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“Not having spoken about the causes that ... led the economy to the current state we will not be able to elaborate correct prescriptions for treating this disease”

V.V. Putin

Davos

January 2009

Introduction

In 2008 unstable crisis processes started developing in the world and Russian financial and economic system, comparable in scale to the hardest crises in the world and Russian history. The scale of the crisis processes and phenomena may lead to a considerable damage not only in the material sphere of production and consumption, but in the sphere of socio-political stability as well; in particular, there is a probability of events that will change the financial, economic and political systems configurations both in Russia and in the world. The scale of crisis processes and phenomena in Russia gives reasons to speak about a national security threat in the area of stability of the financial-economic system, the political system and country statehood.

To be able to plan and launch effective anti-crisis measures one has to know thoroughly the causes of the crisis processes and phenomena, to understand causal connections, to have a vision of various scenarios events may follow and a responsible justification of purposeful address solutions, corresponding exactly to diagnosed causes.

Anti-crisis management tasks have both operative and preventive character. One not only has to minimize (or prevent) the existing negative effects of the crisis, but to achieve the minimal level of the country's vulnerability to similar crises in the future. This means that anti-crisis measures should be both operative and oriented towards systemic, institutional, structural, strategic changes in the financial and economic systems with prolonged planned effect.

The express-analysis was carried out with the goal of determining causes, scenario (forecast) of the crisis development, estimation of the anti-crisis management measures being currently implemented, possibly, additional administrative recommendations.

1. General principles

A credible analysis and elaboration of recommendations require unambiguous definitions of the key notions.

Financial crisis is a shortage of financial circulating capital.

World financial crisis is a substantial shortage of financial circulating capital in the world economic turnover.

Russian financial crisis is a substantial shortage of financial circulating capital in the national economic turnover.

Crisis vulnerability of the Russian financial system is a factor of national security consisting in:

- excessive Russian monetary credit system dependence on the external environment in its functions of monetary emission, monetary turnover, monetary borrowings;
- disproportions of the Russian monetary credit system manifesting itself in the lowered monetization, lowered share of state expenses in the GDP, lowered wages share in the GDP, distorted money supply structure (in the aggregates and in the ration “short” - “long” money), excessive rate and lowered refinancing volume of banking system;
- distorted structure of the country's gold and foreign currency reserve (3% of monetary gold, 97% of foreign currency invested abroad);
- investment of state assets in risky foreign corporate securities.

Russian economic crisis is a substantial reduction of solvent demand, production volume, number of vacancies.

Crisis vulnerability of the Russian financial system is a factor of national security consisting in excessive Russian economic system dependence on the external environment manifesting itself in the excessive share of the external economic turnover in the country's GDP, excessive shares of raw materials in the export and of high added value products, socially important products, products for national security in the import.

Causes of the crisis are structural and absolute indicators of the Russian financial and economic system causally responsible for the shortage of financial circulating capital in the national economic turnover and the reduction of solvent demand, production volume, number of vacancies.

Revealing the crisis causes means determining inadequate structural and absolute indicators of the Russian financial and economic system.

Inadequacy of anti-crisis state management measures is fallacy (in causes, in goal-setting, in the mechanism of administrative influence), insufficiency in institutional setting and volume, inconsistency, inefficiency of anti-crisis state management measures.

Consequences of the crisis are shortage of financial circulating capital in the national economic turnover and reduction of solvent demand, production volume, number of vacancies.

Overcoming the crisis consequences means measures minimizing the crisis consequences, but not touching its causes and not preventing it from repeating in the future.

Overcoming the crisis consequences effects means measures minimizing the operative crisis consequences and preventing it from repeating in the future.

Guidedness of the crisis is a probable purposeful activity of both external and internal groups interested (materially, politically, geopolitically) in negative crisis consequences coming. It may be accompanied with their own expenses (with a simultaneous gain in the directions of the pursued interests), which serve as a “price” for succeeding in the pursued interests. The probability that *guidedness of the crisis* exists is determined from the ratio expense – gain for the corresponding interest group.

Causes of the crisis may emerge and act in the operative regime with characteristic evolution times lasting for months. Causes of the crisis may emerge and act in the long-term period gradually accumulating financial and economic disproportions, which increase the country's economic and financial system vulnerability, with characteristic evolution times lasting for years and longer.

Anti-crisis management measures may be of three types and be directed at:

- minimizing crisis consequences (type 1);
- overcoming crisis consequences effects of the operative character (type 2);
- overcoming crisis consequences effects of the long-term character (type 3).

A most effective package of anti-crisis management measures must include measures of all three types.

A most effective causal analysis must include revealing both operative and long-term causes of the crisis.

2. Choosing managerial logic of Russian anti-crisis actions

The managerial platform of state anti-crisis actions may be built according to two distinct logics.

Managerial logic 1 - **“Overcoming the world financial crisis consequences”**.

This logic does not touch upon causes and does not prevent the crisis from repeating in the future. Psychologically it distances itself from an analysis of its own management adequacy before and during the crisis. Possibilities of the package of Russia's own administrative efforts are confined to type 1. Taking into account the Russian GDP contribution to the world gross product (2.5%), external possibilities are confined to appeals about new financial regulations.

Managerial logic 2 - **“Overcoming the Russian financial crisis causes”**.

This logic, being connected with revealing the crisis causes and eliminating their effects, generates the most thorough package of sovereign Russian state anti-crisis actions. Internal causes located in the sphere of administrative influence are revealed as well. Logic 2 prevents the crisis from repeating in the future by increasing the country's sovereignty, lowering its crisis vulnerability. It includes management measures of all three above listed types.

3. The world financial crisis

3.1 Causes

The world financial crisis has both objective and, probably, partially guided character; it had been coming into being for many years and rapidly developed in 2008. The crisis has systemic character in time; it has been successively accumulating financial disproportions that achieved critical values and caused chain processes that partially went out of control. The crisis has systemic character in space having touched practically all world countries – although to substantially different degrees depending on their sovereign crisis vulnerabilities.

The general situation and its development start from USA as the country-emitter of the world dollar currency in the ensemble with other countries-emitters of world reserve currencies (Great Britain, European Union countries, Japan). One can identify two levels of causes: the world global one and the one internal to US economy. They are interconnected through the simultaneous dollar role of the US Federal Reserve System on both levels.

On the global level there is a matter of the gravest crisis of the American way globalization. USA produces about 20% of the world gross product (PPP), 30% (current exchange rate), has capitalization close to 50% of the world one, its contribution in military expenses is more than 50%, taking military Research and Development and purchases into account it reaches 65-70%. The latter point means that the Atlantic alliance countries “delegated” to USA the burden of expenses and efforts on maintaining the alliance global world military-political power. But these efforts must be paid for. The payment system is set up via emission of dollar supply for the world turnover, which, since 1971, after the abolition of the Bretton-Woods system requiring gold guarantee for dollar, has been backed (and bounded) by nothing and controlled by nobody except US Federal Reserve System and US political authorities. In this plane the US authorities manages the situation. US does have losses in the crisis, but their relative weight is substantially smaller than in Russia and Europe. The ratio of losses in the pair US – China is essential. So far it has not been to the US advantage. China is primary nowadays not only in supplying cheap goods, but in crediting the American economy as well.

Fig. 1 shows the ratio of dollar supply in the world and US national economy.

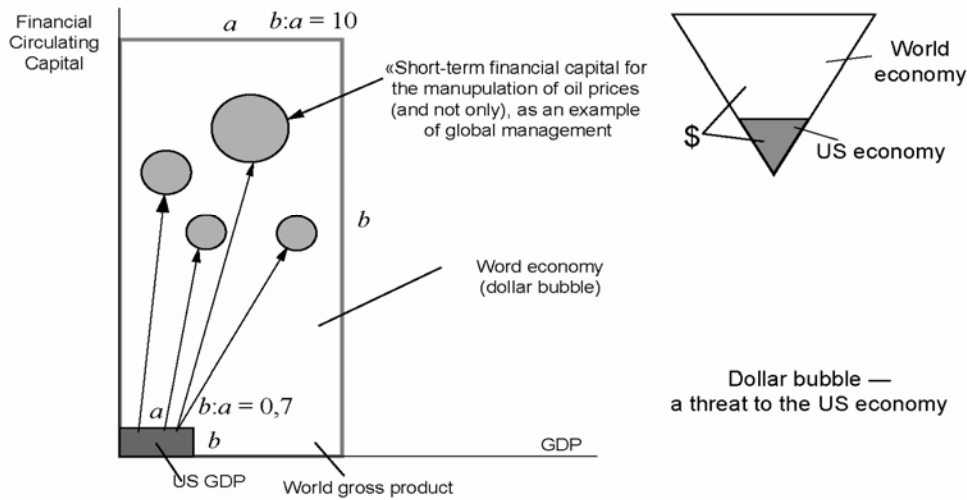


Fig. 1. World gross product, US GDP, their financial backing

The ratio of financial circulating capital on the national economic US territory to GDP is more than 15 times smaller than in the world economy. The uncontrolled emission of dollars and derivative financial instruments with a *nonzero probability* may have a purposeful character not only for the budget balance, “payment” for US global expenses on maintaining military power of the alliance, but for pursuing local interests in the global financial administration as well. For example, administering oil prices both with the goal of economic pressure on oil-consuming countries – in particular, China – and with the specific goal of disintegrating Russia similar to disintegration of USSR.

