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„Consequences of the global financial crisis 2008 for CIS countries. Realities and perspectives.“

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# CHAPTER1. INTRODUCTION AND BACKGROUND OF THE RESEARCH

## 1.1. Introduction

A peculiarity of the financial crisis of 2008 is the fact that it appeared at the main pole of the world's economy, the United States, and then, having extended from the financial sector into the production sphere, spread quite rapidly all over the world. The global crisis has shown that the seemingly completely formed world economic order is far from ideal.

In the context of this research, it is important that one more peculiarity of the world recession is that CIS countries have suffered much more from the financial-economic crisis than the world as a whole. According to the estimates of the World Bank at the end of June 2009, the global GDP that year reduced by 2.9%. This decline hit most strongly the Baltic countries. The expected all in their GDP exceeded 10%. Ukraine and Russia are quite close to them in terms of the scale of recession. According to the World Bank estimates, Uzbekistan and Azerbaijan suffered from the crisis the least, maintaining positive dynamics in their economies.

The fact that the crisis has affected various countries and also specific regions can be explained by both structural and institutional reasons. The analysis of crisis phenomena in specific countries and the national methods of struggling with them allows a better understanding of their nature as well as the mechanisms of their spreading within the integration grouping on different levels and of responding to them by the country-members, and the opportunities for and effectiveness of running the agreed anti-crisis policies. This is the model of the research, as "the application of the simplified description of the processes and interactions in order to explain and foresee enables us to study the past results and to forecast the future ones" (Samuelson and Marks, 1992:11).

Within the framework of this hypothesis, the following statements formulate the subject to be considered in the research:

- In general, the crisis hit the developed CIS countries, which were widely involved in international economic relations, more strongly, and the less developed countries, owing to their limited participation in the global economy, more weakly.

- The monetary systems of CIS countries suffered more the closer their banks were connected to the banks in developed countries, and the wider consumer lending was spread.

- Due to the fall in prices for basic export goods and the world recession at the end of 2008 and in the first half of 2009, the reduction in exports took place in all the countries that are considered in the research. Simultaneously, the imports of investments declined even further.

- The crisis had its impact on the countries' balance of payments and therefore on the state of their budgets and rates of exchange, causing the depreciation of local currencies and, in connection with this, an increase in prices for imported goods, which resulted in unemployment growth. A lot of post-Soviet countries experienced external indebtedness in 2009.

Some CIS countries ran nationwide anti-crisis programmes. In addition, some anti-crisis consulting was undertaken, and some documents were adopted within the framework of this integration grouping. In several cases, the IMF and other international financial institutions took an active part in the measures to overcome the crisis and their financing collaboration. The ratios of these constituents in the struggle with the financial-economic crisis differ greatly, reflecting the level of impact on each national economy and the existing financial opportunities in the countries.

The tariff and non-tariff protection of national producers and of the national market for some goods, primarily foodstuffs, is becoming one of the most important instruments in the struggle with the economic recession for most CIS countries.

The crisis has shown that interregional groupings do not guarantee their protection from the paralysis of the national banking system and the world recession.

The assessment of how regional co-operation affects the national manifestations of the crisis, on the one hand, and how the crisis will affect the integration groupings in the post-Soviet space, on the other hand, is of particular importance for this research.

### 1.2. Global economic crisis as a research subject

The global financial crisis began as a result of problems in the U.S. mortgage market in 2007, and gradually spread over practically the whole world. The sale of assets and the outflow of monetary funds from other countries by the largest American corporations resulted first in a lack of liquidity and credit resources in financial markets, and then in problems in the real sectors of economies. A lot of CIS states, which had been operating active policies of integration into the global economy, were no exception.

The current financial crisis is systematic and global in character, and is distinguished by the particular depth and scale of its spreading. However, the specific character of the crisis' development, its depth and its consequences differ between countries and regions to some extent. Apart from the United States and other developed countries, where the crisis was caused by the excess of liquidity in the economy, the development of new derivatives of financial instruments, and also by an insufficient level of risk assessment by regulators and rating agencies, in CIS countries, the vulnerability of their own economies played the leading role in the crisis' spreading. The world crisis has revealed the post-Soviet space economies' problems, which can be considered as the national factor in the progression of the crisis in these countries.

Among the main problems exacerbating the impact of the global financial crisis on CIS countries, one should distinguish the following: insufficient development of monetary systems, non-diversified merchandise structure of exports, consisting primarily of raw-fuel materials, dependence upon imported goods (technologies, machinery, equipment, and foodstuff), political crises and instability in some countries within the region.

Considering that the nature of the crisis in developed countries is rather different from that in countries whose markets are still being formed (including those of the CIS), the mechanisms launched to alleviate the crisis phenomena are also different to some extent. In some countries of the post-Soviet space, the crisis process came into being primarily as a result of problems in the banking and lending systems, which are of secondary character compared to those caused by the financial difficulties in the USA and other developed countries.

Among the key global channels for the spreading of the contemporary financial crisis within the economy of the Community states, one can distinguish international capital flows and foreign trade. The influence of global factors on the development of the crisis situation within the Community states depends upon the extent of their national economies' integration into the world economy. Russia, Ukraine, Kazakhstan, and Azerbaijan can be considered as the countries with a high level of integration into the world economy, where global channels of crisis transmission play the key role; and Turkmenistan and Uzbekistan can be considered to be the countries with a low level of integration into the world economy, where the effect of external factors is limited.

Regional factors, primarily in those countries for which the CIS is one of the main markets for their product sales (Belorussia, Kirghizia, Moldova, etc.) and the source of wages for migrant labourers (Tajikistan, Kirghizia, Moldova, etc.), are of great importance when analysing the ways of crisis phenomena transmission in the post-Soviet space countries.

The CIS countries Belorussia, Kazakhstan, Russia, and Ukraine were chosen as the subjects of the research.

### 1.3. Formulation of the problem and sub problems

Since the second half of 2008, the economies of CIS member states have been feeling the negative manifestations of the world financial crisis which appeared in the USA and other western countries as a result of their implementing misbalanced monetary and consumer policies.

In many CIS countries, the crisis phenomena manifested themselves less expressively than in countries with developed financial and stock markets, where speculative processes had been active for past years, including those involving the total application of substitutes for real money, i.e. derivative securities. Therefore, the losses of operators in production, finance, and trade, and the decrease in their assets' value as a consequence of the use of money substitutes, are practically absent in the CIS countries.

At the same time, the global financial crisis has initiated an acute fall in consumer demand.

The peculiarity of the current consumer processes in national economies is their worsening in such spheres as intermediary demand, final demand, gross accumulation, and exports of goods and services. In other words, the fall in production and final consumption has been overall and in-depth in character, resulting in the quite long-term cycle of depression in the area of production.

The main problem, considered in this research, is that the impact of the world financial crisis can be characterised as a complex network of different external shocks, which adversely affected the local economies of the CIS countries. However, the sensitivity of each country to one or another type of shock is different. Therefore it is important to conduct a comparative research of the crisis shocks' impact on the economies of the chosen countries.

Within the framework of the key problem, the following sub-problems were selected that characterise the impact of specific shocks on the economic situation in the CIS countries, as follows:

- Effect of the crisis on the monetary sector
- State of the real sector of the economy during the period of crisis
- Crisis state of government finances
- Crisis phenomena in the CIS countries' foreign trade
- Anti-crisis policies in the states

### 1.4. Units of the analysis and research issues

The basic elements of this research are the following CIS countries: Belorussia, Kazakhstan, Russia, and Ukraine, their economies, the impact of the world financial crisis on them, and their measures for overcoming the crisis shocks.

In the process of studying, attempts were made to find answers to the following questions:

- How did the world financial crisis influence each of the CIS countries considered?
- How different were the patterns of the countries' economies' behaviour under crisis conditions and according to which parameters?
- To what extent were the CIS countries' economies dependent on external factors?
- What measures were taken by the governments of CIS countries in order to overcome the crisis' consequences?
- What were the main crisis consequences for each of the countries under research?

## 1.5. Objectives of the research

The main objectives of the research are the following:

- To define the concept of an economic crisis.
- To consider the key approaches to the research of the essence, types, and causes of economic crises in the world economy.
- To analyse the crisis' impact on the monetary sector in Belorussia, Kazakhstan, Russia, and Ukraine.
- To characterise the state of the real sector in the economies of the countries under research.
- To assess the state of government finances in CIS countries.
- To study the trends in the dynamics of foreign economic affairs within each country.
- To characterise the measures of government anti-crisis policies in CIS countries.
- To carry out a comparative analysis of the effects and consequences of the financial crisis on the economy of CIS countries according to the chosen parameters.
- To study the evaluation of the economic crisis by the CIS countries' populations and its influence on their lives.

## 1.6. Methods of the research

The method of research is the logic of procedures, by which it is stated that in order to carry out scientific research to verify the key hypothesis or to answer the research question, and to give a researcher the opportunity to forecast and explain the specific phenomena by accumulating various scientific facts, it is necessary to take into account the reliability and trustworthiness of the facts under study (Mouton, Prozesky, 2001:4).

The scientific facts must be dependable and real. "Reliability" implies that the repetitive observations of the same phenomena by different observers using the same methods and procedures of research must result in similar results (Palys, 1997: 4).

According to Bulmer (1984:4), the methods of research are the systematic and logical application of principles by the researcher, who is concerned with establishing trustworthy scientific knowledge and convincing others that his knowledge is correct. The following methodological approaches were applied in this research.

### 1.6.1. Qualitative approach

The qualitative approach is "the form of the enquiry that studies phenomena in their natural parameters and uses multiple methods in order to interpret, comprehend, explain, and adjust the value to them" (Anderson and Arsenhault, 1998:119). Qualitative research is the selection and analysis of information based on its quality, not quantity. Qualitative research is the area of science that uses cross-cultural disciplines and subjects to ensure the in-depth comprehension of economic behaviour and the reasons governing it. In the given research project, the qualitative study gives the researcher the opportunity to define the background of the respective models of crisis shocks in the CIS countries.

The preliminary study of the issue began in 2010, based on the assessment by the researcher of the basic statistical indices reflecting the pace of the crisis in the CIS countries. In addition, during the period of research, interviews with the population of Kyiv city (Ukraine) were conducted.

Several different techniques or methods are used in the qualitative research:

- Content analysis is the study of the frequency of words and phrases used in the mass media, which allows hidden or implicit factors to be revealed.
- Ethnography is the detailed study of the social-economic functioning of a country, group, or organisation.
- Action research is the methodology in which the researcher is the active participant and at the same time an observer of the same process.
- Complicity observation is when the researcher manipulates the group of research participants from either inside or outside.

### 1.6.2. Deductive and inductive approaches

Both deductive and inductive approaches have been used in this research. The inductive research approach is applied in qualitative investigation, and the formation of the principles of the research starts with it. The researcher has to start by adjusting the research methods to the basic statements of the theory. In this case, the purpose was to gather information concerning the influence of different shocks on CIS countries' economies. Furthermore, the deductive approach gave the researcher the opportunity to make conclusions in the direction from general to specific, i.e. the determination of general aspects of the crisis' impact on specific sectors in CIS countries' economies.

The deductive method enabled the scientist to identify the general principles used for the interpretation of the research results regarding the impact of the world's financial crisis on the CIS countries. The inductive approach also enabled the researcher to compare the crisis' influence on the developed countries and to evaluate its effect on the countries under research.

### 1.6.3. Literature base

The literature base was grounded in the studying of the available texts such as handbooks and journals in the area of economics, conference materials and other publications, in particular mass media publications. These were used as the primary sources to obtain information for an assessment of the impact of the world's financial crisis on CIS countries.

### 1.7. Structure of the research

**Chapter1.** ***INTRODUCTION AND BACKGROUND OF THE RESEACH***

This chapter forms the outline and states the central problems of the research. It gives a brief description and definition of the concepts used in the research. The problems and sub-problems of the research are identified; the basic issues and objectives, and the methodology of study that will be applied are formulated.

**Chapter 2.** ***THEORETICAL BACKGROUND OF CRISIS PHENOMENA IN AN ECONOMY***

A survey of the main theories concerning crises in an economic system, and basic elements, has been carried out.

**Chapter3.** ***IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE ECONOMIES OF RUSSIA, UKRAINE, BELORUSSIA, AND KAZAKHSTAN***

This chapter is devoted to the analysis of the main shocks that have influenced the economies of the countries under study in the period of the crisis. According to the objectives of the research, the monetary sphere, the real sector of the economy, the public finances, and foreign trade have been chosen as the basic objects of the research. The analysis of anti-crisis measures taken by the CIS countries' governments is of particular importance in this chapter.

**Chapter 4.** ***COMPARATIVE ANALYSIS OF THE IMPACT OF THE GLOBAL FINANCIAL CRISIS AND ITS CONSEQUENCES ON CIS COUNTRIES' ECONOMIES***

The comparative analysis of the impact and consequences of the financial crisis in CIS countries is presented in this chapter. In addition, the author considers the attitude of these countries' populations to the crisis.

### 1.8. Conclusion

The development of crisis processes in the CIS countries' economies in 2008 has objectively shown the crisis' negative impact on their economic and social development. The depression of economic activity was reflected by the fall in the volumes of industrial output, the decline in investments, the decrease in cargo transportation, the growth in unemployment, and the fall in GDP volumes in a number of post-Soviet countries. To overcome the crisis trends in an economy requires a complex range of anti-crisis measures to be conducted.

The given research considers the influence of the world's financial crisis on the economic development of CIS countries, their systems of finance, the real sectors in their economies, and also the government measures regarding anti-crisis regulation. The materials of this research can serve as a basis to make recommendations on the stabilisation of the economies of CIS countries.

# CHAPTER 2. THEORETICAL BACKGROUND OF CRISIS PHENOMENA IN AN ECONOMY

## 2.1. Introduction

The world was shocked by the crisis, unprecedented in the post-war period in its character and scale, which painfully hit post-Soviet countries as well as many others. It is indissolubly connected to the spreading process of globalisation, especially its financial constituent. Globalisation, by promoting the mass spreading of enormous capital flows and monetary funds in various forms all over the world in the search of super-profits, strengthens the interdependence of the world financial markets and therefore increases the risk of periodic collapsing crises, both regional and global, that are inevitable for the deregulated market economy.

Currently, the financial sphere is becoming in fact "the thing in itself and for itself", having been alienated from material production and merchandise exchanges both on the national and global levels. The world's financial system is the unstable segment of the world's economy, subject to increasing volatility expressed in fluctuations in exchange and interest rates, and the profitability of operation as a whole, depending on the changing conjuncture in different markets. This causes a massive inflow and outflow of funds from the corresponding markets, and periodic financial crises of local, regional, and even global character. This was the case recently, when the financial crisis, provoked by the mortgage crisis in the USA, rapidly spread all over the world, having crushed its economy.

## 2.2. The concept of an economic crisis

An economy does not develop in a straight line (trend), characterising economic growth, but in a cycle, via the constant deviations from the trend. The economic cycle consists of periodic falls and rises in the economy, including business activity fluctuations.

The cyclical character is understood as periods of repeated breakages in the equilibrium of an economic system, leading to a curtailing of economic activity, recession and then crisis. The cyclical character of economic development is primarily caused by the aggravation, exacerbation, and collapse of internal contradictions within an economic system.

The history of the market economy shows that it develops unevenly, and the fluctuations in volumes of production and sales, and the appearance of crises are the general regularity of its development.

A crisis is a negative, deep and often unexpected change; however, simultaneously, it bears new opportunities for a system's development. Crises are the fundamentals for economic systems' self-education. A crisis reveals the elements hidden in the normal situation and provokes the movement of forces able to stimulate the system's development[1].

