

... in the Face of Financial Crisis

- Economic situation fundamentally different from 1998 ...
- **Functioning market system** (much growth 'demand' driven).
Consumer durables, services & housing
Energy extraction not the growth driver for '07-08
- **Limited public debt**: \$40 billion (less than 3% GDP)
- **Massive reserves** in early August:
FOREX: \$597.5 billion; Stabilization Fund: Reserve Fund \$141 bil.; Welfare Fund \$49 bil.
- But ... markets propagate, as well as mitigate, shocks!
- From overheating to overcooling!

Under closely integrated finance and real economy, State constrained economy

- Under extensive foreign borrowing for business expansion (private foreign debt 3.8% GDP in '08 end)
- and growing, but limited, SME sector away from priorities,
- rapid, strong government response
- in increasingly State constrained economic system. (use of market for authorized goals)

Despite initial refusal shock rapidly propagating

- Despite Initial refusal by Medvedev and Kudrin (Davos, 15-16 Sept '08) 'absolutely stable'
- financial Markets met collapse (ruble fall) and
- major industrial groups (Rusal, Alfa, GAZ, Rosneft, Severstal etc.) could not refinance nor repay debts.
- Earnings and credit shock rapidly propagating through economy.