There *exists a nonzero probability* of stimulating Russian economy involvement in the export raw-material model with the subsequent sharp drop in oil and hydrocarbon prices with the goal of organizing economic collapse of Russia as it was done in 1985-1991 with USSR (Fig. 3). Scenarios of externally stimulating country's economy involvement into self-destructing regimes are known, for example, in the case of USSR, in the project SDI (Reagan's Strategic Defense Initiative).

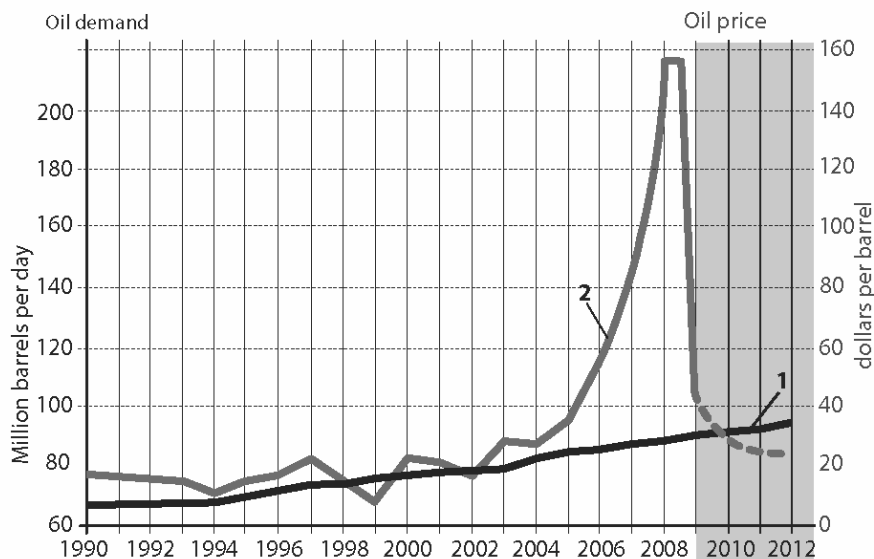


Fig.2. World oil prices are governed not by a market mechanism. 1 – demand, 2 – price.

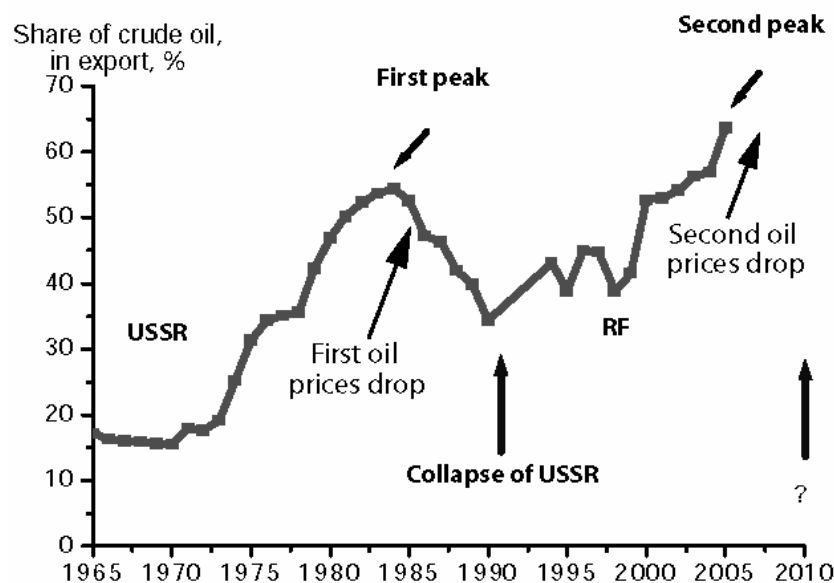


Fig.3 The raw materials share in the Russia's and USSR's export. A connection of the oil prices drop off effect for non-diversified national economy and the probability of the state collapse.

USA has built a typical financial pyramid by emitting money for their own budget expenses needs and putting it through financial markets. Pyramids have the property of collapsing when consumers of unbacked finances show securities. Last years some zonal dedollarization has been going on, dollar has been being “forced out” from the turnover and returned to the native dollar zone – US economy.

The pyramid started collapsing what creates a threat first of all to US economy. The logic of counteracting this consists in restoring zonal demand for dollars and satiating it with new emission and new borrowings. The current tactic of rapid dollar strengthening comes from this logic. But it is impossible without a consolidated decision of other country-emitters. US financial and political authorities and alliance countries are now following precisely this way.

This process is manifest in the ruble zone, where dedollarization had been going on for a long time, but in the course of the crisis and current actions of Russian authorities was effectively stopped (Fig. 4).

Relative success in restoring the world economic pyramid does not guarantee its eternal existence. It is *more probable* that global self-destruction of the world monetary-financial system will reproduce itself and intensify despite its being consciously constructed by the Western alliance countries with USA at the head. The share of dollar in accounts will decrease and transition to a multi-currency system will take place. Euro almost catches up with dollar in weight, although tactically dollar is strengthening with respect to Euro. Probably, as a transitional one, the two-currency system plus yen will emerge. Then a system of regional currencies will come into being, in which ruble may have certain *chances*. But this will encounter an active resistance from the alliance, which controls nowadays the world monetary-financial system, and the prediction of the alliance's voluntary abdication seems *hardly probable*.

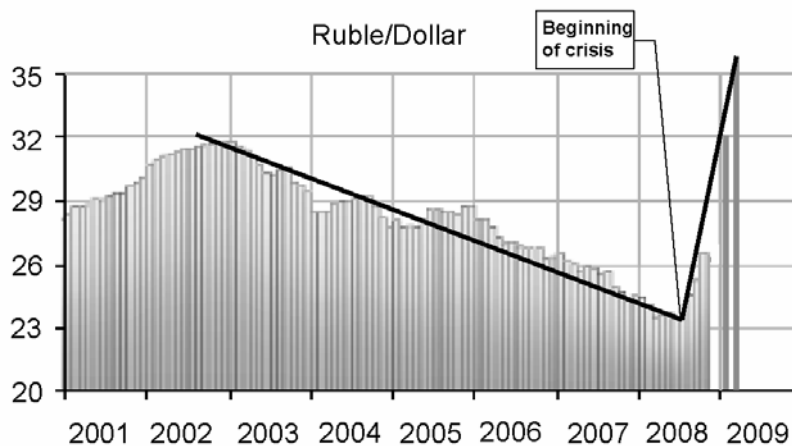


Fig. 4. The world crisis restored dollarization of turnover (rubles per one dollar)

An important objective cause of the crisis is the informational revolution in finance, which allows building long chains of virtual deals. Virtual operation engendered a giant mass of derivatives, which together with the unbacked primary dollar supply became a cause of the financial pyramid collapsing. Their aggregate value may be estimated as at least ten times more (600 trillion dollars) than the world gross product (about 60 trillion dollars). Anti-crisis measures on saving derivative-capacious financial institutes lead nowadays to monetization of virtual obligations, to unbound dollar emission aggravating the effect of the unbacked dollar pyramid. But the question of writing off these obligations is never posed in the world community. Therefore the attempts to cut down the crisis have little effect.

A process cause of the crisis is the difference in financial accounting international standards treated differently in US and EU. This concerns accounting for derivatives in balances, and the long-lasting struggle of approaches in view of the US' harsh position gives no chance to solve the problem of pressure on the world financial system from unbacked assets.

Another cause of the crisis is the increased American budget and balance of payments current account deficit in the post-Clinton period. There is a problem of accumulated entities' "bad" debts, of raising the level of savings and orienting them in the correct direction that will trigger economic growth. In US, the ratio of the total debt in the corporate sector to deposits residing in banks is several times higher than the analogous Russian indicator (1.25). The American economy is overcredited (whereas the Russian one is undercredited).

There is an essential question whether US will manage to attract uninflationary capital from all over the world in order to finance writing off debts. This is being helped by the fact that a large number of countries have devaluated their currencies, Russia included. These countries are going to save their foreign currency reserves, which are expressed mainly in dollars. This means that they (and Russia) are ready to finance the American economy.

China has absolutely different position. It did not devalue yuan and announced that it is going to direct a substantial part of its foreign currency reserves to replacing the external demand with the internal one, i.e. to inject this money in economy in order to make people save less and buy more goods that were exported formerly. This means that China implicitly starts cutting down its investments in American securities. This bounds US' possibilities of attracting resources and financing writing off bad debts.

Thus the world situation is uncovered. On one side there is USA and the Western alliance with their financial satellites, which *de facto* include Russia, on the other side there is the originating world bloc of other currencies economy. What will be Russia's choice is yet an open question.

Thus, among the world financial crisis causes there are both objective and, probably, consciously formed ones.

As objective causes of the financial crisis one can consider the fact that the post-Bretton-Woods financial system jointly and purposefully built by the Western alliance with USA at the head

has grown to the scale of a financial pyramid, gone out of control, and processes started developing like an avalanche.