The achievement and maintenance of economic equilibrium, which is periodically broken in the market system of economies, is the most important problem in both economic theory and practice. The economic instability of the modern economic system is characterised by the cyclical character of its development.

The cyclical character is the form of general development for both national and the world's economies; i.e. it is the movement from one economic equilibrium state in the whole economy scale to another; that is why the cyclical character may be considered as one of the

[1] Congleton R (2009). On the Political Economy of the Financial Crisis and Bailout of 2008, Georgetown Mason University (GMU). Mimeo.

means of the market economy's self-regulation. Thus, the movement not via a cycle, but via a spiral, is the most important feature of this cyclical character, constituting the form of progressive development.

The origin of the cycles and crises theory may be traced to the beginning of 19th century. This problem was elucidated in the works of K. Rodbertus and T. Malthus.

Nowadays, the view of the cycle as a single process consequently moving through the phases of crises and rises prevails. It is not considered as an occasional occurrence of crises, from time to time breaking the pace of reproduction. The subject of the research is the overall cycle, not its separate phases.

The cyclical character is the universal form of national and world economies' movement as a whole. It expresses the uneven character of different elements of a national economy's functioning, the shift in revolutionary and evolutionary stages of its development and progress. The cyclical character is the most important factor of economic dynamics and one of the determinants of macroeconomic equilibrium. It is often very difficult to separate some cycles due to the hard-interrelated trend within various cyclical character components. Each cycle has its phases and its length. The phase characteristics are unrepeated in their specific indices.

Modern social science knows more than 1,380 types of cyclical character phenomena. Table 2.1 indicates the six most frequently mentioned; economics operates primarily by the first four of them.

Economic science first marked the 7-12 year cycle that was later named after C. Juglar. However, this cycle also has other names such as 'business-cycle,' 'industrial cycle', 'medium 'cycle', and 'big cycle'. The 7-12 year cycle was named after C. Juglar for his great contribution to the study of the nature of industrial fluctuations in France, Great Britain, and the USA, and the fundamental analysis of fluctuations in prices and interest rates. These fluctuations appeared to coincide with investment cycles, which, in their turn, initiated changes in GNP, inflation, and employment[2].

Kitchin concentrated his attention on the research of short, 2-4 year long waves, based on the study of financial accounts and sales prices during merchandise movements.

In the 1930s, research into the so-called 'construction cycle' emerged in the United States. G. Ruggleman, V. Newman and some other analysts constructed the first statistical indices of the aggregate annual volume of house building and discovered consequent, sequential, long-term intervals of rapid growth and deep falls or stagnation. The term 'construction cycle' appeared as a term to define these 20-year fluctuations. In 1946, S. Kuznets in his work "National Income" came to the conclusion that the indices of national incomes, consumer costs, and gross investments in industrial equipment and in the building and housing sectors, reveal the interrelated 20-year fluctuations. He also stated that these fluctuations have the biggest relative amplitude in construction.

After the work by Kuznets had been published, the term 'construction cycle' ceased to be used. It was replaced by the term 'long fluctuations' in contradistinction to the 'long waves' of Kondratieff. In 1955, in recognition of the merits of the American researcher, it was decided to call it 'Kuznets construction cycle'.

In 1968, the American scientist M. Abramovich described the essence of the 20-year fluctuations mechanism, or 'the chain of multiplicative-accelerator contour', generating 20-year fluctuations such as from income to immigration to housing to aggregate demand and back to income. In other words, the growth in GNP, or merchandise mass, promotes the

[2] Глобальный кризис, его российское преломление и реакция федеральных властей // Рос. экон. журн. 2008. № 9–10. С. 3–16.

inflow of population and an increased rate of birth, leading to acceleration in investments, including those in housing; then the opposite process takes place.

The first attempts in the area of the theory of the creation of ‘long waves’ were made at the beginning of the 20th century by Gelfand (Parvus), Jan van Gelder and C. van Wolf. However, the Russian scientist N.D. Kondratieff made the greatest contribution to this field by publishing a number of fundamental works. He described the results of his research regarding the dynamics of product prices indices, interest rates, rents, wages, and production of the most important products for a number of developed countries for the period from 1770 to 1926.

Table 2.1

**Basic types of cycles**

| Type | Length of a cycle (years) | Main peculiarities |
|---|---|---|
| By Kitchin | 2–4 | Merchandise size → GNP fluctuations, inflation, employment, product cycles |
| By Juglar | 7–12 | Investment cycle → GNP fluctuations, inflation, employment |
| By Kuznets | 16 –25 | Income→ immigration→ housing → aggregate demand → income |
| By Kondratieff | 40–60 | Technical progress, structural changes |
| By Forrester | 200 | Energies and materials |
| By Toffler | 1000–2000 | Civilisation development |

Table 2.1 shows basic types of economic cycles by different scientists. Structural crises may manifest themselves as relative under- or over-manufacturing, while accompanying the overall industrial cycle or not coinciding with it.

The world economy and the economies of some countries with a market economy develop in accordance with economic or business cycles. They are characterised by three basic phases:[3]

- Recession: depression in business operations, employment levels and incomes.
- Recovery: a rise in economic activity, growth in market conjuncture, an increase in output following its decline during the recession period to the initial level.
- Development: a continuation of economic growth begun at the recovery level, as a rule, up to the same level, reaching the new maximum output exceeding that reached during the previous cycle; the development stage may sometimes include several cycles, in this case called the ‘cycles of growth’.

The basis of a financial crisis is the integral nature of a complex interaction of unfavourable external and internal factors. The aggregate of external factors is characterised as outgoing shocks such as recession on an international scale; acute aggravation of trading terms; GNP reduction; an increase in unemployment; a fall in real estate prices; a high level of consumption based on wide-spread borrowing, the development of individual mortgage lending not secured to a sufficient extent by the self-discipline of borrowers or the protection of creditors’ rights.

The complex number of adverse internal political and institutional factors consists of ‘bad’ political decisions in the areas of economics and law, such as dissonance in the

[3] Антошкина, Лидия Ивановна. Мировые экономические кризисы: история, современность, проблемы, решения / Л. И. Антошкина, В. А. Висящев. - ДонецкБердянск : Норд-Пресс, 2009. - С. 41-43.

regulation of capital monetary liquidity; disparity between the policy of exchange rate setting and the requirements of maintaining a stable equilibrium between capital exports and imports; insufficient groundless depreciation (or appreciation) of a national currency against currencies of basic trade partners; inefficient decisions in taxation; insufficiently effective supervision over credit organisations and financial institutions; evasion and lagging behind in legislative amendments.

The financial crisis arose beginning with the formation of a credit-financial system. This system gave a strong advantage to the economy of those countries that used it, compared to those that did not. Countries having no credit system need to accumulate the appropriate amount of money in order to start up new businesses or to expand existing ones by making investments. This takes a long time; that is why their development proceeds slowly. The credit system allows the process to be accelerated by many times. However, simultaneously, the risk of non-payment of the loan arises at the level of each specific creditor in each specific case. The result of this particular risk is the risk of a financial crisis on a national scale, or at a global level.

### 2.3. Fundamental approaches to the essence and reasons of the global economic crisis of 2008

The latest world financial crisis is the culmination of a chain of crises, which a vast economic literature describes. As recently as the 1990s, the world economy experienced several crises that covered whole groups of countries. In 1992–1993 some countries of the European Union (Great Britain, Italy, Sweden, Norway, and Finland) were subject to a currency crisis. In 1884–1885 an acute crisis, which had begun in Mexico, spread over other Latin American countries. In 1997–1998 the global financial crisis began among the nations of Southern-Eastern Asia (Korea, Malaysia, Thailand, Indonesia, and the Philippines) and then leaped over to Eastern Europe (Russia and some other countries of the former USSR) and Latin America (Brazil)[4].

The current financial crisis is distinguished by both its depth and scale; it seems that, second only to the Great Depression, it has comprehended the whole world. The ‘starting crane’ that launched the crisis mechanism was the problems in the U.S. mortgage lending market. However, more fundamental problems, including macroeconomic, microeconomic, and institutional ones, comprise its grounds. The leading macroeconomic reason was the excess of liquidity in the United States economy, which, in its turn, was determined by multiple factors, including:

- General decrease in trust in countries with developing markets after the crisis in 1997–1998
- Investments of countries accumulating their currency reserves (China) and oil origin funds (countries of the Persian Gulf) in U.S. securities
- Policy of low interest rates, run by the Federal Reserve System during 2001–2003, while trying to prevent the cyclic recession of the U.S. economy

Under the influence of excess liquidity, the process of market bubbles, i.e. the misrepresented, too-high assessment of different types of asset formation, began. Sometimes these bubbles were formed in the real estate, stock, and raw materials markets, which became

[4] The global economic crisis and the developing world : implications and prospects for recovery and growth / edited by Ashwini Deshpande and Keith Nurse. - NY : Routledge, 2012.

the important constituents of the crisis mechanism. According to data gathered from inter-country research, comprehending long time periods, credit expansion is one of the typical preconditions of financial crises. Therefore, the symptoms of crisis development as a result of monetary policy weakening, which came into being during 2007-2008, were not exceptions; they were general rules.

The soft monetary policy, pursued by the FRS of the USA from the beginning of the 2000s, gave incentives to bank lending. The average annual rates of increase in bank consumer lending during 2003–2007 were at the level of 5%, and the increase in consumer lending in the third quarter of 2007 amounted to 7.2%. The amount of mortgage loans granted increased from \$238 billion in the first quarter of 2000 to \$1,188 billion in the third quarter of 2003.[5]

While the U.S. economy was entering recession, the trend of gradual reduction in the volumes of bank lending was observed. In the third quarter of 2008, the volume of mortgage loans granted to the population accounted for only \$415 billion (Fig. 2.1).

The asymmetry in information played a key role in the development of the current crisis. The data on financial instruments derivatives became so complicated and non-transparent that it appeared practically impossible to estimate the real value of financial companies' portfolios. As the credit market could no longer effectively reveal potentially insolvent borrowers, it fell into paralysis. The development of the situation in the financial sphere also seriously affected the real sector of the economy. Soon after the aggravation of its problems in the financial area, the United States entered recession. The National Bureau of Economic Research (NBER) - the council of scientists-economists, considered the official arbitrator in determining the beginning and the end of recession in the country - in December 2008 declared that the U.S. recession had begun a year before, namely, in December 2007.

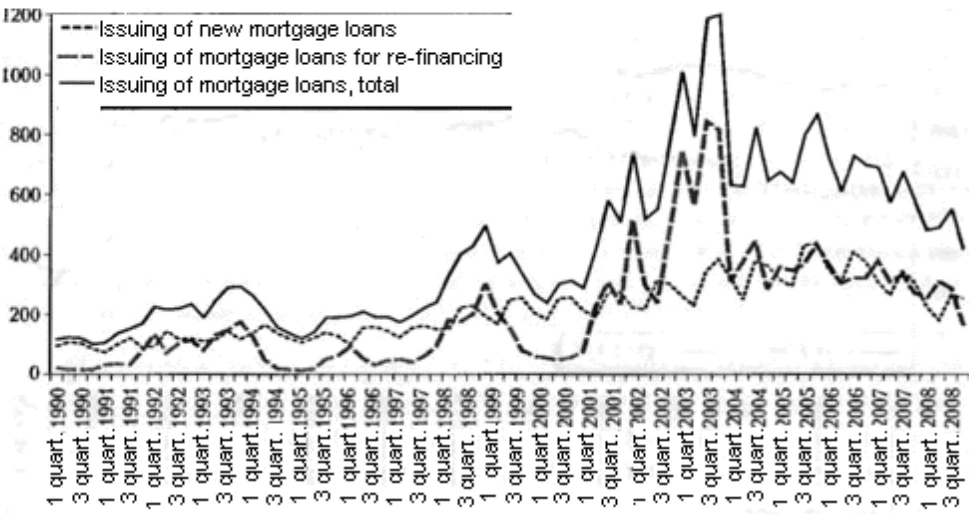



Fig. 2.1. Mortgage loans in the U.S.A. (billion dollars)

Figure 2.1 shows the development of mortgage loans in the USA during years 1990-2008. In the third quarter of 2008 the amount of mortgage loans to the population fell down to

[5]UNCTAD Policy Brief (2008a). The crisis of a century. UNCTAD Policy Briefs, No.3, UNCTAD/PRESS/PB/2008/3, Geneva, October.

$415 billion. The rates of increase in consumer loans went down considerably; in November 2008, compared to October of the same year, they declined by 3.7%.

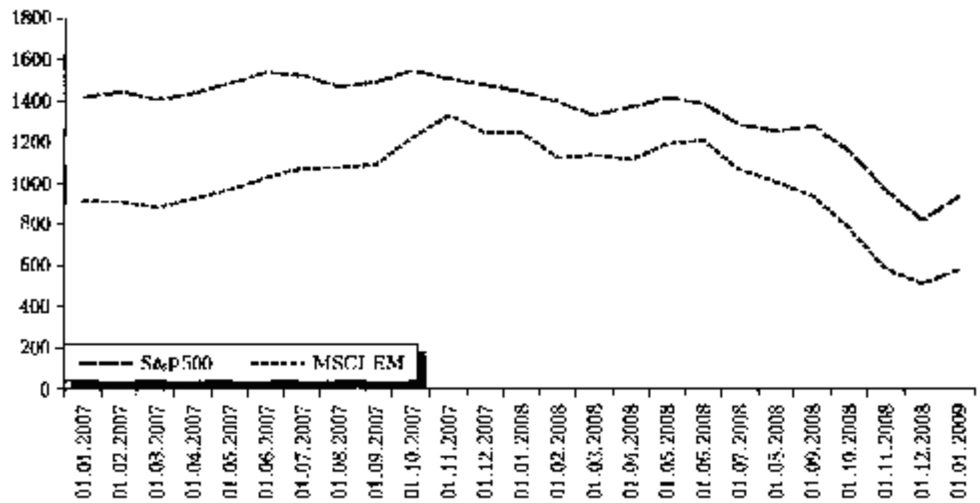
Gradually, the financial crisis in the USA began to spread all over the world. American corporations started to sell their assets urgently and to remove their funds from other countries. According to *The Bank of England*'s estimates, the overall losses due to the crisis in the economies of the USA, Great Britain, and the EU had already amounted to $2.8 trillion.

The U.S. GNP decreased by 0.5% in the third quarter of 2008, demonstrating the most considerable fall since 2001 because of the maximum reduction in consumer costs for the past 28 years (3.8%). Moreover, the decline in this index was somewhat reimbursed by the increase in government expenditure, the growth in exports, and a fall in imports. According to *The Budget Administration of the USA* estimates, the increase in GNP in 2008 accounted for 1.2%.

The volume of capacities involved in the U.S. economy fell in November to 75.4% compared to 76.3% in October, which is 4.5 points lower than the average level in 1972-2007. The index of business activity in manufacturing (ISM manufacturing index) in December 2008 went down to 32.4 points compared to the October value of 36.2 points. It was the lowest value of the index since June 1980, when it had remained at the level of 30.3 points. In 2007, its average value was 51.1 points.

According to U.S. Department of Labor's data, in December 2008 the U.S. economy lost 524 thousand jobs, and 2.6 million in total for the year. It was the maximum index from the year 1945, when the country's economy finally got back on track. The unemployment level in the USA reached 7.2% (before the beginning of the financial crisis is was 4.4%). However, if one takes into account the dismissals of part-time employees, the total dismissals increased to 13.5% (compared to 8.7% at the end of 2007).[6]

The volume of new house construction in November 2008 declined by 19% compared to the previous month. It was the lowest index since records began. Compared to November 2007 the fall accounted for 47%.




