.

Now, we are in a one-currency system where you cannot have a pricing adjustment mechanism as we had in the more floating rate environment, so that Greece and Italy and others concentrated on the value of the country; that is no longer possible. The only way to match it is by reducing cost or increasing productivity. Now, the key question is: what is the political support for these measures, which are necessary in order to come from the imbalanced situation to a new equilibrium in the future?

And my strong view is that we should use all the options available now. Raising taxes, making the country stronger, reducing fiscal deficits, but that is not enough, because reducing deficits means also reducing economic growth. And by doing this, you are actually weakening and worsening the debt-to-GDP ratio. That is why we also need an economic programme to help Greece to overcome that.

We have to make it more attractive for investments, and maybe something like a Marshall Plan might be an idea to go on, but to have some sort of a private sector involvement with all the fragilities around us is, in my view, very dangerous. We have no clue what is happening in terms of contagion; we do not know what it means in terms of losses—not only in banks, but in pension funds, insurance companies, and private households—and we do not know what the contagion is into other countries.

That is why, yes, we need to inject more funds. It is very difficult to convince citizens to do so, but I think Germany and some other strong countries in Europe are beneficiaries of the euro; we are benefiting also from a relatively weak euro compared to what we would have if the Deutschemark were still our currency, because exports would certainly not be as strong. And that is why I think we have to take responsibility.

But it takes leadership and it takes responsibility to work for Europe as a whole. Now, having said that, we are also willing, and I am the Chairman of the International Bank Association. We are trying to find out how we can make some sort of a gesture without creating any event (because that would be very, very negative) and of course, without having a dislocation in financial markets, which could easily be the consequence of all of that.

But let me say a final word. The euro is not just a currency. The euro is a political initiative, and it is so important to Europe that we do everything not only to defend the euro, but to defend the European ID, and in that sense, I think we should, whatever it costs, be willing to support it.

R. Vardanian:

I would like to ask David Bonderman about “soap bubbles”. As you know, I have been working in banking for 20 years, and what follows each crisis is a very thorough analysis. Why was there a crisis? Who was to blame? How did it happen? Each time, I am amazed that no one comments on the unlikelihood of having a 40:1 leverage in the housing market, or how there cannot be 5000 instruments with a AAA rating when there are only a total of 20 companies with that rating, and so on. It is clear that there were some problems, but for some reason, no one noticed them as long as everything was all right. But afterward, everyone started discussing what should have been seen and corrected. In your view, where are the new bubbles growing? Where are the risks? We live in an information-oriented society. There is a lot of talk on the internet about a new bubble forming. But is this worry justified, and where is the danger going to come from?

D. Bonderman:

So there is a famous quote from Mark Twain, who once said, "History does not repeat itself, but it sometimes rhymes." And one of the reasons it is so hard for all of us, on the first question you asked—to predict whether there is going to be, there is not going to be, it is going to be local, it is going to be this—is because things are always different.

People do sort of learn the lessons. They just do not learn the lessons of the future quite so easily. If you look around the globe, there are plenty of things identified by the panellists that could cause, or could be seen as, bubbles.

If you look at China, you had the property market going up time after time after time. I talked to, for example, a leading commercial developer whose business model in Beijing and Shanghai is to build these very lovely office buildings and condominium-ize them, and sell them off one floor at a time.

The CEO of the company told me that in the past 18 months, they had not sold a single floor to a user, but only to speculators. That is some bubble, in my view. And at the other end, you have the US, which is still a reserve currency of the world, whether it deserves to be or not. A government with a printing press and a nation with no self-discipline that wants to pass its bills on to its grandchildren but live off the inheritance right now, which is a dangerous place to be, because debtors like that tend to inflate themselves out of debt.

Then you look at Europe, and people talk about growth. Well in fact, to my mind, Europe does not care about growth. It cares about keeping the transit workers out of the streets, and not having the French truck drivers park their trucks on the auto route, and if that means they give up growth, they give up growth.

So you have all of this potential bubble-like items floating around the globe. But it is difficult, if not impossible, to predict when that last straw is going to be too much.

As Duncan said in one of his comments, I think you have a situation where there is all this information coming at you all the time right now. And it is very hard for people to sit back and decide what is important and what is not. So as a result, crises tend to arise, or seem to arise when people reflect on what is happening.

Maybe it is a major change, but it is all around, something that people knew anyway, but it brings focus. The risks that we have I think in our society is that nobody has a time to think anymore. Everybody has their Blackberry out. I was surprised that half of the members of the panel here are not texting while we are up here.