Among subjective causes (guidedness) of the financial crisis there are the chosen ways of building and constructing the world financial pyramid by the Western alliance after 1971 with the goal of:

- compensating USA' expenses on maintaining the world political- military power of the Western alliance, what, in the world balance, as in any pyramid, shifts the burden of the final pay to other countries – the dollar mass consumers in the turnover and accounts, which include Russia;
- compensating the US' budget and balance of payments current account deficit, again shifted to other countries;
- (concerning Russia) stimulating its involvement in the dollar turnover in the mechanism of specializing on exporting raw materials to the West for raising Western economy and banking system capitalization and creating a potential situation of Russian economy collapsing under external force.

Among the objective causes of the financial crisis there are:

- political gain from the Western alliance joint position, which, in view of the harsh joint interest, so far is not altered even by these countries' own expenses and which hardly may be shaken with simple appeals about modernizing the world monetary regulations;
- respectively, lack of control on the side of the world dollar emission regulator, lack of responsibility and predilection for high risks of US political authorities;
- weakness and inconsistency of the international financial accounting system;
- in the result – uncontrolled emission of derivative financial instruments by economic entities, which build unbacked world financial pyramid like an avalanche;
- administrative weakness of the neoliberal model of the national states role in financial and economic regulation on their economic territories and, as a consequence, analogous weakness in regulating the world finance and economy in the ensemble of states involved in the globalizing economy and finance.

Secondary objective causes of the crisis in the dollar economy are giant structural macroeconomic disproportions in the growth rate of the US external debt and US GDP, M3 and US GDP. These gaps were caused by uncontrolled emission and growth of the American economy's borrowings, which have started as far back as in the end of the 1960-ies (thanks to which, in particular, USA managed to win the “cold war”), and uncontrolled emission of derivatives, starting from the 1990-ies. The current crisis was programmed long ago, but, thanks to the privileged position of the American economy, formerly it was possible to shift its peaks to developing economies (Asian crisis, Russian default, and Argentinean default), provoking local crises.

3.2. Development of the crisis, evaluation of anti-crisis actions and forecast

Forecast of the crisis development and diagnosed causes effects continuation consists in the following:

- the US inefficient and insufficient measures on curbing the secondary emission contribution to the pyramid will lower the speed of crisis manifestations weakening and allow increasing probability of crisis disbalance again;
- missionary and Keynesian measures of struggle with the crisis consequences, *probably*, will allow cutting down its manifestations in the course of 2009, to the end of which (in 2010) the principal peak of the crisis will be annihilated;
- solidarity of the Western alliance with USA at the head and the Bretton-Woods system of financing military-political expenses of the alliance will keep its principal mechanisms, what inevitably will lead to a repetition of the crisis situation; *according to the forecast* in 3-4 years;

- assuming abstention from a world war (quasi-world large scale war), what so far is to a large extent predetermined by the Russian and Chinese factors, a sharp devaluation of dollar and its replacement with a regional currency in the multy-currency system is probable in the sequel, what will lead to a relative improvement in the US finance and economy, the world finance, to relative reduction of US' leadership and redistribution of military-political loads in the Western alliance; the world financial, economic and political influence of China will increase;
- Russia's contribution to cutting down the world crisis processes (and its own ones as well), its influence on the world finance and economy after relative improvement of the world system will depend on the fact of its continuing or changing its macroeconomic and monetary-credit policy, which was developed by American experts in the 1990-ies, on the base of interests and in the context of strategies of USA and the Western alliance, and is still conducted (Fig. 3 and Fig. 5);
- Consequences of the world financial crisis in the Russian financial and economic system depend also on the fact of its continuing or changing its macroeconomic and monetary-credit policy, which was developed by American experts in the 1990-ies, on the base of interests and in the context of strategies of USA and the Western alliance, and is still conducted;
- there exists a *nonzero probability* that the scenario of USSR collapse via oil prices drop-off and undermining of national economy will repeat in Russia, what currently can be clearly diagnosed.

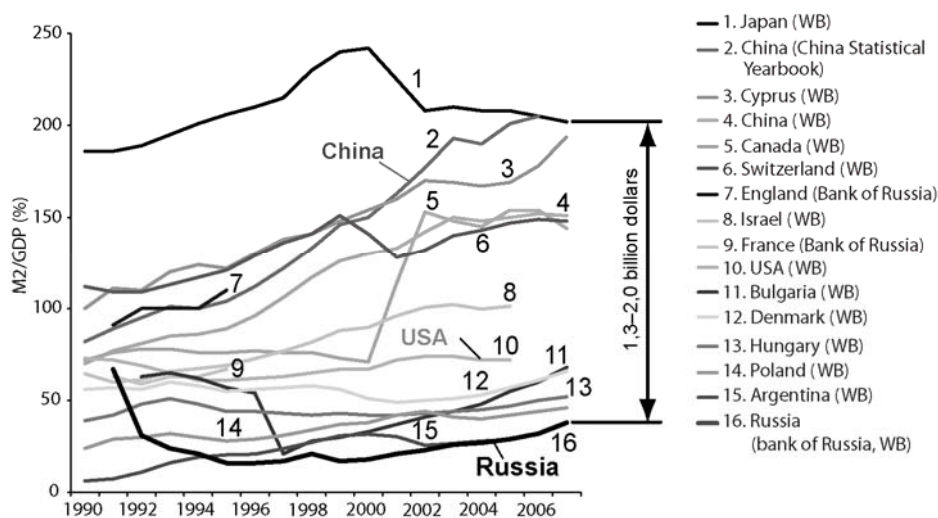


Fig. 5. Russian economy demonetization was conducted from the beginning of 1990-ies, in the period of active American experts' projects implementation into Russian macroeconomic and financial policy. Monetization is still not restored.

Basing on the historic experience one can *suppose* that the world crisis blow to the real sector will occur in the Spring 2009. The total abatement of consumption in the US economy in the entire period of the crisis must amount to about 30%. The emission pumping undertaken by the US Federal Reserve System *may* reduce the crisis.

3.3. Recommended Russian supplementary administrative actions

1. Conducting professional propagandist explanatory campaign in the world media, using diplomatic bilateral and multilateral process for forming world competent understanding of the financial crisis causes, peculiarities and weaknesses of the world regulating mechanism, the threat of an inevitable reproduction of the crisis in the mid-term perspective.
2. Developing and proposing to the world and regional communities a new configuration of world finance and its regulators, a model of regional currencies, having in mind creation of the ruble zone. One should not confine one's self to appeals, it is necessary to develop detailed projects both of the modernized financial system appearance (construction) and of a multilateral mechanism for its implementation on the world scale.
3. Replacing its macroeconomic and monetary-credit policy, which was developed by American experts in the 1990-ies, on the base of interests and in the context of strategies of USA and the Western alliance, and is still conducted, with the policy oriented at national security and minimization of Russian financial and economic system crisis vulnerability.

4. The Russian financial and economic crisis

4.1 Causes

In the anti-crisis logic 2 framework, the cause of the Russian financial crisis consists in extremely high Russian financial and economic system vulnerability with respect to the external environment. This degree of vulnerability is a result of Russian macroeconomic and monetary-credit policy conducted through a long period – from the beginning of 1990-ies. The principal monetarist-liberal platform of this policy was developed by American experts in the 1990-ies, on the base of interests and in the context of strategies of USA and the Western alliance.

The principal postulates of the indicated platform consist in adjusting the Russian economy to export of raw materials, lowering its sovereignty in the financial and economic system, making it dependent on the external environment. These are:

- demonetization of the Russian economy to the level of about 30% of GDP, reduction of the money supply – first of all the credit money, i.e, the so-called long money necessary in the credit-investment mechanisms of expanded reproduction, what led to economic growth slowing and to withdrawing the sovereign financial volume of from 1.3 to 2 trillion dollars from turnover;
- replacing nationally controlled money supply with uncontrolled foreign borrowings and mechanisms of recrediting and capital drain, what brought the corporate external debt to more than 500 billions dollars (the speed of capital drain in the “externally guided ” period amounted in 2008 to 130 billions dollars per quarter) and formed Russian finance dependence on the external environment;
- administering the Bank of Russia emission function in the “currency board” regime, which made the emission volume dependent on the volume of currency coming from external borrowings and export takings instead of determining this volume from the needs of national economy development and banking system liquidity, what led it to the edge of bankruptcy and reduced the macroeconomic role of the Bank of Russia to servicing the export raw material sector, as well as made emission dependent on the world oil price and the export demand – the factors uncontrolled by Russia, but controlled and governed by USA and the alliance;
- related to the above, orientation to a hypertrophied level of the raw material sector in the GDP (more than 30%) and export of Russia (more than 65%), corresponding to a sectoral structure of investments preserving the raw materials disbalance;
- inadequately high refinancing rate of the Bank of Russia, unjustified economically, hindering bank refinancing and crediting in the next link – the real sector;
- repressed mechanism of money supply credit-deposit bank multiplication;

- abolishing foreign currency control of banking transactions, including capital export, foreign currency bank position, obligatory selling of foreign currency takings to the state, which lowered administrative possibilities of the state and simplified capital drain;
- reducing the state expenses share in the GDP to less than 30%, what minimized the state's regulatory functions;
- economically unjustified, lowered (2 -2.5 times compared to developed countries) labor remuneration share in the GDP, what lowered participation of citizens' savings in the monetary multiplication and credit portfolio, lowers productive labor motivation and causes demographic damage;
- unjustified from the position of the country's national security Russia's gold reserve structure (3% of monetary gold and the rest of foreign currency);
- unjustified from the position of the country's national security procedure of investing state assets in foreign banks deposits with interests less than the credit rate for Russian economic entities having to take credits from these banks;
- unjustified from the position of the country's national security procedure of investing state assets in foreign corporations securities, *de facto* pumping Russian companies capitalization to foreign companies capitalization with the risk of these companies bankruptcy;
- economically unjustified many-years policy of budget surplus, leading to withdrawal of the business own means, means from the investment process of Russian economy development and diversification, small and medium business development, socially important sectors of house-building, infrastructure building, thereby minimizing the degree of Russian economy crisis vulnerability;
- introducing the floating currency exchange rate, requiring considerable expenditures of the gold foreign currency reserves under conditions of manipulative attacks on the national currency, lowering the level of the country's financial sovereignty;
- introducing the level of import customs-duties lower than the one required by the conditions of WTO *before* joining WTO, what increases Russian economic system dependence on the external environment.