Source: MBA Mortgage Origination, 2008, 15 Dec.
Fig. 2.2. Stock indices of the USA and developing markets

[6]UNCTAD Policy Brief (2008a). The crisis of a century. UNCTAD Policy Briefs, No.3, UNCTAD/PRESS/PB/2008/3, Geneva, October.

The events in the U.S. economy negatively affected the stock markets in both developed and developing countries. Fig. 2.2 represents the 2007-2008 years' dynamics of one of the basic American stock indices S&P 500 and the stock index for the developing countries MSCI EM, designed by the bank Morgan Stanley (the data in the figure do not reflect the dynamics of the indices within each month). It is seen that S&P500 remains higher than index for the developing countries MSCI EM.

In 2007, the stock markets of the developing countries were growing at rates that outstripped those of the developed countries. They had been encouraged by the portfolio investments from the world's leading economies. In 2008, the massive inflow of funds from abroad into the developing countries stopped, and the stock index dynamics for the developing countries practically repeats that of the leading U.S. stock index. For 2008, the S&P 500 index decreased by almost 40% and the MSCI EM index by more than 50%.[7]

[7] The global economic crisis : the Great Depression of the XXI century / Michel Chossudovsky and Andrew Gavin Marshall, editors. - 1st ed. - Montréal : Global Research Publ., 2010.

# CHAPTER 3. IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE ECONOMIES OF RUSSIA, UKRAINE, BELORUSSIA, AND KAZAKHSTAN

## 3.1. Introduction

The contemporary financial crisis bears a systemic global character, and is distinguished by the in-depth and wide-scale character of its spreading. However, the specific features of the crisis development, its depth and the consequences differ somewhat depending on the country or region. Apart from the USA and other developed countries, where the crisis was caused by the liquidity excess in the economy, the development of new derivative financial instruments, and by the insufficient level of risk estimates by regulators and rating agencies, in CIS countries, the vulnerability of their own economies played the important role in its spreading. The world crisis has revealed the problems within the post-Soviet economies, which may be evaluated as national factors in the distribution of crisis processes in these countries.

Among the main problems magnifying the impact of the global financial crisis in CIS countries, one should distinguish the following: insufficient development of national monetary systems, an undiversified merchandise structure of exports, primarily in fuel-raw material direction, dependence on imported goods (technologies, machines, equipment, and foodstuffs), and political crises and instability in some countries of the region.

## 3.2. The crisis impact on the monetary sector

### 3.2.1. Russia

In the advent of the crisis, the Russian economy demonstrated very good macroeconomic indices: significant budget surplus and current operations accounts, rapid growth in gold-currency reserves and funds in budget foundations. Nevertheless, during the pre-crisis years there occurred some weakening of observed monetary and budget policies; thus, in 2007, the expenditure of Federal budgets increased in real terms by 24.9%; i.e. their rise exceeded the rise in GDP by more than three times. Steadily low interest rates were established in the economy. They were in fact negative in the real expression, leading to a rapid jump in lending. The economy's 'overheating' was the natural result. On the one hand, it encouraged the increase in inflation pressure; on the other hand, it resulted in the rapid accumulation of external borrowings.

The attraction of funds from the world's capital markets by Russian banks allowed them to expand the credit market, leading to an increase in the availability of monetary funds and a decrease in rates in the internal borrowing market. The net international investment position of credit institutions had been steadily deteriorating. At the end of 2005, its value accounted for U.S. -$20,827 billion, and at the end of the third quarter of 2008 -$99,651 billion.

Table 3.1

**Balance of payment in the Russian Federation for the year 2008 (U.S. $ billion)**

| | I | II | III | IV | For 2008 |
|---|---|---|---|---|---|
| Account of current operations | 37.4 | 25.8 | 27.6 | 8.1 | 98.9 |
| Account of operations with capital and financial instruments | -24.7 | 35.4 | -9.4 | -129.7 | -128.4 |
| Financial account (besides reserve assets) | -24.7 | 35.4 | -9.4 | -129.7 | -128.4 |
| Changes in currency reserves | -6.4 | -64.2 | -15.0 | 131.0 | 45.3 |
| For reference: | | | | | |
| Price for oil brand Urals (world's), $ per barrel | 93.4 | 117.1 | 113.0 | 54.2 | 94.4 |
| Net inflow/ outflow of capital by private sector | -23.1 | 41.1 | -17.4 | -130.5 | -129.9 |

*Source: Bank of Russia*

Table 3.1 shows that in 2008 the currency reserves decreased by U.S. $45 billion (and gold-currency by $51.7 billion). In fact, they ceased to function as the source of money supply. Their fall led to a serious decline in the money supply.

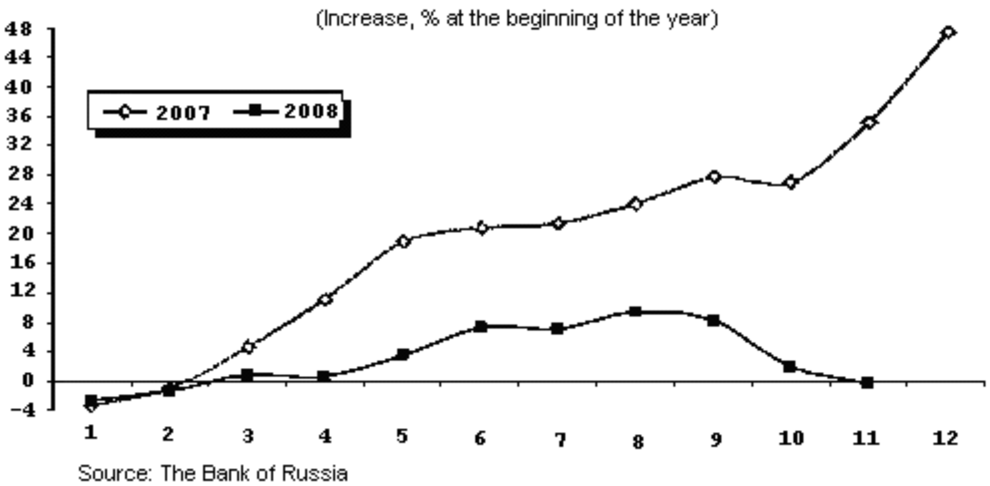



Fig. 3.1. Money mass M2

Fig. 3.1. shows how did the monetary mass in Russia change during the year 2007 and 2008 in percentage. For the year 2008, the volume of monetary mass M2 actually went down by 0.3%, while in 2007 it had increased by 35.2%.

The main source of money supply became the liquidity topping-up on the side of the monetary authorities. The steps taken allowed saturation of the market with short-term liquidity, but could not compensate for the shortage of long-term resources. The institutional investors, and also the commercial banks themselves at the expense of their lending activity were to ensure the supply of 'long' money into the economy and the stabilisation of the money market in the long run.

One of the sources of 'long' liabilities is legal entities' and individuals' deposit placed for terms longer than three years. For the period of the past two years the share of such deposits amounted to 5–6% of deposits overall.

Under conditions of a lack of 'long' money, banks had to use 'short' liabilities as a source of 'long' assets formation. This situation was characteristic not only during the period of the current financial instability, but also for the previous several years, when short-term liabilities had been covering less than 10-14% of long-term bank assets. Apparently, the further accumulation of long-term credits at the expense of short-term liabilities could negatively influence the bank system liquidity.

The deceleration in the rates of credit portfolio rise manifested itself very strongly. In November 2008 compared to October, the volume of loans granted to the population declined by 0.7%, and the increase in bank credit issued to companies amounted to only 0.7%. According to results for 2008, the indebtedness of non-financial organisations to financial ones increased by 32.6% compared to 46.9% for the year 2007.

The dynamics of bank loans in 2008 was also influenced by the fact that many institutions began to curtail their investment programmes and reduce current costs because of the crisis. Banks began to tighten their requirements concerning the financial state of citizens due to the increasing risks of non-repayment of their loans (decrease in purchasing power, rise in the number of unemployed). In the near future, banks would have to pay more attention to attracting resources from the internal market.

The fierce competition in the internal financial market in 2008 resulted in an interest rates rise on bank deposits. Thus, the average weighted rate on Ruble deposits for individuals went up, over a period of less than one year, from 5.4% annual in January 2008 to 6.2% annual in October, and the average weighted rate for Ruble deposits for companies rose from 3% to 6.7% in credit institutions.

In 2008, inflation rose again as a result of soft monetary policy during previous years. The Government and *The Bank of Russia* could not strain the excessive money supply due to high prices for oil and the inflow of capital. This essentially increased the aggregate demand in the economy and led to the credit boom. The increase in construction lending amounted to 85.8% in 2007 and 54%in 2008; increases in transport and communication were 81.5% and 38.2% respectively.

### 3.2.2. Ukraine

The impact of the world's financial crisis on the Ukraine was considerably enhanced by the following:

- In the real sector of the economy – political crisis, lack of structural reforms and proper preparation and response to the forecast crisis.
- In the financial sector – lack of public trust in authorities including banks, and lack of an adequate risk assessment by *The National Bank of Ukraine*; also lack of strategies

of the national banking system development, and lack of a crisis processes monitoring system.

It can be stated that neither the Government nor the NBU took appropriate measures in order to minimise the risks being aggressively formed in the advent of the 2008 crisis, such as the following:

- A rise of up to 40% in foreign capital share in the banking system
- Currency lending
- Inadequate rates of rise in the volumes of consumer population loans (more than 100% per annum) primarily in foreign currency
- Insufficient volumes of crediting at acceptable interest rates in the real sector of the economy
- Excessive external indebtedness in corporate and banking sectors, exceeding the external debts of the state almost 200%
- Artificial strengthening of the hryvna rate against the U.S. dollar in summer 2008
- Considerable negative balance in the trade balance

The lack of general goals and agreed actions within the Government and the NBU led to Ukraine experiencing the most catastrophic consequences of the crisis among all European countries. The fall in GDP in 2009 accounted for more than 15% and exceeded the same indices in Belorussia and Russia.

The outflow of funds from the banking system accounted for more than UAH 110 billion and was partially reimbursed at the expense of NBU re-financing, most of which is being prolonged today.

The permanent depreciation of the national currency (hryvna) by almost 60% has been a strong social-economic blow for the economically active population. It transformed the prevailing number of currency loans issued to both individuals and legal entities to problematic bank investments.

It can be stated that for the period 2008-2009 only the credit funds loaned by the IMF permitted the avoidance of systemic social-economic and political crises.

The largest banks, together with Ukrainian capital, proved to be sensitive to the impact of the financial crisis. The background for this was the permanent, determined policy of these banks to aim for the maximum expansion of their operation in order to resell it to foreign investors at high profits. For this purpose, these banks increased their loans portfolio without proper risk assessment, extended their networks unsoundly without paying appropriate attention to the substantiation of issuing and the reality of paying back the loans. Under the crisis pressure, the credit portfolio of these banks appeared to a large extent non-liquid, resulting in a loss of solvency. This applied to such banks as *UKRPROMBANK*, *Nadra*, *URKGASBANK*, *Rodovid Bank*, *Kiev* and others, which caused the crisis in the whole system.

Furthermore, the policy of banks with foreign capital in the area of retail lending based on a vast attraction of foreign borrowings essentially aggravated the process of economic crisis in Ukraine.

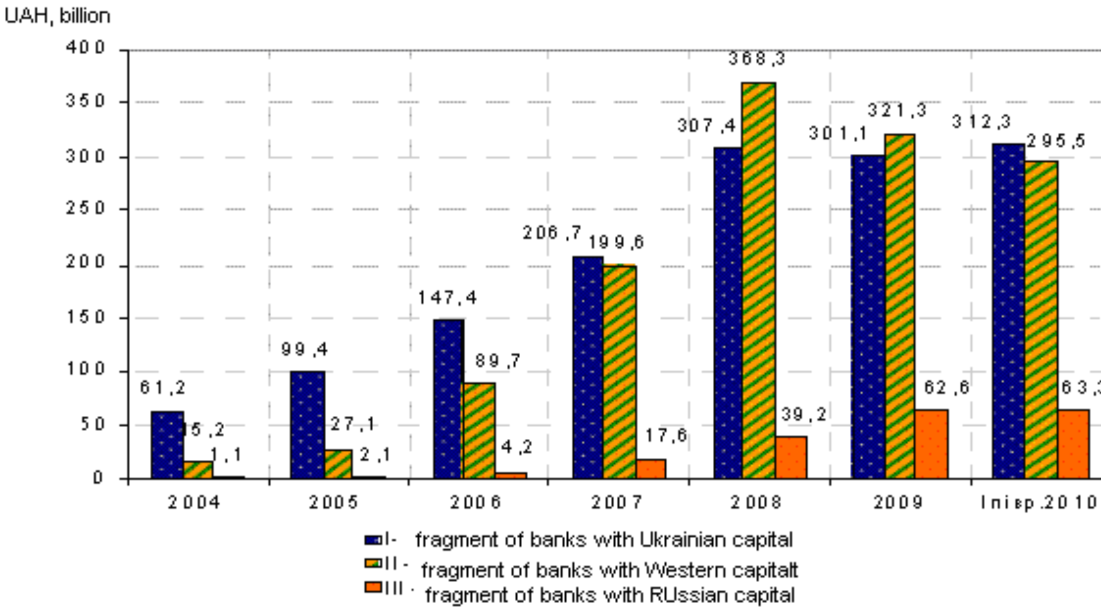



Fig. 3.2. Bank loans by their capital origin, UAH billion

As seen from the graph (Fig. 3.2), the credit portfolio of banks with foreign capital for 2008 amounted to more than UAH 400 billion, or 57% of total credit debts. A considerable part of these loans (more than 65%) was granted to individuals, primarily for consumer purposes.

By attracting cheap credit resources from holding banks and foreign investors, banks with foreign capital granted loans in foreign currencies at high interest rates to purchase consumer goods of primarily foreign production and operated in favour of the development of their own states' economies. That negatively affected the domestic economy and led to the de-industrialisation of Ukraine. Due to this credit policy, a high indebtedness in foreign currency was incurred in the country, which created considerable difficulties for its repayment, and threatened the stability of the local currency.

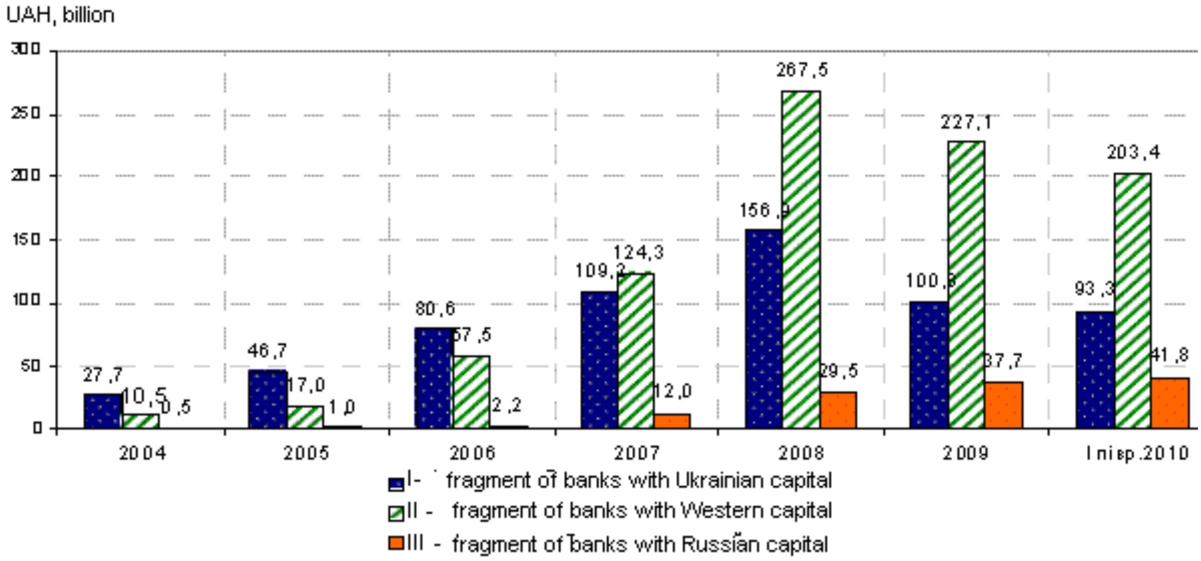



Fig. 3.3. Loans in foreign currency, UAH billion

As seen in Fig. 3.3, the volume of loans in foreign currency in the banks with foreign capital exceed by more than double the volumes of such loans in the banks with Ukrainian capital.