R. Vardanian:

Maybe it is a very interesting session.

D. Bonderman:

But I mean, you go to a meeting and you look and half of the people in the audience are working on their Blackberries.

That did not use to be the case, people used to sit and think and listen and so forth. It is very hard to do that. It makes it much harder for people to react in appropriate ways at appropriate times.

R. Vardanian:

Thank you, David.

Mr Kudrin, we have discussed America and Europe, but it would be wrong if we didn't discuss what is happening in our country at our own Forum. I'm thinking back to something that happened six years ago. Right at this Forum, Anatoly Chubais and Alexey Miller took turns talking on one of the panels. Anatoly Chubais talked about the need to reorganize RAO EES, about the need to sell it in parts, about privatization, and about the difficulties raising investment. But Alexey Miller came forward and said, "Only monopolization will save the gas industry, and it is essential that we keep the natural monopoly as long as possible." Both points of view were compelling, but it was clear that achieving both models simultaneously was impossible and that it was necessary to choose between them. However, in Russia, we are always trying to do two things at once. We fight against inflation, try to do everything that we can to reduce interest rates, and increase investment potential, but then we go ahead and increase military spending; we promise increases in social benefits. How can we do two things at the same time? Tell us what next. Will we continue in the same vein, or there is still the possibility that we will choose one of the two options and work from there?

A. Kudrin:

Russia is taking risks: we are extremely dependent on extracting oil and gas. This industry makes up approximately 17% of the GDP, and around 35-40% of the Russian federal budget comes from oil and gas. So we are extremely dependent on the volatile free market price of oil. The situation has been favourable over the last few years. I remember that around six or seven years ago, we were arguing with Herman Gref about whether or not we could balance the budget while maintaining a price of 27 USD a barrel. I said that that figure needed to come down. Before the crisis, expenditure was up, and we managed to balance the budget with an oil price of 90 USD a barrel. This year, taking into account all the anti-crisis measures and the new social expenditures, we can only balance the budget if the price of oil is 115 USD. Yes, budgetary politics are being substantially relaxed. I am against this, but political problems need to be solved. This is indicative of a weakness in the state and an unwillingness to live strictly within one's means. Nevertheless, today during President Medvedev's speech, I heard that we need to live within our means, that we must not increase our dependence on oil, that that dependence may result in increases in inflation over the next few years, and that we need to lower interest rates. However, over the last 6 months, the President has decided to increase spending on the military and in related areas by 1.5% of the GDP. This is a new challenge for next year, so I will be making an appointment with him to discuss this dilemma. Thank you.

R. Vardanian:

Thank you, Mr Kudrin. After everything that has been said, the audience will have no trouble voting. In what currency are we going to keep our savings after

everything we have heard about China, America, and Russia? You can also choose not only hard currency, but also gold, or even “something else”. In front of you, you will see a question with six different answers. Please choose one of them.
This is unique. The results show that there is no trust in anyone and that people would like to keep their money in “something else”. This indicates a serious problem in the financial industry. Sure enough, people do not trust any of the currencies and are trying to find some sort of alternative. Maybe someone will think up something new and we will soon be investing in virtual shares, hoping that they won’t disappear. But this is make-believe.
We have just a few minutes left. I would like to ask two people who are real opinion makers. In your view, Professor Schwab, why have you been running conferences for forty years now during which people discuss key problems, debate, but at the same time, despite all the effort that goes into this, no solutions have been reached that can actually then be implemented? There are a lot of great ideas, but very few solutions are then put into action. Surely we can avoid living according to the models of the Roman Empire or the USA-USSR conflict, when two countries made all the decisions and everyone else more or less just abided by them. Is it possible to find a platform where the G20 or another group of countries will be able to agree amongst themselves and then carry out their mutual agreements? Or do we need one powerful leader or two camps that will force everyone else to execute their decisions? Is it possible to go on from here?

K. Schwab:
I think what we have heard is that there are European problems, US problems, Russian problems, and so on. But let us remind ourselves: these are all global problems; we are all together in the same boat. So we have to learn how to live together in the same boat. That is a big challenge, and there are also different risks, the 37 I have mentioned before. How can we cope with the complexity? I

do not think we lack solutions. We lack the attention span to take care of all those issues in a strategic, proactive manner.

So we are always crisis-fighting instead of addressing the issues in a strategic, systemic way. But let me just make one additional point. I think we are living in a complete societal transformation. We speak about the Internet. But let me remind you that all previous industrial revolutions, starting with the domestication of mankind, were about tools: tools to increase productivity. And of course, the Internet is also a tool that is much more. The Internet, in some way, is our DNA.