The absence of instruments for defending national finance from negative consequences of short-term capital volatile inflow and outflow in Russia has essential impact. Many of developing economies had such mechanisms at various stages of development. We know serious restrictions on the speculative capital introduced in Chili, what allowed increasing the quality of investments in the country. Their major form became direct long-term investments. China still uses certain restrictions, what substantially restricted consequences of rapid negative changes in the capital market for it.

The credit portfolio deficit is caused by the fact that the tremendous influx of the borrowed capital from abroad in the past two years together with the growth of incomes from oil, sharply increased in price, created bubbles in a series of markets: the labor, the house and office building, the consumption sector and retail trade ones. The world demand for the national goods of the raw materials sector has been sharply reduced. Lack of means in state funds does not allow replacing the departed capital in full measure, the internal demand, repressed in the years of demonetization, does not replace the external one in these conditions, therefore the assets quality continues lowering and the economic situation keeps aggravating.

Figs. 6-13 depict levels of the above indicated macroeconomic and financial disbalances.

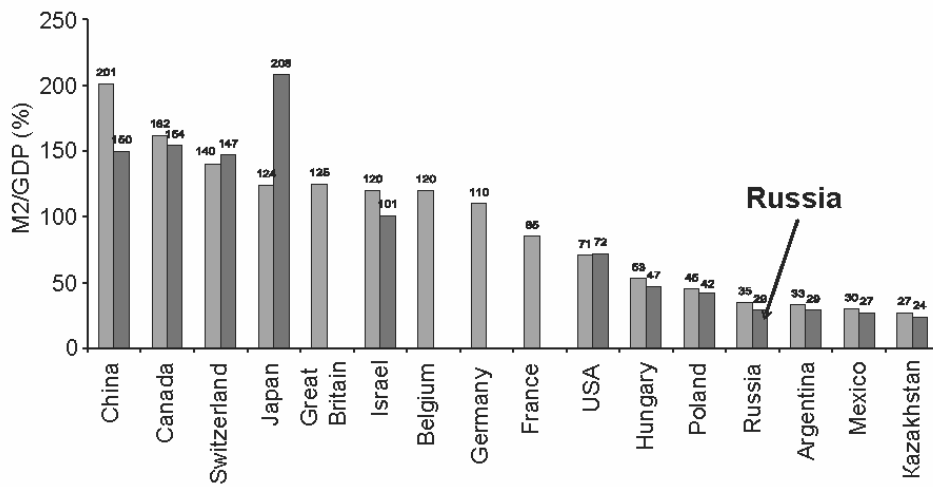


Fig.6. Lowered level of Russian economy monetization.

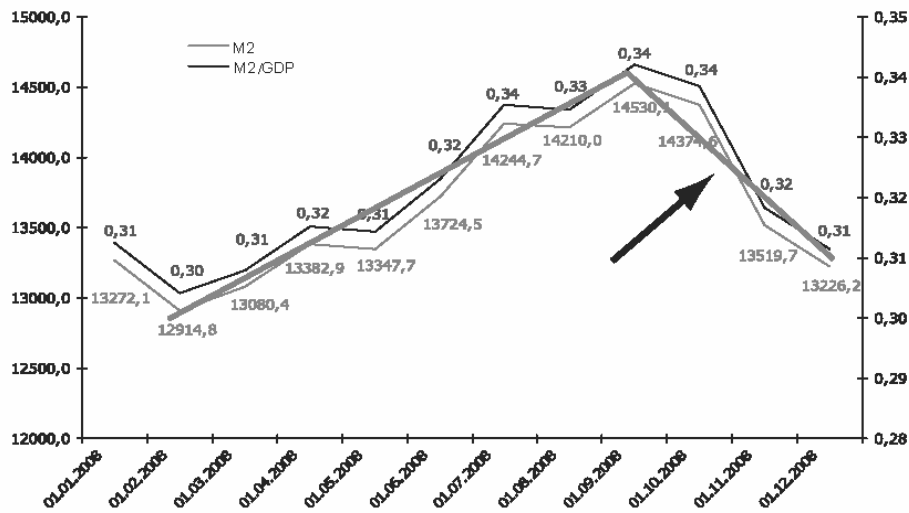


Fig.7. Lowered level of Russian economy monetization is lowering even under conditions of the financial crisis.

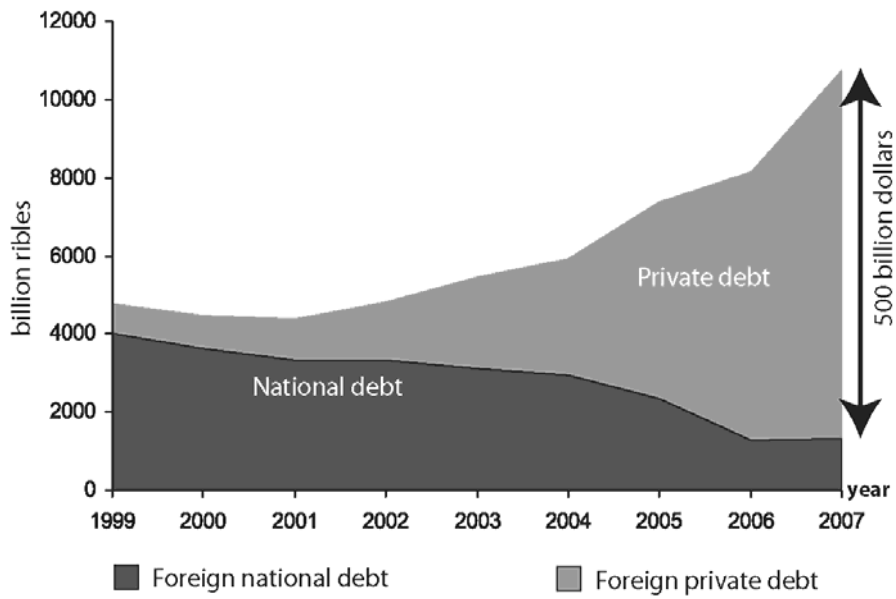


Fig. 8. The sovereign circulating money supply deficit is substituted in Russian economy with externally guided foreign borrowings.

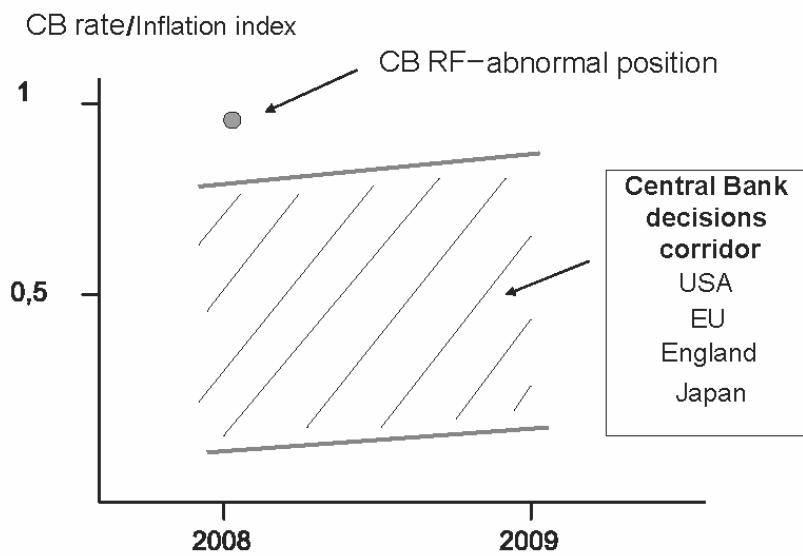


Fig. 9. The Bank of Russia refinancing rate is abnormal compared to solutions of other countries central banks.