The amount of loans to individuals in the group of banks with foreign capital greatly exceeds those in the banks with domestic capital.

So, in the banking sector, Ukraine implemented a policy of risk concentration and thus created potential problems for the country.

### 3.2.3. Belorussia

The shortage of currency in the internal currency market in Belorussia became the first manifestation of crisis in its monetary sphere. As a result of the deficit in the current operations account, which had arisen even before the crisis period, the net demand in the local currency market was already its characteristic feature in the period from 2007 to the beginning of 2008. Therefore, the relative stability in the internal currency market was maintained at the expense of the increased activities of commercial banks as subjects of currency supply.

The net demand of resident companies for foreign currency was greatly raised in 2008. Such a sharp change in the currency market dynamics was caused for the following reasons. First, many exporting enterprises faced an acute fall in demand for the products manufactured by them. Second, they had been continuing to increase their production output for the third and fourth quarters of 2008 due to the necessity of fulfilling the forecasted (centrally planned) indices regarding the rates of economic growth. Therefore, to ensure the continuation of the manufacturing and technological processes with raw and other materials, Belorussian companies did not correct their demand for imported raw materials and components, despite the fact that the prices for them reached their peak during that period of time. The disproportions among costs, output and products sold resulted in the essential increase in inventories and working capital (including both raw materials and finished products inventories) in the third quarter of 2008. As a result, many enterprises de facto experienced great demands for foreign currency for purchasing import components, but did not ensure its supply, because their currency proceeds had sharply reduced. Third, a considerable number of non-financial sector companies faced the necessity of repaying foreign loans during the crisis period. However, they could not carry out new borrowing in external markets due to their contraction.

Due to the increasing shortage in the domestic currency market under the practically constant nominal exchange rates, the depreciation expectations were formed fairly rapidly. As a result, the net demand in the currency market rose by many times in the fourth quarter of 2008, at the expense of an increase in demand of practically all-economic subjects, including commercial banks.

The depreciation of the national currency caused a number of adverse consequences for the internal monetary medium. The depreciation expectations led to the essential rise in dollarization of the national economy; this, in turn, caused the marked decline in the real demand for the local currency.

The high level of financial dollarization led to a large extent to the losses in autonomic national monetary policy. As a result, the monetary authorities could not resist the decrease in money supply at the expense of the risen economic agents' demand for foreign currency.

The banks' crediting of the economy real sector was responsible for the formation of a big mass of money on the asset side. It was primarily guaranteed by artificially taken measures, of both a stimulating and directive character.

As the deposit base of banks was rising at essentially slower rates compared to those of banks' lending to the real sector, the structure of their liabilities was changing. The attraction of external assets was also limited due to the contraction of liquidity in the world's financial markets and the aggravation of access. Therefore the share of the National Banks' funds had essentially risen in the commercial banks' structure (from 5.1% on the 1st January 2009 to 11.5% on the 1st December, 2009) and at their expense, the rise in crediting was practically inevitable.

This situation also caused a number of peculiarities in the interest rate dynamics in both interbank and credit-deposit markets. The large state-owned banks directed practically all funds obtained from NBB intended for lending within the framework of public programmes. As before, they lacked funds for other segments of the market resources crediting. Banks had to strictly rationalise the loans issued for these resources' market segments. Moreover, while funding projects outside of directive programmes, the price of resources granted also includes the risks related to public programmes crediting, so the risks of the bank's total credit portfolio should be adequately assessed. Therefore, despite the considerable rise in NBB resources that could be granted to banks, the nominal values of interest rates remained at a very high level. In fact, the interest rates in their real expression went up in the second half of 2009 as a result of inflation slowing down due to the decrease in most components of aggregate demand.

Under the conditions mentioned above, the banking sector had primarily taken on the role of 'shock absorber'. The macroeconomic politics run was encouraging the shifting off of some real sector problems under crisis conditions such as a fall in proceeds, maintenance of high costs, and laundering of working capital to the banking sector. This was manifested in the expansion of the directive crediting practice and utilisation of bank loans by enterprises for maintaining their production cycle, even in the circumstances of a fall in demand for their manufactured products. As a result, banks had to take on the increased credit risks caused by the adverse economic conjuncture and the specific character of macroeconomic measures.

Furthermore, the objectives set before banks to ensure the issuing of mostly long-term loans at the expense of the short-term resources of NBB resulted in an acute deterioration of the liquidity state in the banking system. The largest state-owned banks such as *Belarusbank* and *Belagroprombank* bore the main pressure while the servicing of public programmes was greatly affected by this problem. During practically the whole of 2008, these banks had the index of short-term liquidity (characterising the ratio between assets and liabilities that were to be repaid within one year) and the ratio of liquid and total assets below the norms established by NBB. For these banks, the liquidity crisis was also aggravated by the necessity to increase the volume of special reserves for covering possible losses due to the fact that a new standard of asset classification had come into legal force.

The accumulated credit and liquidity risks within the banking system caused the worsening of a number of banking financial indices in 2009. It can be stated that for the previous few years banks evidenced only a part of the losses due to the rise in the accumulated credit risk.

In general, by summarising the channels of crisis spreading within the Belorussian financial system, one can emphasise the following:

- Rise in shortage in the internal currency market
- Rise in currency substitution and the level of financial dollarization; decline in demand for local currency
- Loss to a considerable extent of the autonomy of monetary policy
- Strengthening of commercial banks' access to foreign sources of borrowing

A number of additional channels of the crisis in the monetary-credit sphere can be related to the economic policy measures by which the economic authorities were trying to stimulate the real sector. These measures included the following:

- Directive measures to promote lending in the real sector of the economy. These included the active bank re-financing and the extension of the list of documents to regulate liquidity. Also as an experiment, the pawns for NBB pawnshop loans could become the collateral for mortgage loans.
- Policy of de-dollarization. The de-dollarization measures were reduced to primarily the strengthening of settlements in foreign currency between residents, and to bank recommendations for a decrease in interest rates on currency deposits. Moreover, many experts explained the activisation of de-dollarization measures by an essential shortage of foreign currency in the internal market. Later on, the problem became less acute; however, NBB continued to emphasise its attention to the necessity of de-dollarization and extended the list of instruments used for this.

Besides the initial crisis consequences, these measures also stimulated the manifestation of a number of additional trends in the monetary sphere. In particular the financial dollarization achieved stability in 2009 and caused the low demand for the national currency and the low level of monetary system autonomy.

Due to the politics of directive crediting, the interest rates remained at their extremely high level, while increasing in their real expression. The banks had to take on excessive risks subject to the deterioration of their current financial activity and the undermining of the function of financial intermediary within the scale of the economy as a whole.

### 3.2.4. Kazakhstan

The impact of the world's financial crisis revealed the weaknesses in Kazakhstani banks' operation and brought their problems to the surface, especially those related to assets quality. The worsening quality of the credit portfolio as well as the shortage of liquidity is the key factor affecting the steady functioning and prospects of the banking sector development. The global instability caused a decrease in the rates of the basic indices of banking sector growth; in particular, it affected its credit portfolio that had recently demonstrated rapid rates of growth.

Moreover, the volumes of lending in the real estate and construction sectors, and the numbers of recipients of small business loans had gone down markedly. They had been supporting their business primarily at the expense of bank resources under stable conditions and had been the driving factors of the economic growth in the country for recent years.

A similar state of affairs could not be reflected in economic activity, and as a consequence, in their ability to service their commitments to the banks.

In addition, one of the factors influencing the borrowers' payment discipline was changes in the price situation in the real estate market together with the considerable revision of the terms of lending on the banks' side against the background of a decrease in the real incomes of the population due to the intensification of inflation processes in 2008. At the high rates of crediting growth, the loan quality is somewhat 'concealed' as a result of the fact that borrowers have opportunities for re-financing. However, under current conditions, the essential decline in the volumes of both the economy's and the population's crediting revealed the evident state of affairs related to the quality of banks' credit portfolios. Despite the fact that its indices did not exceed the critically acceptable values, they were characterised by the steady rise in dynamics, establishing the threat for the banking sector's stability.

The decrease in the credit activity of Kazakhstani banks was accompanied by the progressive deterioration of the credit portfolio quality. Moreover, the steady migration of credits to loans of lower quality was observed in the structure of doubtful credits. Thus, while the doubtful loans of the first and second categories were decreasing (by 27.4% and 26.9% respectively), the loans of the third, fourth and fifth categories were essentially increasing (by 2.7, 2.4 and 4.3 times, respectively).[8]

The index of idle loans, popular in international practice to assess the quality of the credits, rose steadily during the whole period under research on the grounds of an overall rise in crediting.

The rates of provision rise were not correspondent to the rise in idle loans for the same period of time. The difference was three times, evidenced by the gradual reduction in the extent of coverage of both idle loans according to FSA methodology and the credits with payments outstanding by more than 90 days by the formed provisions. While the dynamics of growth in idle loans were stable and long-term, there were risks for a bank system to lose its ability to absorb the potential credit losses.

The consequences of general instability clearly revealed some drawbacks in the risk management practice of Kazakhstani banks because their maintenance of a high concentration of credit risks in some crediting segments proved to be the most sensitive and vulnerable under conditions of instability.

The recent years' observed economic growth and the simultaneous improvement in the population's standard of living stimulated an increase in demand for credit resources on the part of the population. The upgrading of technologies to serve the public and the implementation of innovative bank products for individuals caused rapid growth in retail credit development, and in the population's demand for housing, which led to an increase in the volume of mortgage loans and construction sector credit, promoted an increase in the external debt of second level banks' share in the crediting of the segments themselves, and proved to be more sensitive to the consequences of global instability.

Thus, in the bank's loan portfolio the share of consumer loans during the period under consideration was characterised by stable dynamics and remained at practically the same level as in the correspondent period in the previous year, and the share of loans under real estate

[8] National Statistical Committee of Kazakhstan. www.stat.kz

collateral decreased by 2.4 points, amounting to 35.6%. Moreover, it should be mentioned that the share of real estate collateral loans in the credit portfolio among different banks varied in the range from 0.4% to 98%. This is hardly acceptable from the risk management position, despite the scale of the external debt of second level banks. The loans issued for the construction sector accounted for 26.7% in the structure of credited industries, and did not exceed 30% during the whole period under research.

The trade and manufacturing spheres together with construction sector were the most attractive for investments. Their shares in the credit structure at the end of 2008 amounted to 28.7% and 13.0% respectively. The more essential decline in the quality of these industries' credit compared to others evidences the higher sensitivity of these sectors to the shocks that occurred. If in the sectors of construction, trade, and manufacturing, the share of bad loans in the total structure of issued loans rose in the range of 1.5 to 2.3 times from the beginning of 2008, then this value did not exceed 1.6 times in agriculture, transport, and communications.

The high risks of non-repayment in consumer credit agreements manifested themselves under the conditions of contraction in crediting volumes, a slowdown in economic growth, and a decrease in the population's income levels, which evidenced high sensitivity to the real shocks in the economy.

The quality of loans issued to individuals for consumer purposes improved essentially. While analysing the quality of consumer loans in Kazakhstan, it should be mentioned that it largely depended on the economy's overall state, and, as a rule, such loans were issued for a short term, and at the same time, under relatively soft conditions (e.g., without income confirmation), and in the course of a slowdown in economic growth and the terms of crediting being made more severe, borrowers' revenues were becoming very vulnerable. This was evidenced by the dynamics of these loans' quality. Despite the increase in standard and doubtful loans, the share of bad loans rose significantly.

The year 2008 appeared comparatively hard concerning the opportunities to re-finance external borrowings in the banking sector. Nevertheless, the supporting actions on the part of the National Bank of Kazakhstan together with the local banks' policies helped level the liquidity and re-finance risks to some extent under unstable conditions. Yet the level of external indebtedness in the banking sector remained high. The narrowness of the internal market did not allow the banks to solve their liquidity problems.

According to the National Bank of the Republic of Kazakhstan's data, the second level banks were to repay their external liabilities of approximately tenge 1,320.0 billion (U.S.$ 11 billion) for the year 2009. Moreover, the probability that international creditors would demand that this amount be repaid ahead of time increased objectively, taking into account the unstable circumstances.

### 3.3. Characteristics of the economy's real sector in the crisis period

#### 3.3.1. Russia

On 8 October 2008, the stoppage of GAP (Gorky Automobile Plant) conveyers and the decrease in the number of working days in KAMAZ were reported.

According to data from *The National Statistical Committee of Russia (RosStat*), in December 2008 the fall in manufactured output in Russia reached 10.3% compared to December 2007 (and 8.7% in November) which became the deepest fall in manufacturing for the past decade; as a whole, in the fourth quarter of 2008, the decline in industrial production accounted for 6.1% compared to the analogous period of 2007. The prices of industrial goods producers in December 2008 suffered a continuing reduction, falling by 7.6% compared to November, and by 7% compared to December 2007.

According to *RosStat* data, in February 2009 the index of industrial output decreased by 13.2% compared to the analogous index of the previous year. The production volume in the processing industries in January/February went down by 21%, the extraction of fossils by 4.5%, and the production of electricity by 7.2%.

By April 2010, no Russian process manufacturing industries remained in recession.

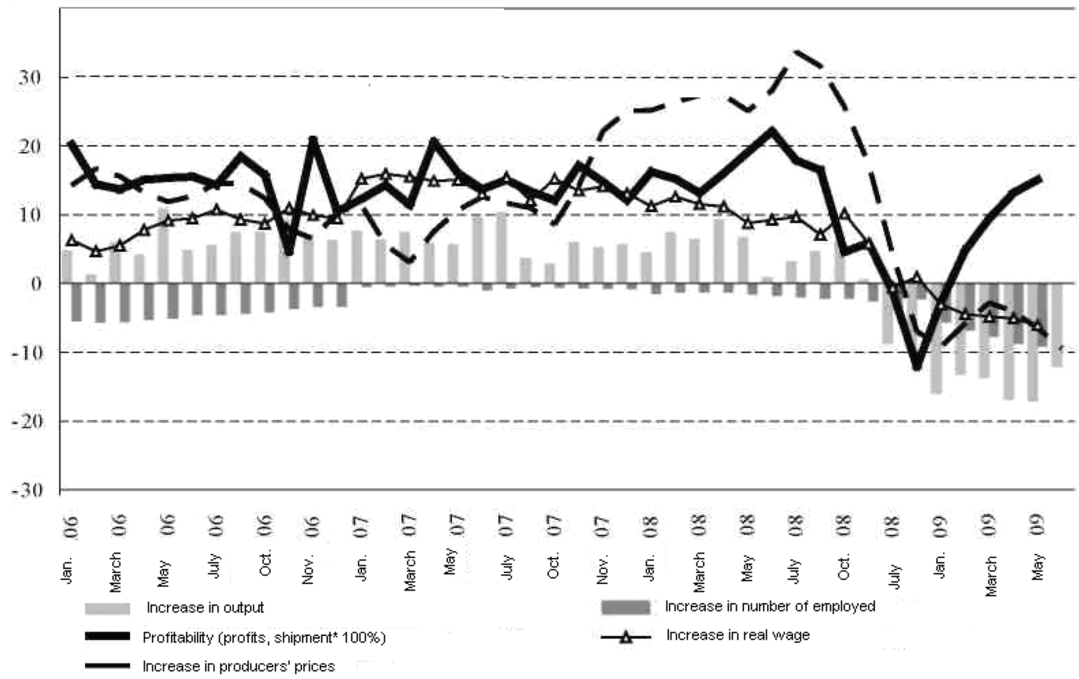



Fig. 3.6. Production dynamics (% increase compared to the same period of the previous year) before and after crisis

*Source: RosStat*

As it is seen from the Fig. 3.6. the fall in the price of raw materials, the reduction in external demand and the capital outflow at the end of 2008/beginning of 2009 caused a sharp production decline in Russia; the volume indices of output in manufacturing, construction, and transport during the first half of 2009 fell by 15-20 % in its annual expression. In all other sectors, the processes of cutting a number of substituted jobs began or were markedly intensified. Moreover, the number of employed people was dropping by rates two to three times lower than in manufacturing, resulting in the fall in labour productivity. To some extent, the fall in labour productivity was compensated by the decline in the real wage, expressed in rubles, by 5–12% compared to the same period in the previous year. This process was observed in all sectors except agriculture, where the rate of wage increase had sharply slowed down, being as a whole a manifestation of the maximum resistance to the crisis.