We have outsourced as governments—just think of WikiLeaks—as businesses, as individuals. Today, parts of ourselves. This creates a completely new dimension. We have lots of time to go into it, in terms of transparency, privacy, and so on and so on.

So, we are living in a fundamental transition time of humankind.

R. Vardanian:

Maria, we have touched upon many, many questions, but we have not touched upon a key theme: trust. Confidence has been undermined; no one trusts anyone. On the one hand, information is available to everyone, but on the other hand, people do not understand how to use this information and make decisions. You are a journalist who lives in the world of information. How can we make sense of it? Here we have heard so many different points of view, so many different opinions. What is your view on what we have heard? Which of the challenges that we have heard here are key challenges, and how can we restore confidence and understanding in the people we have been talking about? You see people are not ready to invest in anything; people believe that the majority of countries will default. But at the same time, we are still optimistic, because we are all engaged in business. How should we live, and where are we going? Your plan.

M. Bartiromo:

Well, I think what you have heard on the panel today has been very insightful. You are right, there is a lot of noise out there, and the onus is on each of us, individually, and countrywide as well, to separate the noise from the important nuggets of information.

I think it goes back to education. I think this is a very, very important issue. Certainly, in America it is, because as it relates to the jobs picture. Jobs are not being created at the pace that we would like to see, and we really need the skill sets to be improved and people to be armed with the proper skill sets that will allow them to thrive.

But I would agree with many of the comments that you have heard on the panel. Professor Schwab made a wonderful point about leadership: it takes leadership to focus people on, really, what is important. It also takes leadership to ensure that the difficult decisions and solutions are being taken.

As it relates to the United States, we are, right now, having an unprecedented conversation about raising the national debt ceiling and, of course, that means difficult decisions, and that means cutting back on things like social services, like Medicare and Medicaid and Social Security, as well as raising revenue.

I think what Minister Salgado said is very, very important, and that is that it is about confidence and ethics. At the end of the day, it really is about confidence. Confidence in economies, confidence in global markets in order to have the people believe that this is a trustworthy system, a global system, that can be trusted so that we do not have runs on banks and we do not have investors running for the freeways.

And again, that takes leadership. It takes leadership to make difficult decisions. And they are difficult, but I think after what we have all been through, the global crisis, we have learned. I think you can go back and say, "Who is to blame?" But we have done that already; we are all to blame.

I think we need to get together as a people and recognize that these are serious issues. And we are seeing fundamental change, whether it is the West declining, or sort of stagnating, while the East rises, or whether it is… Steve brought up why does the banking system or the bankers always get hit on and the fingers always point that way. It does have to do, in some cases, with compensation. People cannot get their heads around some of the compensation. Whether or not that is right—we are living in free markets—is a debate we can have. But I think it is about individual leadership; it is about countrywide leadership, so that across the board, we put some standards in place, and we all live up to those standards so that people believe that we are talking about very liquid markets, trustworthy markets. For the most part, the people that I come in contact with are trying to do the right thing.

And I think that if we can all agree on, not necessarily the same rules (that will be very difficult, depending on what country you are talking about), but a standard that we live by, I think, what else can you do? This is what we hope to do, so that people believe in the health of the markets, and that means making tough decisions. And that is where we are right now. This is the reality of the day.

R. Vardanian:

Many thanks to all members of our panel for being able to take part in this discussion, which was a unique opportunity in terms of those who participated and in terms of issues raised. Some very serious problems were brought up. And of course, one hour and fifteen minutes is not enough to resolve them all. I would like to thank the audience very much for its attention and interesting opinions. I want to thank the team from Sberbank for the fantastic video clip that they prepared and for their splendid organizational activities, and I would personally like to thank Ksenia Yudaeva. I would also like to express my gratitude to Herman Gref. He is one of those leaders who demonstrates that the impossible is possible. I started out working in the investment banking business for Troika

Dialog at age 23. It seemed impossible then to set up an investment bank; it seemed impossible to set up any sort of successful company; it seemed impossible to make a civilian airplane for Sukhoi; it seemed impossible to set up a forum that would attract the best representatives from all over the world and provoke interesting discussions. It turned out that everything is possible if there is a will, if there is a dream, if the bar is raised high and there are leaders who are ready to do everything to achieve goals. I am confident that it is all up to us. I am confident that despite all the difficulties that face us and despite those challenges that lay ahead, change depends on us, and that this is not a task for the government or for some institute. It is our common task: together, we will try and solve these problems and we will not be afraid of their solutions. Many thanks to everyone.