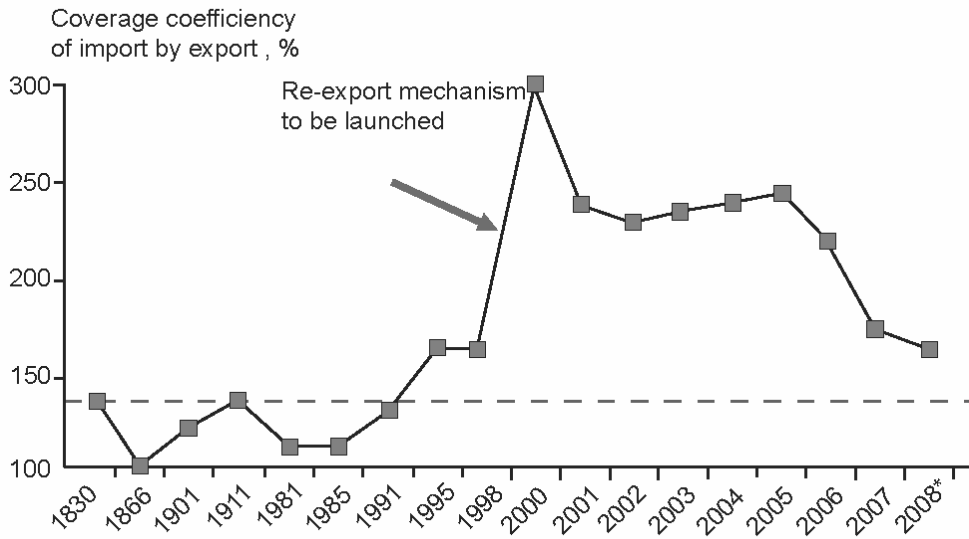


Fig.10 The degree of Russian economy openness – a historic anomaly, sharply increased on the edge of 2000.

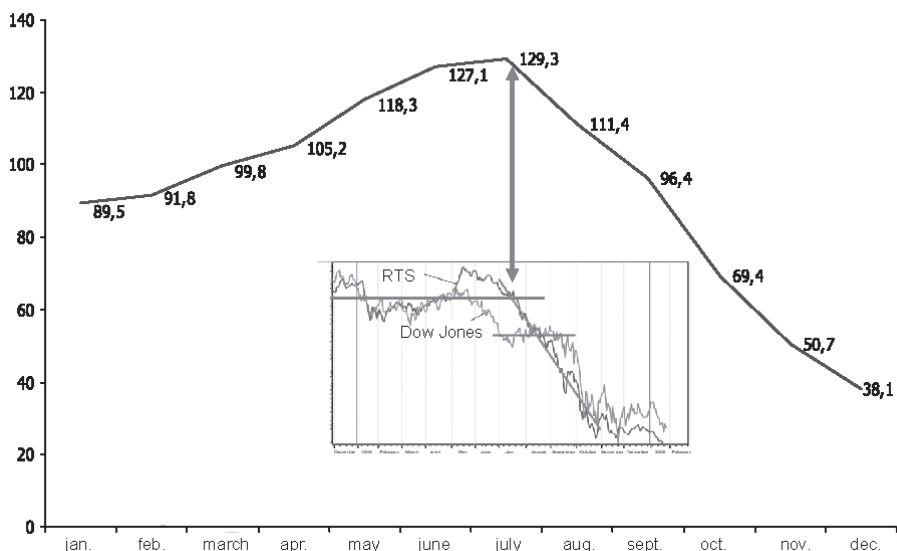


Fig. 11. The Russian financial crisis started with affecting the external factors dependent Russian economy from the moment of the guided oil prices drop off (Urals, dollar per barrel).

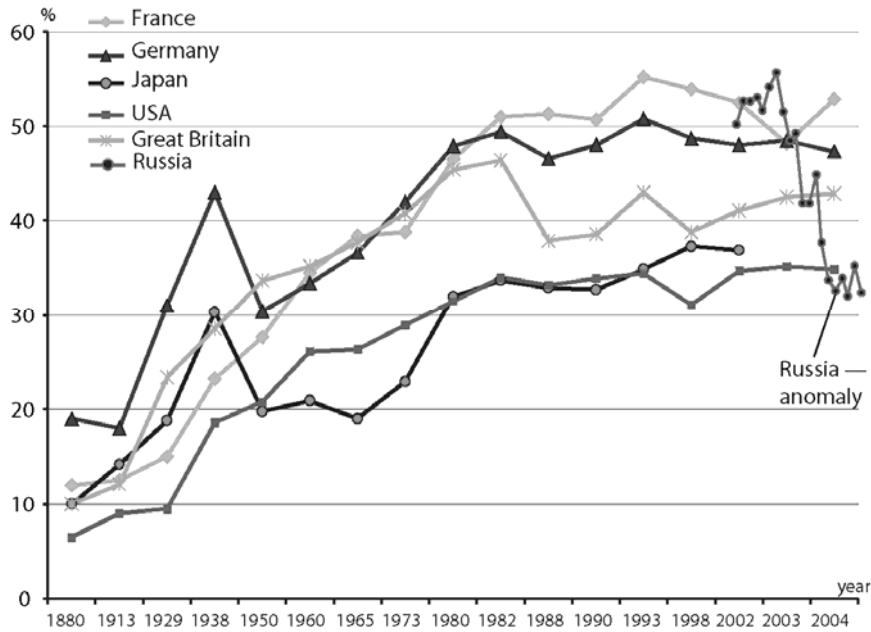


Fig.12 Unjustifiedly lowered state expenses share in the Russian GDP. The trend in world countries is opposite.

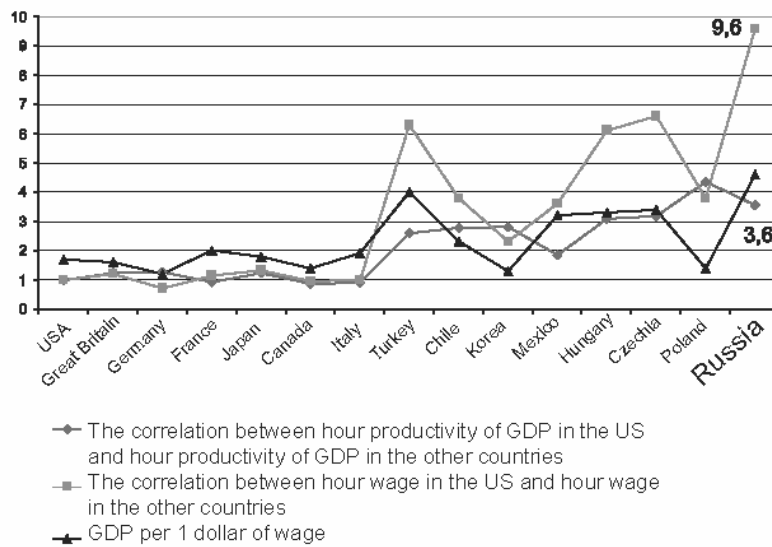


Fig.13. Unjustifiedly lowered labor remuneration share in the Russian GDP. The gap with USA in labor productivity is 3.6 times, in labor remuneration is 9.5 times.

Thus the major cause of the Russian financial crisis (high Russian financial and economic system vulnerability with respect to the external environment influence) is a result of the conducted since 1990-ies macroeconomic and monetary-credit policy developed by American experts in those years, on the base of interests and in the context of strategies of USA and the Western alliance.

4.2. Development and forecast of the Russian financial and economic crisis

The diagnosed causes of the Russian crisis indicate that it should proceed more heavily than in the countries whose level of invulnerability to the external environment has been kept higher. The falling off of fund indices in Russia is the largest among world countries (Fig.14).

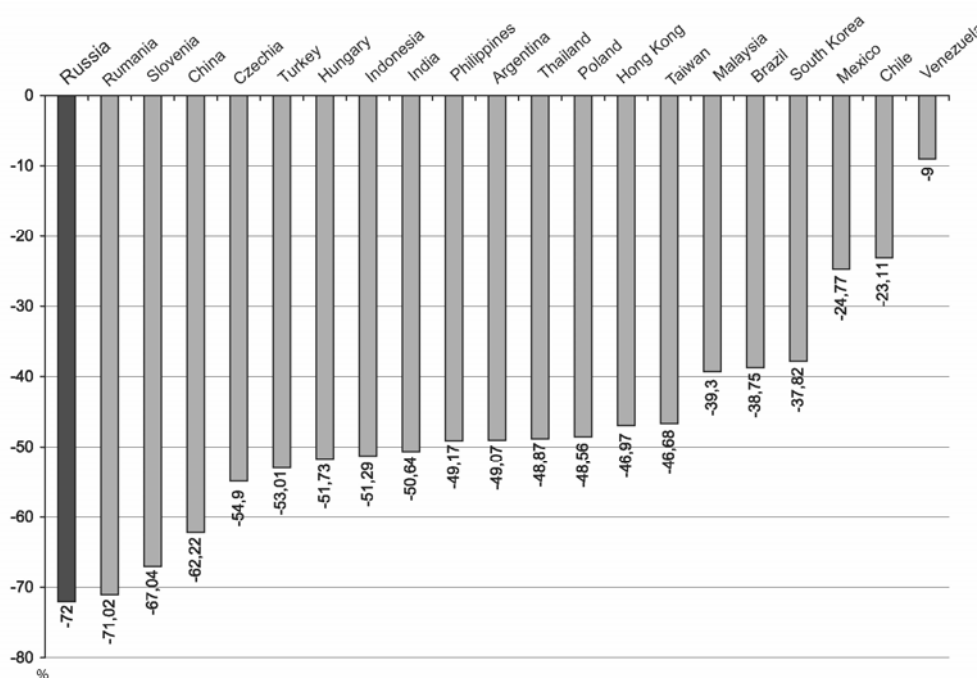


Fig. 14. The value of fund indices falling-off in the world countries.