The world's economic crisis for the Russian economy as a whole and for its real sector had a particularly specific character compared to other countries. The fall in manufacturing was much stronger than demand contraction, as in the previous crisis period (the year 1998), and currently, primarily the contraction in inventories made the main contribution to the fall in Russian GDP: in the first quarter of 2009, the decline in GDP accounted for 9.8% per annum, and the negative contribution of inventories reduction accounted for about 10.7 points.

The negative impact of inventories was partially compensated by the positive impact of net exports, as the fall in physical imports volumes at the level of 40% for the same period in the previous year was accompanied by a much lower fall in exports physical volumes – 15% in the first quarter and only 5% in the second quarter.

Russia appeared among the world's leaders in terms of the impact of the inventories factor on the fall in its GDP. Sixteen-euro zone countries experienced a 4.9% decline in GDP in the first quarter of 2009 (compared to the same period in the previous year). The inventories factor accounted for 0.5 points (i.e. about one fifth of the aggregate decline). In the United States the contraction of the inventories share was up to a quarter of its GDP in the first half of 2009, but in 27 countries of the European Union the proportion of inventories amounted to 1.1 points of the total 4.7% (i.e., more than a quarter of aggregate fall). However, in Russia, the GDP contraction in the first (according to preliminary estimates) and the second quarters in 2009 was primarily related to the decline in inventories.

### 3.3.2. Ukraine

According to *The Committee for Statistics* data, the real GDP of Ukraine in 2008 increased by 2.1% (while the government had earlier planned 6.8%) and inflation accounted for 22.3% (while the Prime Minister Timoshenko promised it would not be higher than 10%). According to the Ministry of Finance data, by the end of December 2008, the aggregate government (direct) and the guaranteed public debt of Ukraine climbed to U.S. $24.121 billion, while in the hryvna equivalent, the total debt rose by 2.1 times in 2008, in particular by 94.1% in November/December, primarily as a result of the continuing depreciation of the Ukrainian hryvna.

The considerable dependence of the Ukrainian economy on exports of particularly metallurgical production aggravated the crisis. The fall in prices for Ukrainian metallurgical products was connected with the rising competition with manufacturers from China and with the seasonal demand contraction in the countries-consumers. At the beginning of summer 2008, the rise in the prices of ferrous metals had slowed down, and at the end of July the drop in the prices of ferrous metallurgy products began. At the beginning of October, the Ministry of Industrial Policy of Ukraine declared the start of a serious crisis in ferrous metallurgy: seventeen of thirty-six Ukrainian blast furnaces were stopped, and the possibility of a full collapse of companies' operation was under consideration.

Table 3.2

**Dynamics of steel manufacturing in Ukraine (million tons, 2008)**

| January | February | March | April | May | June | July | August | September | October | November | Decembe |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 3.64 | 3.49 | 3.87 | 3.7 | 3.92 | 3.65 | 3.67 | 3.2 | 2.48 | 1.86 | 1.6 | 2.03 |

Table 3.2 shows the dynamics of steel manufacturing in Ukraine in million tons for the year 2008. For the first half of 2009 compared to the analogous period in the previous year, the total contraction in industrial production accounted for 30.4 %, while in quarrying and processing industries it was 32.1%, chemical industries 38.2%, metallurgy 41.2%, machine building 46.7%, construction volumes 54.3%, transport turnover 33.3%, passenger turnover 22.3%, exports 43.6%, imports 23%, and retail trade 15.9%. For the first half of 2009, only the total production of agricultural products rose by 3.8% compared to the corresponding period in 2008.

Despite the general fall in industrial production reported in the results for the first half of 2009, in May a slight increase compared to the previous month was observed (1.3%) which continued in June (3.1%) and July (4.9%), while the main 'locomotive' of industrial growth remained metallurgy. As a whole, for the first half of 2009, the deliveries of Ukrainian rolled iron to the USA declined by 70% (to 2.86 million ton), to the EU by 50% (to 1.43 million ton), to the Middle East by 10% (to 0.5 million ton) and to the domestic market of Ukraine by

60%; however, exports to China rose dramatically (by 90 times, to 0.9 million ton). The increase in rolling exports to China was due to the low cost of the Ukrainian products. In July 2009 the metallurgic companies of Ukraine raised the steel output by 16% compared to the previous month, which allowed hope for the end of the crisis in this industry.

Table 3.3

**Changes in real GDP volume in Ukraine for 2006-2008 (according to *The Committee for Statistics* data)**

| Period | GDP in factual prices (UAH billion) | Changes in real GDP (% of the corresponding period in the previous year) |
|---|---|---|
| In 2006 | 544,153 | 107.3 |
| I quarter of 2006 | 106,348 | 104.3 |
| II quarter of 2006 | 126,318 | 107.2 |
| III quarter of 2006 | 152,406 | 107.3 |
| IV quarter of 2006 | 159,080 | 109.6 |
| In 2007 | 720,731 | 107.9 |
| I quarter of 2007 | 139,444 | 109.1 |
| II quarter of 2007 | 166,869 | 108.8 |
| III quarter of 2007 | 199,535 | 106.7 |
| IV quarter of 2007 | 214,883 | 107.7 |
| In 2008 | 948,056 | 102.3 |
| I quarter of 2008 | 187,717 | 106.3 |
| II quarter of 2008 | 233,700 | 106.2 |
| III quarter of 2008 | 275,777 | 106.4 |
| IV quarter of 2008 | 252,670 | 92.0 |

From the Table 3.3, the real GDP value of Ukraine in 2008 fell by 252 UAH billion, which is a lot comparing to 2006. The maximum contraction in GDP volume took place in the second quarter of 2009. During this very same period of time, the crisis in the banking sphere reached its peak of development, which, in its turn, negatively affected the real economy.

In this period, the essential contraction in the demand for iron and steel occurred, resulting in a drop in export volumes and also in currency inflow into the Ukrainian economy. In autumn and at the beginning of winter, the prices of real estate fell by 25% and more than 80% of construction projects were temporarily stopped. Thus, the beginning of 2009 resulted in very negative consequences for the Ukrainian economy, reflected in all its industries.

Industry prevails in the GDP structure of Ukraine; its proportion accounted for 28.6% in 2008, and 22.6% in 2009. The wholesale and retail trades (15.7% in 2008 and 15.4% in 2009) and agriculture (7.8% and 8.2% respectively) also represented considerable proportions.

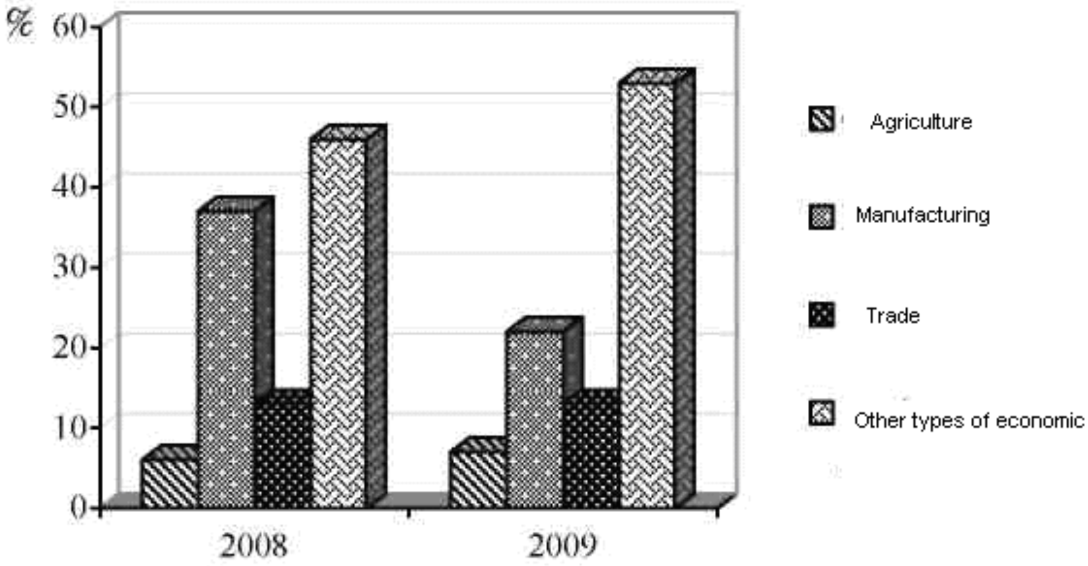



Fig. 3.7. GDP structure in Ukraine, 2008-2009, %

The industries listed (Fig. 3.7) are responsible for almost half of the country's GDP formation; therefore, any deterioration in their operation will lead to an overall national problem.

Table 3.4

**Output of goods and services by the types of economic activity for 2007–2009 UAH million**

| Industry | Year | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Manufacturing | 456,688 | 665,972 | 463,558 |
| Trade | 119,426 | 166,576 | 148,394 |
| Agriculture | 82,099 | 118,371 | 120,590 |

As seen from Table 3.4, the year 2008 was the most successful for all of the mentioned industries. However, one can state that beginning in the fourth quarter of 2008, the crisis phenomena began to demonstrate the most rapid turnover. That negatively affected primarily the output of goods and services in 2009.

As the data from Table 3.4 evidences, production in the manufacturing industry shrank dramatically in 2009 compared to that in 2008 for the analogous period of time (from UAH 665,972 million to UAH 463,558 million).

The volumes of industrial output in 2009 compared to 2008 contracted by 31.9%. The output of industrial products by companies in the processing industry declined by 38.0% and in the quarrying industry by 18.0%. The total output from industrial manufacturing shrank by 4.8%.

In the processing industry, production volumes dropped by 0.3%, most markedly in companies manufacturing metallurgical and finished metallic products (by 7.1%), in machine building (by 2.5%), and in chemical and oil-chemical industries (by 1.4%).

The negative trend concerning the decrease in the index under analysis was observed in trade also.

The average wage according to *The State Committee for Statistics* in 2008 amounted to UAH 1,806 per month. Because of the economic crisis, it began to fall at the beginning of September. However, the incomes of metallurgical, machine building and chemical sector workers and employees dropped the most dramatically, as their wage had begun to fall from August.

### 3.3.3. Belorussia

According to the official statistics, in 2008 the GDP of Belorussia fell by 0.4%, while that of Russia – the key market for Belorussian industrial output – contracted by 9.1%. At the same time, Belorussia appeared as one of the first countries to apply to an IMF reserve loan in order to promote the regular adjustment of external shocks faced by the country and to solve the urgent problems of its vulnerable economy. In June 2008, the IMF approved an increase in this loan of U.S. $1 billion to overcome the greater than expected impact of the world's financial crisis on Belorussia.

The relatively favourable dynamics of the main macroeconomic indices in Belorussia compared to other countries of the region is explained mostly by the more operatively taken measures of economic policy, many of which were directive in character. However, at the same time, the type of crisis spreading in the real sector of the Byelorussian economy was qualitatively of a similar character to that in adjacent countries. Due to the considerable proportion of the public sector and the availability of planned indices of production, its gross volumes were maintained at quite a high level, despite the adverse indices of economic effectiveness.

Table 3.5

**Profitability of products (works, services) sold by industries of the economy**

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Industrial production, including | 15.4 | 15.5 | 12.9 | 15.3 | 9.9 |
| Power engineering | 11.1 | 12.9 | 8.5 | 6.7 | 6.4 |
| Fuel engineering | 29.9 | 29.3 | 7.3 | 13.0 | 11.2 |
| Ferrous metallurgy | 20.5 | 18.3 | 22.2 | 20.7 | 7.6 |
| Chemical and oil metallurgy | 30.2 | 27.2 | 26.1 | 50.3 | 20.9 |
| Machine building and metal processing | 11.2 | 13.3 | 14.3 | 12.1 | 11.8 |
| Forestry, wood processing and cellulose-paper | 8.3 | 7.7 | 11.1 | 9.7 | 5.2 |
| Building materials | 9.8 | 10.3 | 12.5 | 18.0 | 10.2 |
| Light | 4.0 | 6.5 | 7.9 | 9.6 | 9.3 |
| Food | 8.3 | 8.4 | 10.3 | 5.9 | 5.3 |
| Agriculture | 8.1 | 5.3 | 0.8 | 8.4 | 5.5 |
| Transport | 16.3 | 13.6 | 15.9 | 16.0 | 20.6 |
| Communication | 37.7 | 44.8 | 40.2 | 37.8 | 33.8 |
| Construction | 10.6 | 11.0 | 9.9 | 11.7 | 11.6 |
| Trade and public catering | 11.3 | 15.5 | 17.1 | 20.8 | 19.1 |
| Logistics and sales | 20.0 | 25.9 | 30.9 | 40.6 | 56.8 |
| Housing and municipal economy | 2.4 | 3.9 | 4.0 | 3.4 | 1.9 |
| **Total by the economy** | 13.5 | 13.6 | 11.8 | 14.2 | 10.6 |

*Source: BelStat*

Against a background of a decline in external demand, at the end of 2008 some Belorussian companies even faced a sharp fall in the profitability of products sold (Table 3.5).

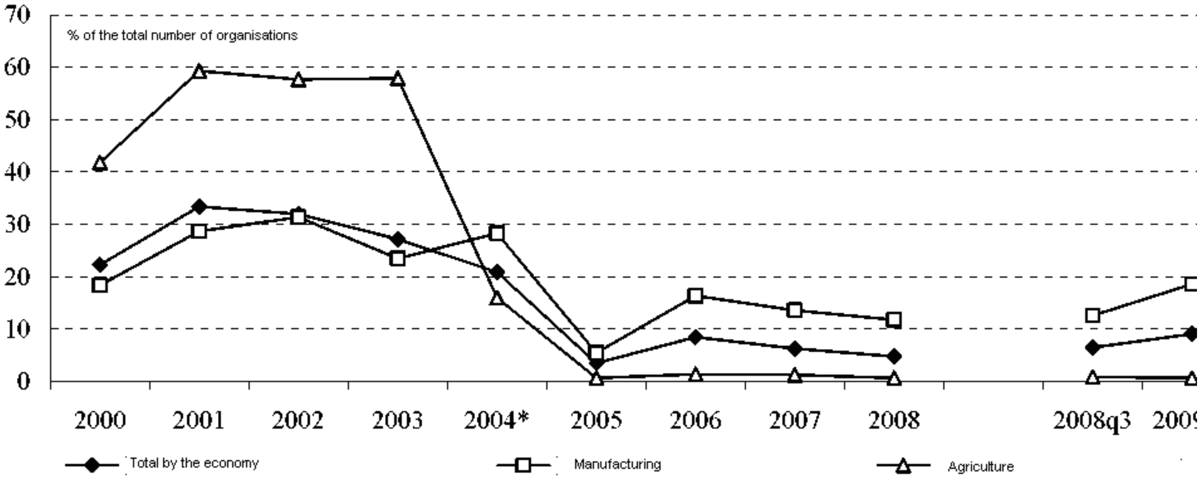



Fig. 3.8. Proportion of unprofitable enterprises in the economy (% of the total number of organisations)

From the Fig. 3.8. in the first stages of the crisis, the maximum decrease in profitability was inherent in those industries whose production was oriented to a large extent towards the external market – primarily industrial production. However, in the first half of 2009, this process affected the service industries sphere, which was mostly oriented towards the domestic market. Despite the large-scale decrease in profitability, most enterprises were remaining profitable, and the proportion of unprofitable companies in the economy began to go up essentially, beginning only in the second quarter of 2009.

When discussing the structure of unprofitable companies by industry, their rather low numbers in agriculture should be mentioned. To a large extent this can be explained by the quite high level of public donations to this industry. According to different estimates, the volume of subsidies in agriculture in Belorussia accounts for about 3-4% of GDP, which is one the key factors for agricultural companies' competitiveness. As a result, agriculture managed to maintain quite high rates of growth even during the crisis period.

Among the manufacturing industries, the share of added value was at about 28% of GDP; most problems were faced by such industries as machine building, wood processing and light industry. That was explained by the large-scale fall in external demand, as a considerable part of products manufactured by these industries went for export, primarily to Russia.

Thus, the crisis resulted in quite essential changes in the industrial structure of Belorussian GDP. During the whole period under consideration, the proportion of industry-produced services oriented primarily to the internal market was rising. It should be mentioned that in order to stimulate growth in the economy as a whole, this process was additionally favoured by economic authorities both through fiscal and monetary policy.

The industrial enterprises, even those experiencing the hardest crisis consequences, carried on to come across with very firm directive objectives related to the rates of production growth, and also to ensuring employment. In spite of that, a number of manufacturing industries were trying to cut costs, by freezing de facto the nominal wage, and also by reducing employment and working time. In particular, the real wage in machine building and metal processing dropped by 8.1%, and in wood processing by 7.5% in 2008. In the manufacturing industry as a whole, the real wage was cut by 2.0% during the period mentioned above.[9]

This policy caused the suspension of the rise in proportional labour costs in Belorussian enterprises. On the macro scale it was expressed by the increase in the share of payroll in GDP (during the second quarter of 2009 this index rose by 5 percent points compared to the analogous period in 2008, in which it reached 51.6% of GDP). This trend may be interpreted as the deterioration in price competitiveness among Belorussian producers.

In general, while summarising the channels of the spread of the crisis and its impact on the Belorussian economy, it can be stated that the most important tendencies were consequences of the measures undertaken by the government. The initial trends, caused by the impact of global conjuncture, led to the following consequences:

- Essential worsening of enterprises' economic activity: a decrease in profitability and a rise in the number of unprofitable companies.
- A slowdown in the rise in wages or their decrease, laying off employees and losses due to a reduction in working time.
- Increase in the share of the population's own funds directed into house building.

### 3.3.4. Kazakhstan

The impact of the crisis on the Kazakh economy aggravated its dependence on the oil-gas sector. The drop in prices for hydrocarbon resources in the second half of 2008 negatively affected the decline in budget revenues. However, the resources accumulated in the National Fund allowed the economy to be supported by massive investments.

At the beginning of the crisis, the economy of Kazakhstan demonstrated very good macroeconomic indices: a considerable surplus in the consolidated budget, rapid growth in gold-currency reserves and funds in the National Fund, accumulating revenues in the oil sector.

During the whole of 2007, high rates of growth were still observed – higher than 9%, which partly reflected the good macroeconomic conditions. Despite such rates of growth, the signs of the economy's overheating were obvious: a rise in inflation, cuts in employment, and the more rapid growth in wages compared to the low labour productivity.

Nevertheless, the favourable conjuncture in the world's hydrocarbon markets protected the economy and softened the impact of the world's crisis in 2007. The insignificant volume of government debt, the surplus in the consolidated budget, and the rise in gold-currency reserves and funds in the National Fund had ensured the favourable estimates of rating agencies up to autumn 2007. In the first and second quarters of 2008 the high rates of growth at the level of 6% were maintained, which had been guaranteed by the record prices for hydrocarbon resources.

The domination of growth in the non-trading sectors was ensured by the boom in individuals' credit for consumer purposes, and also for construction and property purchases, that were stimulating the increasing rise in property demand.

In 2008, the rise in Kazakhstan's GDP declined by 3.3%. In 2009, the development of the country's economy slowed down considerably. The rise in GDP accounted for 1.2% ($107.7 billion), which was the lowest level since 1999. The growth was unstable; growth in one sector was combined with a fall in others.

The impact of the global crisis on the economy of Kazakhstan was manifested in the following directions:

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[9] National Statistical Committee of the Republic of Belarus. www.belstat.gov.by/homep/en/main.html.

- The global crisis resulted in the outflow of capital from the banking sector.
- The limited borrowings in the international markets affected the banking sector, which accumulated considerable external debt.
- The acute fall in the price of oil led to a decrease in budget revenues, gold-currency reserves and funds in the National Fund.
- On the stock market in 2008 the collapse of the KASE index took place, which reflected the decline in investors' trust in the Kazakhstani banks and the decrease in oil prices.

All these factors caused a considerable reduction in internal demand that was one of the factors in the growth in the economy.

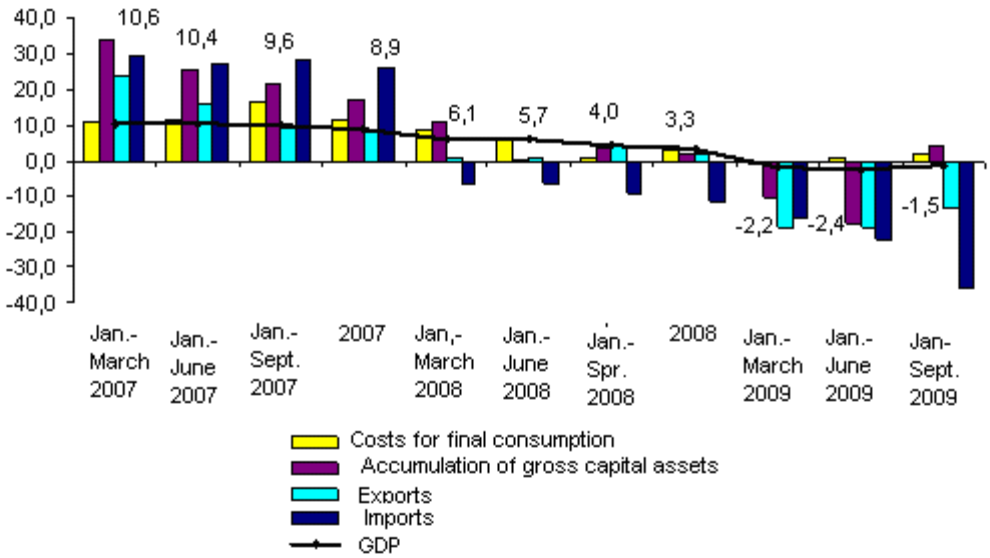


Fig. 3.9. GDP of Kazakhstan, 2007-2009, % of the previous year
*Source*: *Agency for Statistics RK*

As a result of the weakening of internal demand, imports as well as exports fell (Fig. 3.9).

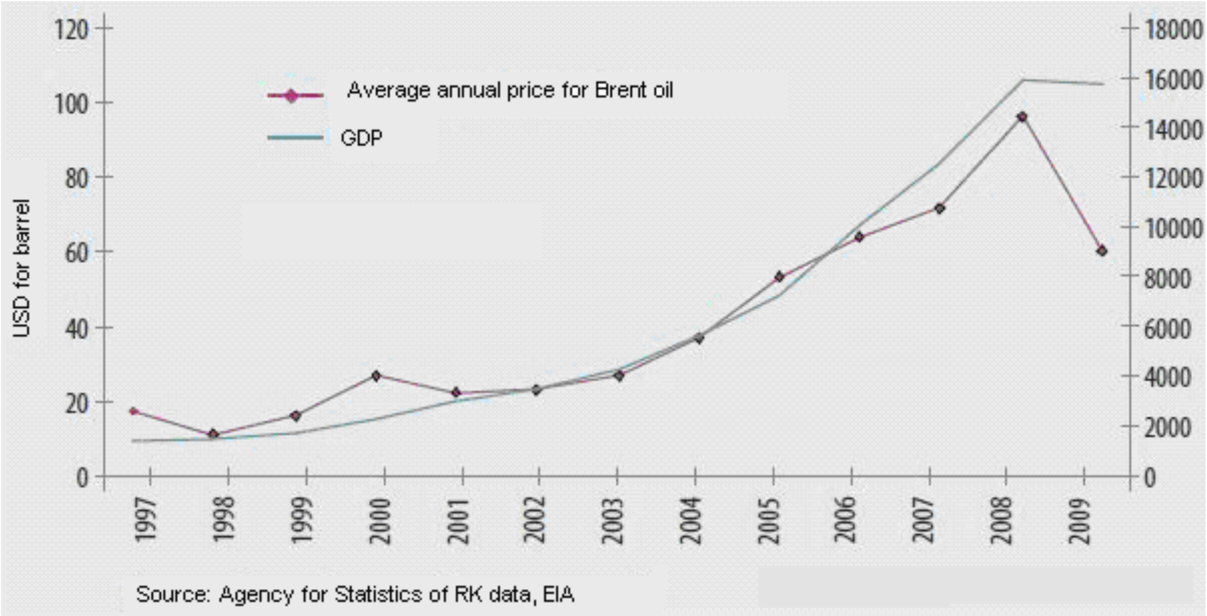

Fig. 3.10. Dynamics of GDP in Kazakhstan and oil prices ( USD for barrel/tenge billion)

From Fig. 3.10. after a decade of rapid growth, having been ensured primarily by the extraction and export of hydrocarbon resources, Kazakhstan experienced the impact of the global financial crisis during 2007-2009. Prior to the crisis, the country's economy demonstrated very good macroeconomic indices, a considerable surplus in consolidated budget, rapid growth in gold-currency reserves and funds in the National Fund accumulated the oil sector revenues. However, despite these good indices, some negative signs then became apparent, such as a rise in inflation, a reduction in unemployment and the rapid increase in wages in the circumstances of low labour productivity.

Nevertheless, the favourable conjuncture in the world's hydrocarbon markets protected the Kazakh economy and curbed the global crisis impact in 2007. The insignificant volume of public debt, the surplus of consolidated budget, the growth in gold-currency reserves and funds in the National Fund had ensured the favourable estimates of rating agencies up to the autumn of 2007. In the first and second quarter of 2008, high rates of growth in GDP were maintained (approx. 8%) in the country, also due to the record prices for hydrocarbon resources.

### 3.4. Crisis state of public finances

#### 3.4.1. Russia

For the first nine months of 2008, the consolidated budget of Russia was executed with a surplus in the amount of 11.1% of GDP compared to 9.4% for the analogous period in 2007. The difference to a large extent was caused by the increase in revenue inflow, thanks to the extremely high oil prices. For the first nine months of 2008, the surplus of consolidated budget raised somewhat compared to the correspondent period in 2007. However, according to preliminary data of the Ministry of Finance of the Russian Federation, the non-oil deficit of the consolidated budget accounted for -0.2% of GDP in comparison with its surplus of 0.7% the year before.

The State Duma (the local Supreme Council) adopted in the second reading the bill "On Federal budget for 2009 and for the planned period of 2010 and 2011" which had been introduced by the Federal government at the end of August 2008, and made amendments to the expenditure part of the budget in the third reading, taking into account the actions against the financial crisis. The approved budget plan presumed the gradual decrease in budget revenues, caused by the lowering of oil prices, and the marked decline in the Federal budget expenditure in the per cent ratio to GDP by 2011. The State Duma adopted in the second and third readings the Federal Act “On Federal budget for 2008 and for the planned period of 2010 and 2011” on 23 October 2008. The amended Act presumed to increase government expenditure by ruble 172.3 billion in 2008 (equivalent to approximately U.S. $6.4 billion, or 2.3% of the Federal budget’s total expenditure), which had been partly financed at the expense of redistribution of the budget expenditure planned for 2009 (ruble 16.1 billion), and of the ‘borrowings’ from the investment fund (ruble 114.3 billion). Almost half of this amount (ruble 75 billion, or approx. U.S. $3 billion) was used for *Vnesheconombank* capitalisation as an additional measure to support the financial system. In addition, approximately rubles 60 billion (approximately U.S. $2.4 billion) were spent on capitalisation of the *Agency for Mortgage Housing Lending* in order to support the mortgage market.

In the first half of 2008, the debts of private corporate and banking sectors in Russia were rising rapidly. Thus, in the second half of 2008, the total external debt went up by U.S. $50.1 billion. In spite of the fact that the amount of the external government debt remained relatively small, the debt of private corporate and banking sectors rose by U.S. $37.8 billion in the second half of 2008. The corporate sector, which is considered formally as ‘private’ but also includes companies under government control such as OJSC *Gasprom*, comprises the maximum part of the accumulated debt. Both financial and non-financial organisations within the corporate sector raised the amount of the accumulated debt. However, among non-financial organisations, the process of debt accumulation was occurring at higher rates. The total volume of the external public debt remained relatively small.

On 1 January 2008, the external debt of Russia rose by 38.7% reaching $550.1 billion, which is equivalent to the volumes of gold-currency reserves of the country.

The Stabilisation Fund of RF, which amounted to $156.81 billion on 1 January 2008, ceased to exist due to its transformation into the Reserve Fund (for financing current budget liabilities in case of a fall in oil prices) and the Foundation of National Well-Being (to be guaranteed for future generations). The funds of both foundations are placed in foreign assets primarily in the United States.

### 3.4.2. Ukraine

The first half of 2009 did not only justify the negative expectations of the participants of the budget process in Ukraine, but also presented a number of unpleasant surprises regarding the filling of the revenue part of the consolidated budget. Namely, it was assumed that the budget for 2009 would cut the amount of tax on companies’ profits. The decreases in the volumes of other tax returns, and also the revenue from operations with capital, were not taken into consideration while calculating the budget indices.

The slowing down of the social economic development rates, particularly the decline in the volumes of sales and industrial output (by 24.4% and 31.1% respectively), and the double contraction in foreign trade turnover and retail turnover by 19.7% were reflected in the dynamics of the main types of tax returns during January/February of 2009. The volumes of added value tax returns in the first half of 2009 went down by 12% compared to the corresponding period in the previous year; this was the result of 12% less profit tax returns from companies, and entrance duties were cut in half.

It should be stated that in order to fill the revenue part of the State budget under economic recession conditions, the government used such unpopular measures as an increase in the rates of some types of taxes; in particular, the excise fee for some kinds of goods was raised in 2009. As a result of the changes mentioned above, the proportion of returns from excise fees in the volume of tax returns in the consolidated budget of Ukraine rose from 5.5% in the first half of 2008 to 8.8% in January/February 2009. Despite the fact that the rise in the excise fee returns from domestic goods accounted for 153.0%, and from the imported goods 135%, the annual plan for this source of returns for the first six months of 2009 was realised by less than one third.

In general, as a result of the continuing economic recession, the level of planned indices of both the revenue and expenditure parts of the State budget execution in January/June 2009 was insignificant.