Falling-off of industrial production (a part from Ukraine) in Russia is the largest among world countries (Fig.15).

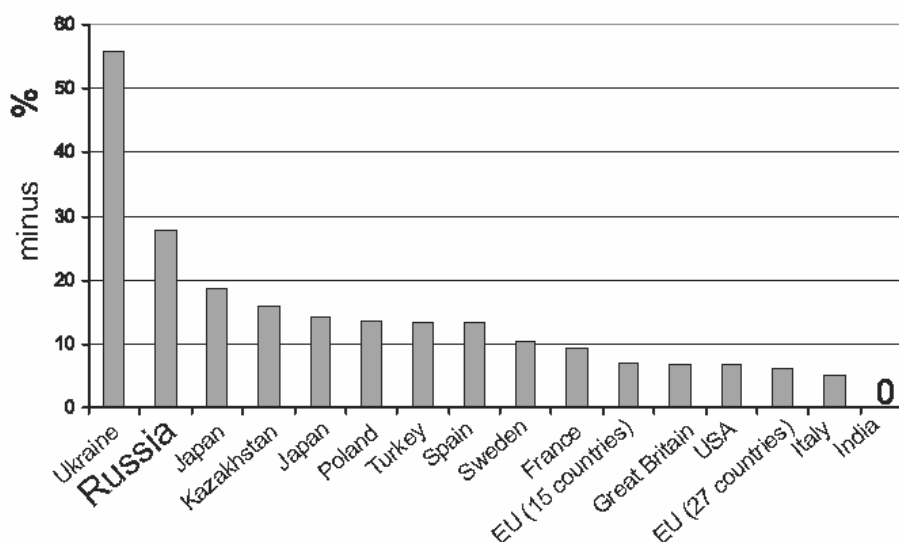


Fig. 15. Industrial production falling-off in Russia is maximal.

Falling-off of prognosticated economic growth in connection with the crisis in Russia is the largest among world countries (Fig. 16).

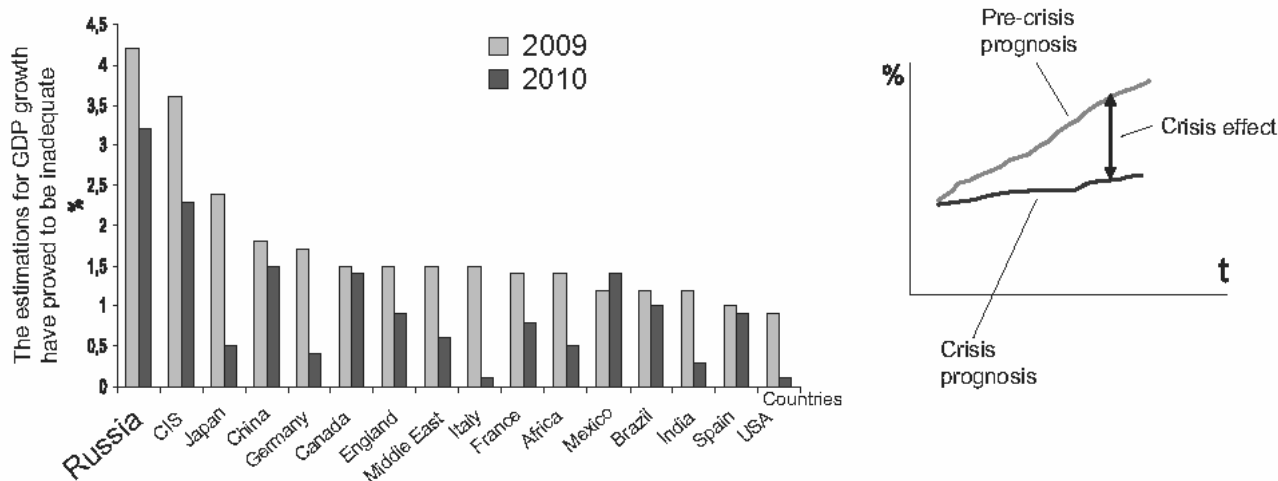


Fig. 16. The crisis effect for prognosticated economic growth in 2009 and 2010 is the worst in Russia among world countries.

The rate of the industrial falling-off per year (with the entire falling-off period till December 2008 taken into account) in the current crisis is the highest in the period from 1992 (Table 1).

Table 1

**Falling-off rate in industry (per year)
(from the start of recession to December 2008)**

Branches of industry	Average falling-off rate, %
Industry total	-35.5
Oil extraction	-0.6
Flour-milling	-1.8
Food industry	-5.5
Oil processing	-6.4
Electrical energetics	-6.4
Non-ferrous metallurgy	-7.9
Light industry	-18.5
Lumber, pulp and paper industry	-19.4
Gas industry	-20.0
Glass and porcelain-faience industry	-30.2
Building materials	-32.6
Chemistry and petrochemistry	-34.5
Coal industry	-41.2
Ferrous metallurgy	-52.0
Mechanical engineering	-60.7

The cost of one-day loans in the credit mechanism has increased to 20-25% annual interests, of 3-months loans – to 30 %. External creditors raise the credit rates for Russian residents.

Credit default swaps quotes have increased to the level of credit rates themselves. In January 2009 only 22% of enterprises in the whole over the industry had normal access to credits. In sectors, this indicator fluctuates from 28% in the food and petrochemical industry to 10% in the building and light ones. In the whole, credit accessibility for enterprises has fallen from 2 to 4 times (Fig. 17).

This means that subsequent falling-off of the industrial production volume will follow with a several months lag.

The deficit of circulating money supply is increasing (Fig.7).

Devaluation of ruble with respect to dollar leads to relaxation of the export sector problems, but simultaneously unfolds inflation, afflicts people and complicates importing of machine-technical and socially important goods. The decision about devaluation fixes the raw material export orientation of macroeconomic policy. Keeping floating exchange rate and restricted emission of the Bank of Russia led to a 170 billion dollars of Russian gold and foreign currency reserve loss, without solving the restricted ruble devaluation problem.

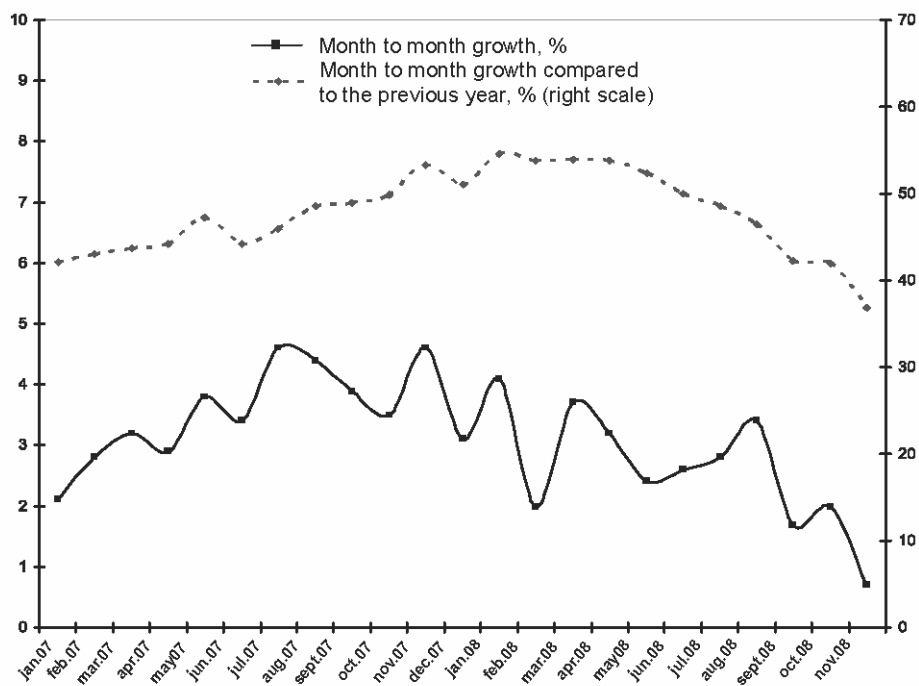


Fig. 17. Bank credits to enterprises.

Inflationary consequences in Russia are maximal among world countries (a part from Ukraine) (Fig. 18).