The lowest level of performance of the annual plan was observed in revenues from operations with capital. Such a weak dynamics of returns from the sale of objects of state ownership was related both to stagnation in the real estate market and to the lack of the State Programme of Privatisation approved for the years 2009–2012.

The debt policy of the government had been devised for 2009 based on the necessity of financing the budget expenditure, in the first instance, and on the implementation of anti-crisis measures by the government under conditions of weak dynamics of budget filling. Namely, the main source of the Stabilisation Fund filling due to non-fullfilment of the state programme of privatisation was the issuing of internal state loan bonds. As a result of attracting more than UAH 10.7 billion at the expense of issuing bonds, the direct internal debt of the state (taking into account a UAH 2 billion repayment of its liabilities) rose by 42% - up to UAH 63.8 billion for the period from December 2008 to July 2009.

Moreover, within the framework of the financial support from the IMF, Ukraine received three tranches of a stabilisation loan of U.S. $10.6 billion in the first seven months of 2009. Of this sum, U.S. $4.8 billion was directed to the deficit of the State Budget coverage. The attraction of funds from the IMF enabled Ukraine to repay its external borrowings. In August of 2009, the issue of bonds for the 2004 external state loan of U.S. $500 billion was paid back. And in September of the same year, the holders of bonds of the 2006 external state loan (a loan of 768 billion Swiss francs for a turnover term of 12 years) exercised their right to a put-option and presented the whole volume of the issue to repayment ahead of time. The principal of the debt and the interest on the bonds presented were paid back in full and on time.

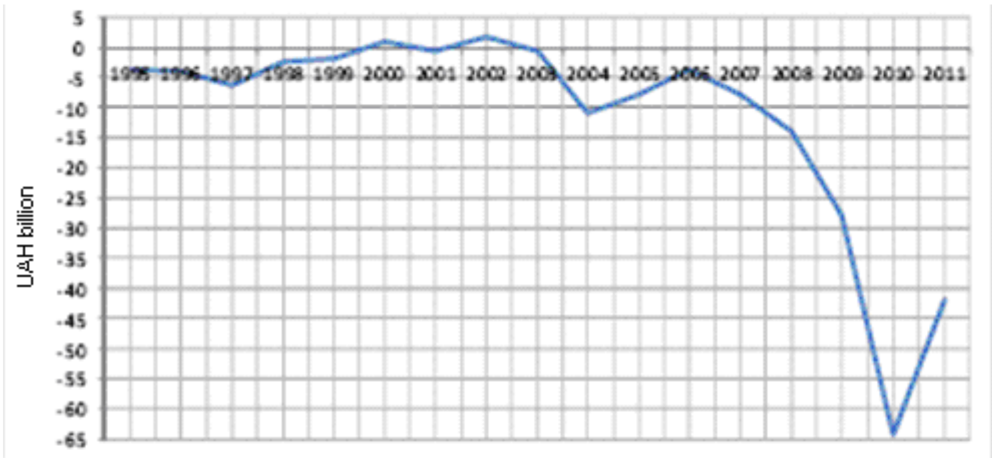


Fig. 3.11. Dynamics of deficit of State budget of Ukraine (UAH billion)

According to data from the Ministry of Finance of Ukraine (Fig. 3.11), the State external direct debt accounted for U.S. $15,740.6 million owed by the state on 31 July, 2009. This sum is essentially less than the analogous index calculated by *The National bank of*

*Ukraine*, which accounts the total loaned resources granted by the International Monetary Fund in the total volume of the government sector debt. In its turn, this technique of calculating the State external direct debt presumes that only that amount which had been accrued directly into the State budget is taken into consideration.

In any case, the direct debt load of the State budget is currently moderate, though it maintains a tendency to rise, which is connected primarily to the considerable proportion of the external debt (65.5%) and the depreciation of the national monetary unit.

### 3.4.3. Belorussia

The development of crisis phenomena in the economy of Belarus began in the fourth quarter of 2008, manifesting itself also in the public finance sector. However, the appreciable changes in its state began to be seen only at the beginning of the first quarter of 2009. In the first instance, it related to cuts in consolidated budget revenues, which later led to the compulsory decline in expenditures.

The contraction in budget revenues was on a large scale. The revenues of the consolidated budget for January to September 2009 accounted for BYR 44.8 trillion, or 44.8% of GDP for this period of time. That was 6.4 points less than for the analogous period in the year before. Moreover, the revenues of the consolidated budget went down even in their nominal expression – for the first three quarters of 2008 they amounted to BYR 48.0 trillion.

The returns from profit tax were much less steady compared to those from income tax. Their fluctuations were directly tied to the changes in the economic conjuncture. The economic growth reached 10% in 2008, resulting in an appreciable increase in returns from profit taxes. Growth was slowing down and the consequent recession in 2009 led to the increasing rise in the number of unprofitable companies (by 47.9% for the first half), and to a decrease in total economic profitability (from 15.6% to 10.4%). The fall in profit tax returns by 1.4 point for the first half of 2009 was the result of this. The returns from income tax, estimated as a percentage of GDP, on the other hand, rose somewhat during the first six months. Two factors favoured this: the increase in the proportion of wage in the GDP structure (from 47.4% in the first half to 52% in 2009), explained by the government's striving to hold wage and employment levels at pre-crisis levels, and the flat scale of taxation transition.

Most general state expenditure in Belorussia comprises the state investment programme, which supports the construction of social and sports projects. The increase in these expenditures in the first half of 2009 was related to the policy of economic growth promotion at the expense of intensive construction. The relative failure of this economic policy measure, and the contraction in budget revenues, obviously, forced the government to lower these expenditures in the third quarter of 2008. Another important aspect of general state expenditure is servicing the state debt, which is increasing from year to year due to the accumulation of external indebtedness in the state.

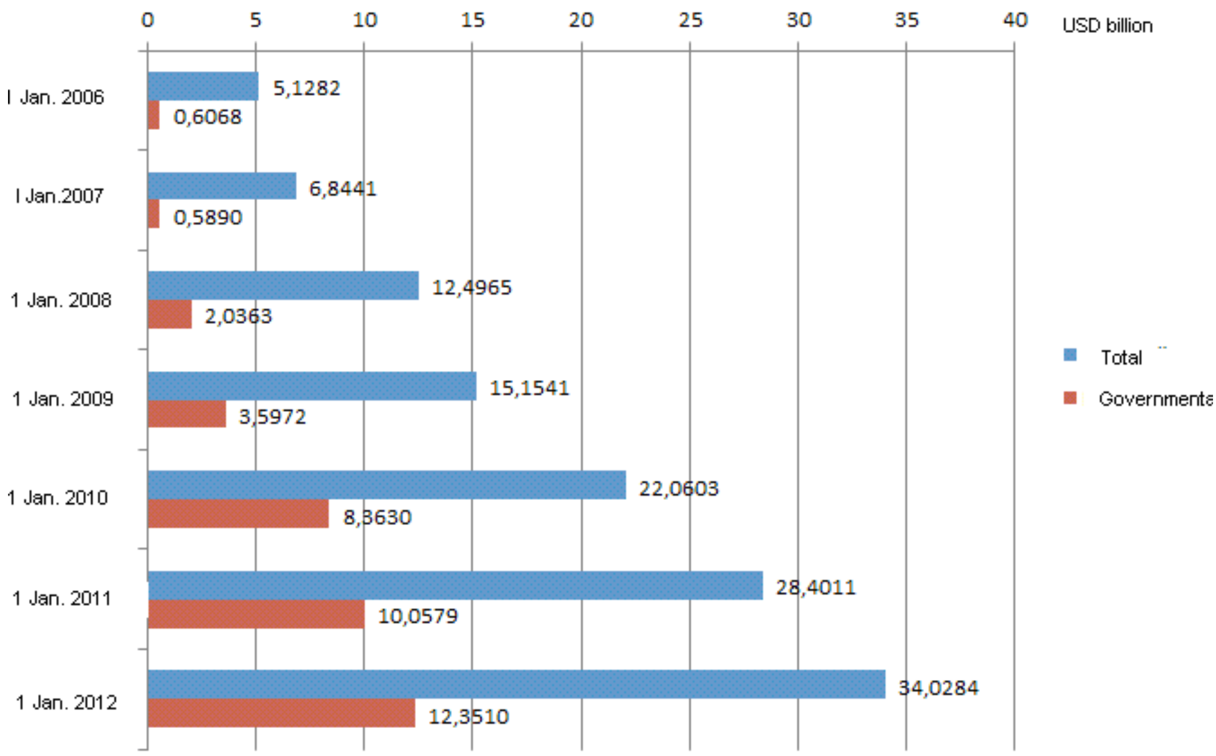


Fig. 3.12. Dynamics of change in gross and government debts of the Republic of Belarus (USD billion)

Fig. 3.12 depicts the dynamics of change in the gross and public debts of the Republic of Belarus from 2006 to 2012. As one can see, public debt has been rising steadily, beginning in 2007. It rose especially dramatically in 2009 – by almost U.S. $5 billion.

In general, the economic crisis considerably decreased the State's ability to finance state programmes at the budget's expense. Moreover, the rise in deficit was hardly possible, due to both the formal reason of availability of the agreement with the IMF, and the lack of definite possibilities of its financing (because of the scarcity of resources in the domestic market and high rates of borrowing in the external market).

### 3.4.4. Kazakhstan

The budget policy of Kazakhstan during 2007-2008 remained stable, with a budget surplus and a low level of government debt. In 2008, thanks to the high price of oil, the fulfilment of budget revenues did not become a problem for the government. The introduction of customs duty for oil exports from May 2008 played its positive role. As a result, customs duties in 2008 rose by three times compared to those in 2007.

In 2009 the Tax Code came into legal force, including some innovations such as:

- The rate of corporate income tax was lowered from 30% to 20%, and the requirements for advance payments for small and medium-sized businesses were cancelled.
- VAT was decreased from 13% to 12%; the volume of minimal turnover not subject to VAT imposing was doubled.
- The single rate of social tax was introduced, i.e. 11% instead of the regressive scale.

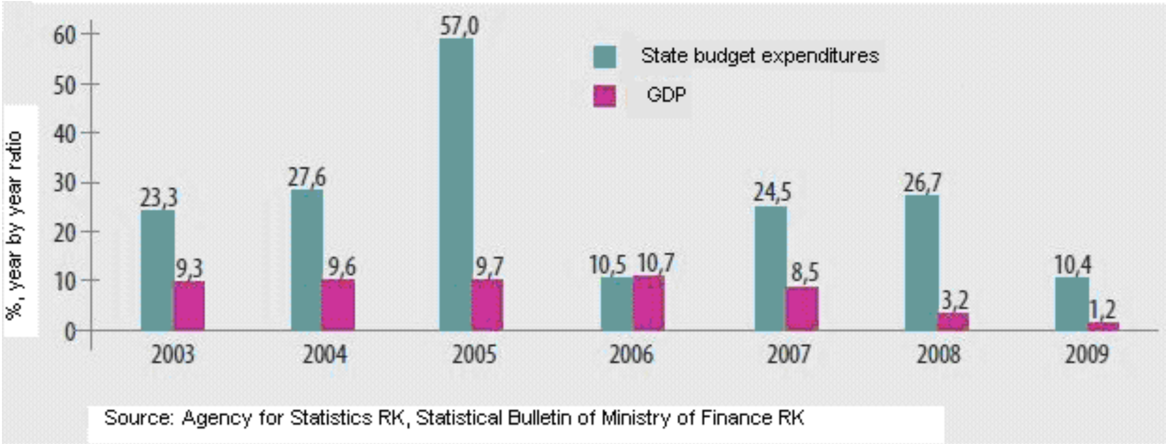


Fig. 3.13. GDP dynamics and expenditure in the state budget of Kazakhstan (%, year by year ratio)

From the Fig. 3.13 the fall in the price of oil, the decline in tax rates, and the slowing down of business activities resulted in a decrease in budget revenues in 2009. However, the returns from the sale of hydrocarbon resources, the proportion of which rose from 40% to 60% of exports, permitted budget expenditures to increase by rates exceeding those of economic growth.

The record rise in expenditure in 2005 can be explained by the holding of the presidential election that year. Such a level of expenditure was maintained by the massive inflows into the budget from the National Fund. The total costs from the National Fund for 2008–2009 amounted to U.S. $16.3 million. In 2008, the growth in GDP went down to 3.2%. However, the impact of the global crisis affected the economy of Kazakhstan especially substantially in 2009, when a rapid decline took place in the processing industry, construction, trade, transport, financial operations, production and the distribution of power, gas, and water. As a result, Kazakhstan's GDP in 2009 amounted to only 1.2%, which was the lowest level since 1999.

## 3.5. Analysis of crisis phenomena development in foreign trade

### 3.5.1. Russia

International trade is one of the most important sectors of the economy of Russia. Owning substantial mineral raw materials and energy resources, enormous territory, large areas of forests and other natural resources, Russia has all the opportunities to maintain mutually profitable relations with many of the world's states by importing goods for both the consumer sphere and for manufacturing modernisation, as was the case after the Vitte reforms in the 1930s.

The maximum share of Russia's foreign trade belongs to the United States, comprising 85% of exports and 12.9% of imports; however, the negative balance in U.S. foreign trade went up from U.S. $123.4 million in 1990 to U.S. $864.9 million in 2008, and it continues to rise every year. This probably reflects the role of the U.S. as a source of the rise in the monetary mass of the U.S. dollar as the world's currency and the decrease in its exchange rate.

The level of Russia's participation in international trade is rising continuously, though the global crisis affected all the indices of Russia's international trade. After the abrupt fall in the value volumes of its foreign trade in August to December of 2008, since February 2009 until now a stable increase in the value of both exports and imports has been observed.

Of the total volume of Russian exports to the CIS countries (Fig. 4), the share of Belarus accounts for 5.5%, of Ukraine 4.6%, and of Kazakhstan 3.0%. In its imports, the supplies from Ukraine comprise 5.4% of the volume of Russian imports, (Belarus accounts for 4.0% and Kazakhstan 2.2%). As a whole, Belarus plays a key role in Russia's external trade with CIS countries.

In the total volume of product imports of the Russian Federation, the greatest shares belong to machinery, equipment, and means of transportation (44%) and to various consumer goods (44%). The import of metal-cutting machines in 2008 and 2009 accounted for 445,000 and 387,000 items respectively. Their manufacturing in Russia amounted to 4,800 and 1,900 items respectively; i.e., Russia's own output of metal-cutting equipment as a technological base for any industrial enterprise has practically stopped, causing a high requirement for imports.

In the total volume of exports, 68.7% belongs to mineral products such as oil, hydrocarbons and gas; of the equipment, machinery, and means of transportation in its export structure, the greatest share belongs to aviation machinery, vessels, and other buoyant means, which indirectly reflects the structure and state of the machine-building manufacturing industry.

The average prices for most goods had been continuously rising for the past 20 years and declined slightly only under the impact of the global crisis, also reflecting the inflation of the U.S. dollar as the world's currency.

According to Russian statistics, in 2008 the volume of goods turnover in Russia and its adjacent countries went down by 36.8%, its level of exports by 36.9%, and its level of imports by 36.5%. However, it should be mentioned that despite considerable volumes of decrease, the mutual trade of Russia with adjacent countries has demonstrated somewhat greater resistance to crisis phenomena than its external trade as a whole (the rates of decline in total volumes of turnover of goods between Russia and foreign countries in 2009 accounted for 38.3%, of exports 39.6%, and of imports 35.3%).

In 2009, the share of adjacent countries amounted to 37.3% of Russia's total turnover in goods, while the proportion of CIS countries was 14.6%, of Eastern European and Baltic states 14.1%, and of China and Mongolia 8.6%. The development of trading interaction of Russia with the three groups of countries in the crisis year, 2009, took place in a misbalanced manner in spite of the fact that the total proportion of neighbouring countries in its trade under the crisis period had not changed substantially compared to 37.6% in 2008. The share of European partners in Russian turnover had gone down dramatically (by 1.4 percentage points), while the proportion of Asian partners had risen from 7.8% to 8.6% (in the case of China from 7.6% to 8.4%). The share of CIS countries went down by only 0.3%.