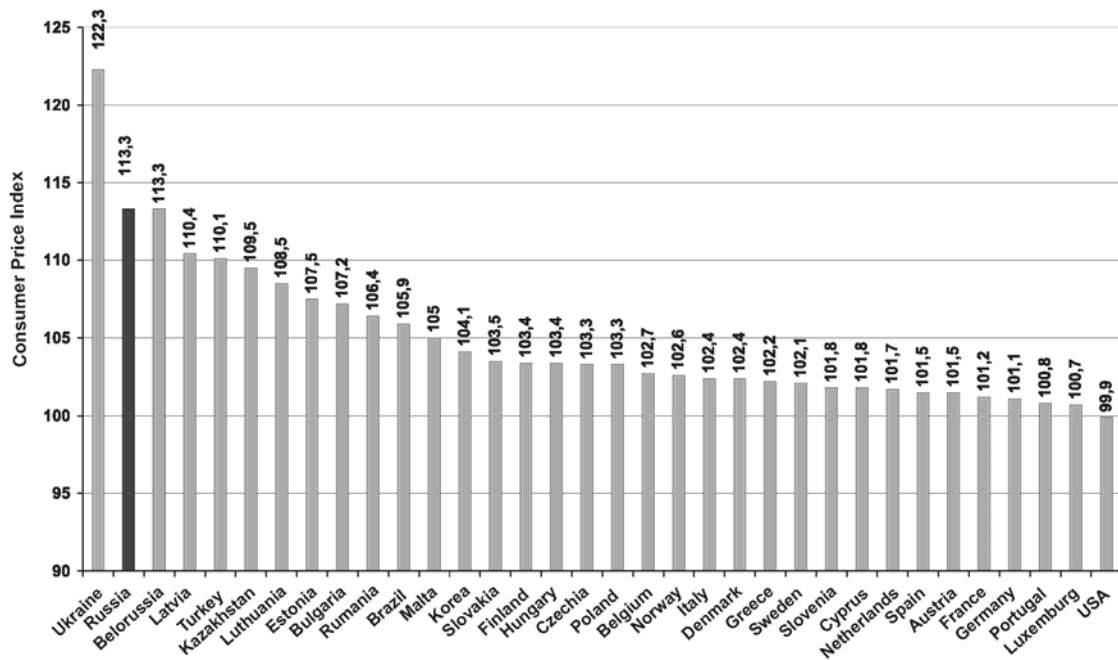


Fig. 18. The consumer prices inflation in Russia is one of the highest among world countries (December 2008 to December 2007, %).

It is most alarming that food price growth is maximal (Fig. 19).

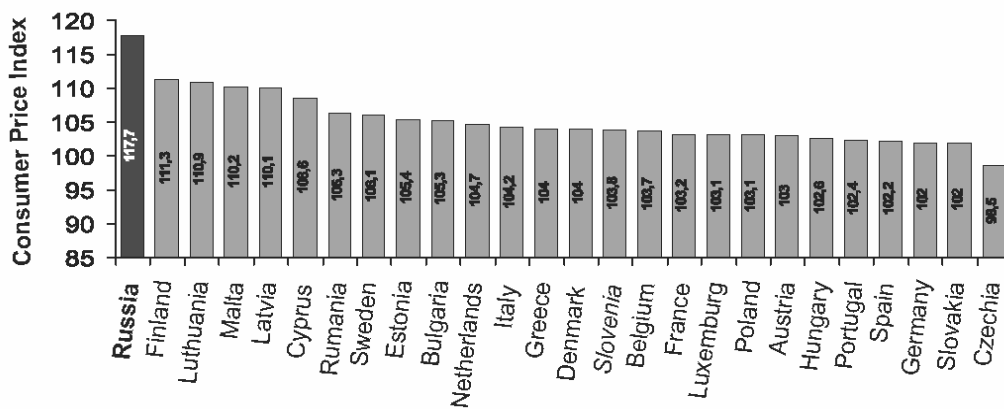


Fig. 19. The food prices growth in Russia is maximal (December 2008 to December 2007, %).

Unemployment growth, falling-off of real wages, consumption, bank deposits and bank credits *will lead* to socio-political tension increasing and demographic indicators worsening (Fig. 20-23).

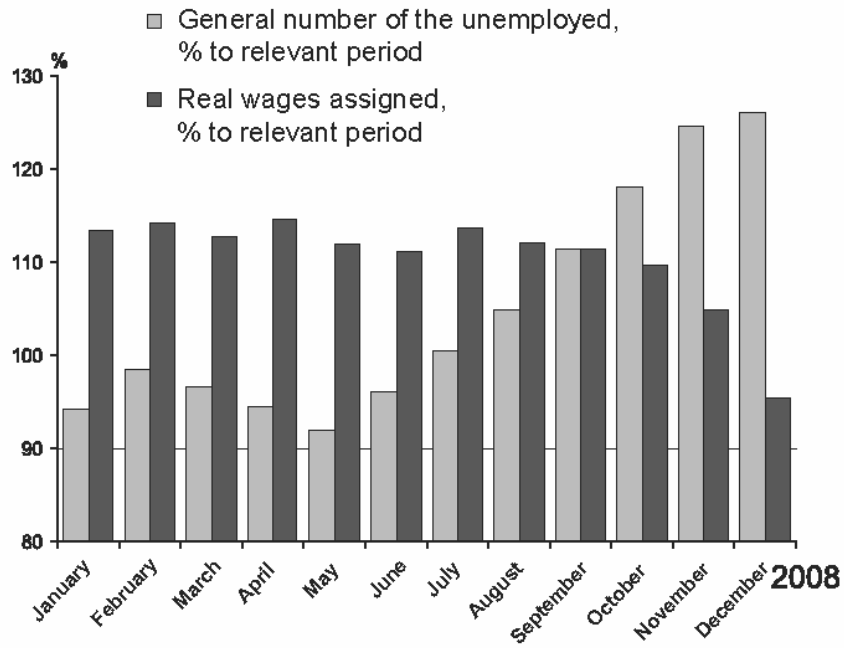


Fig.20. Unemployment growth, real wages falling-off.

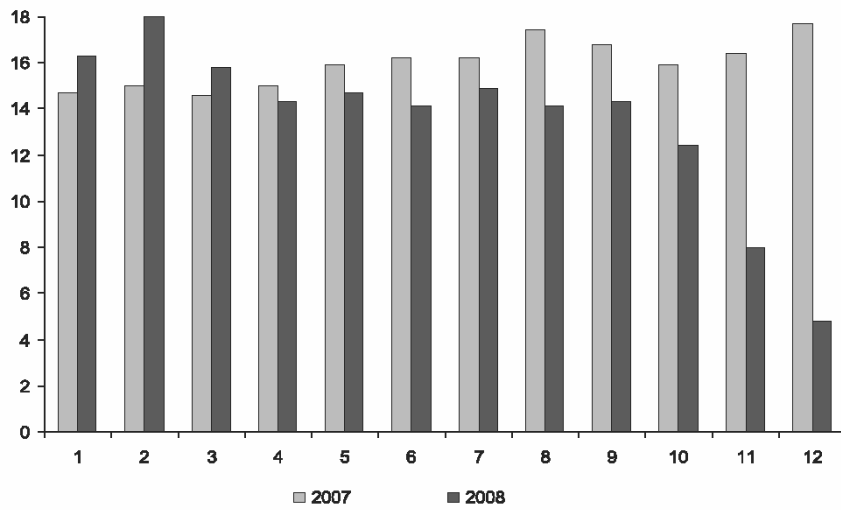


Fig.21. Retail trade turnover as an indicator of people's consumption.

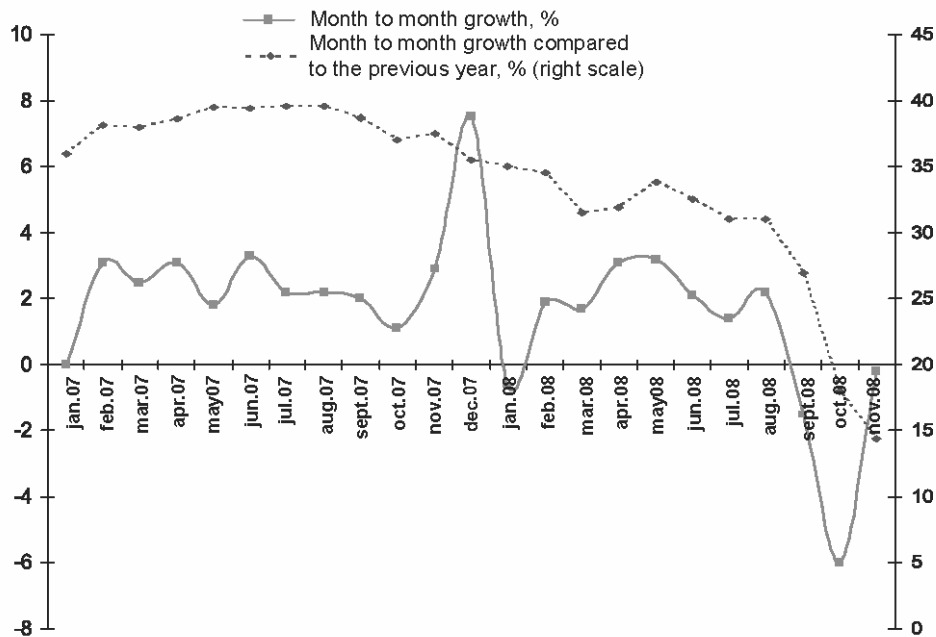


Fig.22. People's bank deposits.

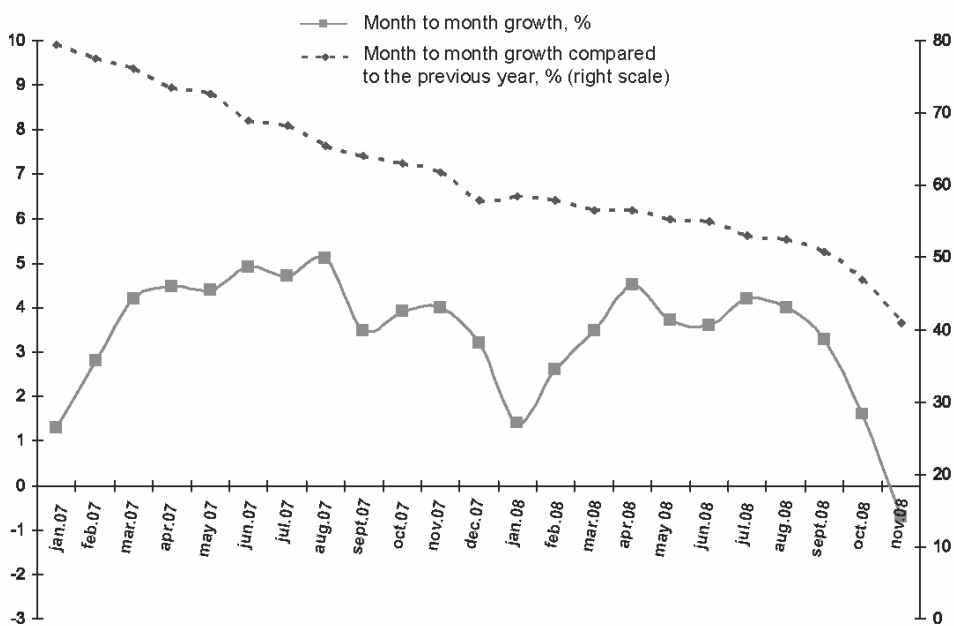


Fig. 23. Bank credits to people.

Thus in December 2008 the circulating money supply deficit, industrial production falling-off were increasing, social indicators were worsening. There are some optimistic manifestations of production growth in December with respect to November. For example, reduction of the industrial optimism index negative falling off.

In the whole, *assuming* non-undertaking anti-crisis measures substantially affecting the diagnosed causes, the Russian financial and economic crisis forecast is more *probable* in the direction of negative phenomena in the social and economic spheres developing.

4.3. Russian anti-crisis measures evaluation

Major Russian anti-crisis measures amount to the following:

- ruble devaluation;
- raising the already high Bank of Russia refinancing rate;
- investing Bank of Russia insecure credits in chosen banks for subsequent interbank crediting, real sector crediting with the purpose of recrediting, non-payment redemption, replenishing enterprises circulating funds (without changing rules of foreign currency control);
- compensation of commercial credit rate;
- reduction of the raw materials sector taxation;
- lowering Russian economy monetization;
- reduction of taxes.

The series of measures is discussed, publicly declared and remains in an unstable state in the whole (will or will not be implemented):

- orientation at deficit federal budget with the deficit coverage from the reserve fund;
- orientation in monetary-credit policy is uncertain (*de facto* it is toughening, in public rhetoric there is a 20% money supply growth);
- decisions on what to do with accumulated debts and growing non-payments are absent;
- operative monitoring of the financial-economic situation (even weekly) is absent;
- declarations about sequestering budget;
- intentions to support the real sector (the list of 296 enterprises) by giving state guarantees for credits, subsidizing interest rates, participating in capital via action purchases, restructuring tax debts or giving “tax credits”.

Major Russian anti-crisis measures are undertaken not systemically, a unified (and public) anti-crisis strategy is absent, measures are directed mainly not at the diagnosed causes of the Russian financial crisis.

As a result their influence on causes is inessential, in many cases inconsistent, in many cases the undertaken measures aggravate situation. (Table 2).

Table 2

Anti-crisis measures evaluation

#	Diagnosed causes of the Russian financial crisis	Corresponding anti-crisis actions	Result	Anti-crisis actions estimate
1	Demonetization of economy	No actions	Monetization is worsening	There are no actions
2	Inadequate emission policy of the Central Bank	«Currency board» continues functioning	Monetization and bank liquidity are falling down	There are no actions
3	Inadequate policy and bank refinancing rate of the Central Bank	The refinancing rate is still abnormal and going up	Monetization and bank liquidity are falling down	inadequate to causes
4	Inadequate export raw materials model of economy	Preferences to the raw materials sector	opposite to the desired one	inadequate to causes
5	Inadequate degree of economy openness	The import duties are growing, the export ones are lowered	inconsistent	inconsistent

6	Lowered level of state expenses in the GDP	Taxes are lowered, budget is sequestered	opposite to the desired one	There are no actions
7	Lowered wages share in the GDP	No actions	the situation is aggravating	There are no actions
8	Country's lowered financial sovereignty	No actions	No result	There are no actions
9	Lack of circulating financial capital	The Central Bank credits economy	is not manifest due to insufficiency	insufficient

The main cause and essence of the financial crisis is demonetization of Russian economy. The absolute value of monetary deficit created in the monetarist monetary-credit policy years gives a volume 13-25 times exceeding the cumulative volume in the framework of the undertaken Russian ant-crisis measures (Table 3).

Thus the volume of the undertaken measures is extremely insufficient. Substantial compensatory results and normalization in finance and economy, as well as reduction of Russian financial and economic system vulnerability with respect to the external environment influence have *low probabilities*. Accordingly, the degree of the country's insurance from the next crisis is not increased.

Table 3

Anti-crisis measures volume sufficiency evaluation

	Billion rubles	% of GDP
Budget-taxation policy measures	2045.3-2145.3	5.2-5.24
including taxation policy measures	900-1000	2.3-2.5
including budget policy measures	1145.3	02.09.09
Russian economy demonetization volume	43-80 trillion rub.	70-130

4.4. Recommendations for possible supplementary Russian administrative measures

In accordance with the diagnosed key causes of the Russian financial crisis one may propose supplementary systemically interconnected public administration measures (Table 4). Detailed mechanisms of the recommended measures are developed in the scientific-expert community, some of them – on the level of finished public administration acts packages.

The following supplementary measured may be recommended:

- for excluding non-purposeful use (transfer to foreign currency) of Bank of Russia credits invested in chosen banks and after interbank exchanges with the goal of crediting the real sector, to introduce foreign currency control of foreign currency bank transactions (including international ones), control of foreign currency bank position;
- for preventing from uncontrolled and agiotage capital transfer abroad, to introduce obligatory selling of export foreign currency takings to the state;

Table 4

Possible supplementary anti-crisis management measures

#	Key Russian crisis causes	Recommended key anti-crisis actions	Project proposals availability
1	Demonetization of economy	Creating financial institution for restoring	available

		monetization	
2	Inadequate emission policy of the Central Bank	Changing emission policy, alterations in the law on the Central Bank	available
3	Inadequate bank refinancing policy and refinancing rate	To reduce refinancing rate, increase volume of refinancing	available
4	Inadequate export raw materials model of economy	To introduce investment and other measures for diversification of economy	available
5	Inadequate degree of economy openness	To cut down volume of export and import	available
6	Lowered share of state expenses in the GDP	To increase the share of state expenses in the GDP	available
7	Lowered wages share in the GDP	To increase the wages share, adopt the law "On labor remuneration"	available

- for conservation of the country's gold and foreign currency reserves with the purpose of their more rational (compared to foreign currency interventions) use, to abolish the floating exchange rate and introduce administratively governed rate calculated from the balance of export and import sectors stimulation needs;
- transfer of the country's foreign currency reserves to national banks' accounts;
- converting foreign currency reserves to reserves of monetary gold;
- transition to ruble price formation in foreign trade in order to give the ruble most possible real backing and to approach regional currency;
- to develop operatively a public anti-crisis strategy, including rejection of budget sequestering, announcing the budget deficit redemption principles, departure from the inadequate Bank of Russia's monetary-credit policy; to elaborate measures for diversification of economy, creation of vacancies, redemption of debts and non-payments;
- to elaborate co-ordinated positions and public rhetoric of high-ranked officials in mass-media, excluding agiotage reactions of people and economic subjects;
- to introduce operative monitoring of the country's economy (weekly or even daily);
- to create from the leading representatives of the scientific-expert community and various creative organizations, on the interdisciplinary basis, a consultative problem-analytic and project Center elaborating management recommendations for public administration both under conditions of operative reaction under conditions of the crisis and on the constant basis;
- to rethink the entire preceding policy of turning Russian economic model into an appendix to the dollar economy as not meeting the national interests and to elaborate a new economic model with the national interests taken into account.

It is most important to consciously and consistently depart from the obsolete and undermining the country's national security model of Russian economy based on liberal-monetarist principles.

It is also necessary to change the state-political logic of approach to the crisis and to move from “Overcoming the crisis consequences” to “Overcoming the Russian financial crisis causes effects”.