The foreign trade co-operation between Russia and China suffered the least from the global economic crisis. The two countries' turnover of goods declined by only 29.4%; Russian exports to China by 21.2%; its imports by 34.3%. The relatively low rates of decrease in the scale of mutual trade between Russia and China were caused primarily by the dynamics of Russian exports, in particular, by supplies of metallurgical products, mineral products, and equipment for nuclear engineering (including TVELs) to China.

The trade co-operation between Russia and CIS countries suffered to a larger extent. The merchandise turnover of Russia with this group of countries in 2009 contracted by 35.5% compared to that in 2008; Russian exports by 32.9%, imports by 40.5%. The decline in the external trade turnover with the CIS commonwealth took place at the expense of a fall both in average prices (especially for mineral products and metals) and in the physical volumes. The situation that evolved in the countries' mutual trading was caused by a complex combination of factors, the most important of which were the following: (1) the abrupt decrease in demand for intermediate and finished products in the internal market due to the global crisis; (2) the specific character of the goods structure in the export-import operations of Russia and its CIS partners; (3) the specific character of basic goods traded pricing. Under the conditions of a dramatic fall in industrial manufacturing volumes, and a demand for intermediate and finished products (especially for machine-building products) in the internal market of Russia, the structure of these supplies in the goods markets favoured the high rates of decline in the volume of Russian imports from CIS countries. The most considerable share in their structure belonged to machinery, equipment, and means of transportation and their products, and to mineral products. The greatest extent of supplies contraction under crisis conditions occurred in the supplies of gems, metals and their articles (by 62.9%); machines, equipments and means of transportation and their articles (by 52.4%); metals and their articles (by 50.5%); mineral products (by 43.9%). The value volumes of Russian imports from CIS countries, in particular chemical industry products, went down by 35%; of textile, textile articles, and shoes by 21.6%; foodstuff and agricultural raw materials by 21.2%. As a result, in the merchandise structure of Russian imports, the proportion of machinery, equipment, and means of transportation declined from 28.8% to 23.7% in 2009 compared to 2008; of metals and their articles from 21.1% to 18.1%; of mineral products from 19.4% to 18.8% (however, the proportion of fuel-power goods rose from 10.3% to 10.7%). At the same time, the share of textiles, textile articles and shoes went up from 3.1% to 4.2%; of wood and cellulose-paper articles from 2.6% to 4%; of foodstuff and agricultural raw materials from 13.7% to 18.7%.

Russian exports to CIS countries also experienced the effect of a fall in demand and price level for basic goods supplied. The greatest decrease suffered as a result of the crisis was in the volumes of supplies of Russian machinery, equipment, and means of transportation (by 46.7%), gems, metals, and their articles (by 44.8%); chemical industry articles (by 35.8%). The value volumes of mineral products in the structure of exports contracted by 32.8%, of foodstuff and agricultural raw materials by 20.8%. As a result, taking into account the relatively more favourable conjuncture for the supplies of the main merchandise group of Russian exports - mineral products - (compared to those for machinery products, metals and other intermediary goods), the rates of decline in the volumes of Russian goods exported to CIS countries appeared to be lower than the rates of decline in Russian imports from CIS countries. Thus, in the merchandise structure of Russian exports to CIS countries, the proportion of a number of goods had been increased, as follows: mineral products (from 42.2% to 43.7%), including fuel-engineering products (from 40.0% to 42.2%); foodstuff and agricultural raw material (from 7.6% to 9.2%); wood and cellulose-paper articles (from 4.3 to 5.1%). The share of machines, equipment, and means of transportation went down from 19.4% to 15.0%; of metals and their articles from 12.9% to 11.8%.

Formally, the world's economic crisis has most affected the goods turnover between Russia and the third group of its adjacent countries - namely, Eastern European and Baltic states (the total decrease in their goods turnover in 2009 compared to 2008 accounted for 41.6%). Furthermore, the dynamics of mutual trading between Russia and these countries has a number of peculiarities. Despite the fact that this group of adjacent countries experience essential dependence on Russian fuel-engineering products supplies, and that their mutual trade balance is in Russia's favour, the global economic crisis demonstrated the fact that Russia itself experiences a steady dependence on its relations with these states in terms of their supply of finished products. Thus, in the crisis year 2009, compared to 2008, the value volumes of Russian exports to these countries contracted by 44.3%, while its imports by only 34.3% (lower than the analogous index for the CIS region and for foreign countries as a whole). It should be noted that the excess in the rates of decline in the value volumes of Russian exports to those countries over the rates of decline in imports was characteristic for the whole group of countries except Poland. In its structure of exports to Russia, the share of mineral raw materials and of machines and equipment was relatively high. The same is true with regard to Estonia (the Russian exports to this state rose by 22.6%). The maximum difference between these indices was observed in Norway (by 6.4 times). Fish and sea products comprise the bulk of its supplies to Russia. As a whole, the exports of those countries that occupied a steady niche in the Russian market, and of those with a relatively low share of machines and equipment, metals and traditional chemical products (e.g. Norway with its fish and sea products; Lithuania with agricultural and food products; Slovenia and Hungary with pharmaceutical products; Romania with furniture) demonstrated the greatest 'resistance' to the crisis phenomena. Within these countries, the decrease in value volumes of exports to Russia accounted for 5.7%, 10.8%, 31.8%, and 14% respectively.

The main factors that caused the decline in the volumes of Russian exports to Eastern European and Baltic countries were the proportion of fuel-engineering goods in the export structure and the contraction in the volumes of Russian gas supplies as a result of the 'gas war' between Russia and Ukraine at the beginning of 2009.

### 3.5.2. Ukraine

According to data from the State Committee for Statistics of Ukraine, the negative balance of external trade for 2008 accounted for U.S. $17 billion, which was practically twice as much as in the corresponding period in 2007 ($9,555.7 million). For 2008, the exports of goods amounted to $63,046.2 million, imports $80,757 million. Compared to the year 2007, exports rose by 41.7%, imports by 49.4%.

Furthermore, the coefficient of export/import coverage accounted for 0.78 (0.82 for 2007). International trading operations were conducted with partners from 216 of the world's countries.

The volumes of export supplies to CIS countries comprised 35.3% of the total export volumes, to Europe 29.3% (the EU countries accounted for 26.9%), to Asia 22.9%, to America 6.4%, and to Africa 5.9%.

The import share from CIS countries was 39.7% of its total volume, from Europe 35.5% (including 33.6% from EU countries), from Asia 17.7%, from America 4.8%, from Africa 1.8%, and from Australia and Oceania 0.5%.

The biggest falls in export articles took place in metallurgical products (-49.4%), the chemical industry (-34.1%), and machine building (-28.1%). In import articles the biggest drops were in machine building (-39.5%), mineral products (-20.2%), and the chemical industry (-32%).

The October limits of currency crediting and the November hryvna depreciation became two of the main factors in the fall in imports, reflected in the decline in the monthly deficit of trade balance (TB). The demand inertia for foreign goods against a background of the continued weakening of the hryvna in December gave rise to an expectation of the contraction of this index in 2009.

In December 2009, a buoyant demand for flat rolling and sunflower seed exports was observed which, against the background of export decline, might have contributed to a lower trade balance deficit compared to November.

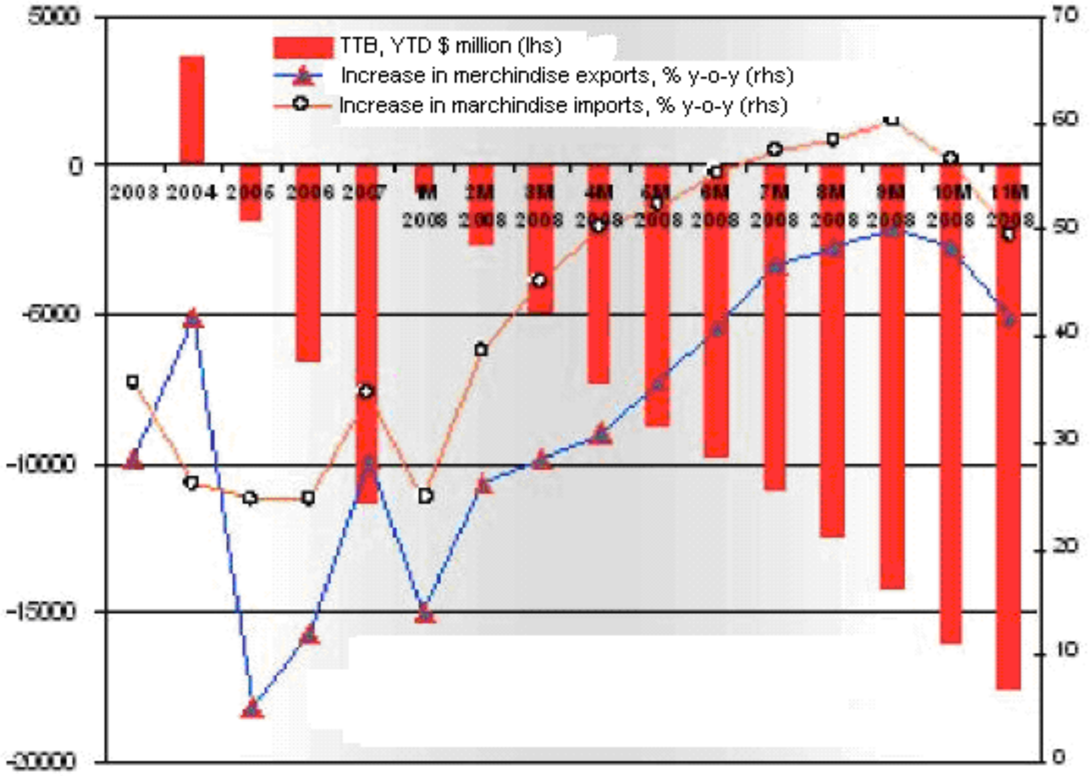


Fig. 3.14. Dynamics of foreign trade in merchandise of Ukraine in 2003–2008 (USD million)

The economic crisis sharply affected the November dynamics of the external trade of Ukraine (Fig. 3.14). Thus, the contraction affected both directions of merchandise flow: exports declined by 18.6%, imports by 9.6%. The fastest decrease in import volumes can be explained by the dramatic fall in industrial manufacturing in line with the decrease in the world's demand for raw materials, which dominate in Ukrainian exports. An additional negative factor emerged in the form of the continuing fall in prices in the global merchandise markets, which had heated the decline in the value expression of exports.

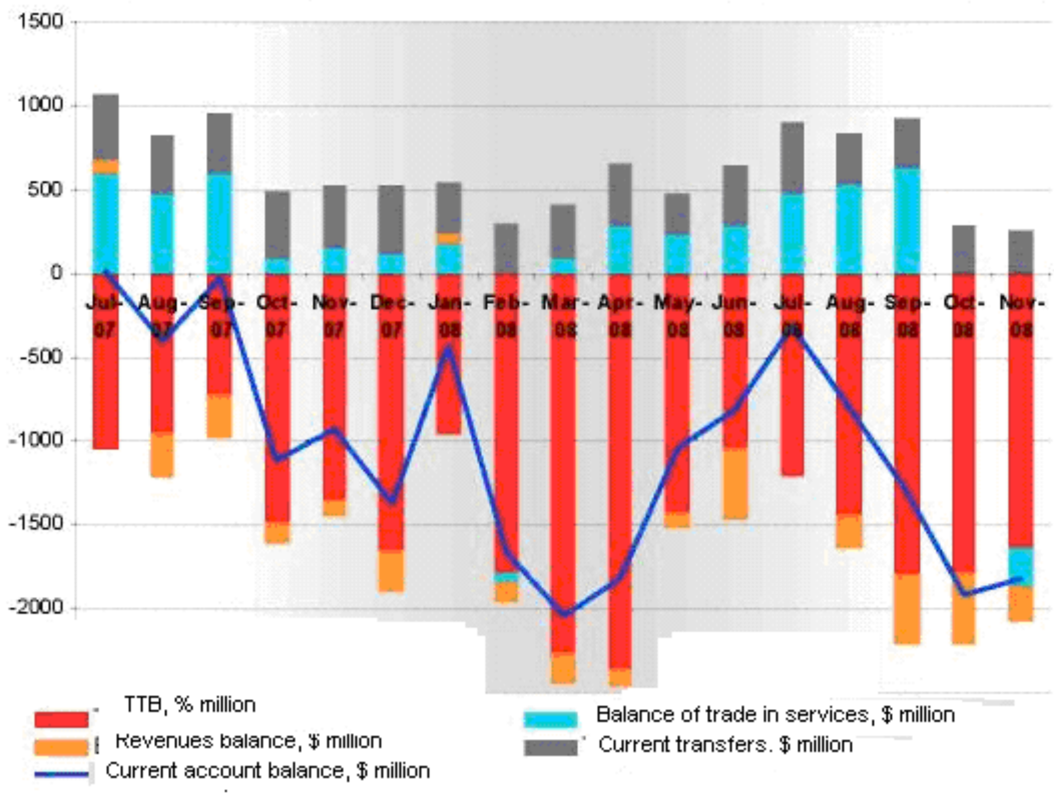


Fig. 3.15. Dynamics of current operations account of Ukraine in 2007–2008 (USD million)

The trends mentioned above found their appropriate reflection also in the industrial point of view of the export dynamics. Thus, the weak global demand for metals contributed to the decrease in the proportion of ferrous metals in Ukrainian exports by 35.1%. In import articles, the greatest decrease was observed in machine building products (-39.5%), mineral products (-20.2%), and chemical products (-32%). In particular, a sharp contraction was observed in the volumes of imports of motorcars, oil products, plastics and pharmaceutical products.

One of the critical issues for trade balance dynamics became the results of gas negotiations between Ukraine and Russia. According to these results, the governments of both countries came to an agreement about gas deliveries at $360 per 1 thou. cubic metres in the first quarter, but made reservations that the further price would be corrected depending upon the dynamics of oil cost.

### 3.5.3. Belorussia

The economy of the Republic of Belarus has always been oriented to external markets. Its foreign economic quota is approximately 120%, which evidences objectively the importance of international trade for the state, and the necessity of a constant increase in the effectiveness of its foreign economic activities.

The countries outside CIS have always had a considerable proportion of the international trade of Belarus. Thus, their share in exports accounts for more than 50% (excluding Russia which accounts for more than 80%), and in imports about 30% (excluding Russia which has approximately 90%). The Republic of Belarus conducts trade operations with more than 180 countries. Nevertheless, its main and highest priority trading partners are the Russian Federation (35% of Belorussian exports and 60% of imports) and EU countries (40% of exports and 20% of imports). Outside CIS, eight countries comprise Belarus' leading trade partners, accounting for more than 40% of its exports and 20% of imports. The share of other countries is insignificant.

It should be mentioned that Belorussian exports to non-CIS countries had been rising. Thus, if in five years total exports rose by 2.4 times and exports to CIS countries almost doubled, then supplies to non-CIS countries went up by 2.9 times. As a result, if in 2004 the share of CIS countries comprised 53.1% of the total exports of Belarus, then by 2008 their share had declined to 43.8%. The share of countries outside CIS rose correspondingly from 46.9 to 56.2% (Table 2). The European Union comprised about 80% of Belorussian exports to non-CIS countries.

As for imports, from 2004 to 2008 imports from CIS countries rose by 2.2 times, from outside CIS 2.9 times (the total imports of the Republic boosted by 2.4 times). As a result, the CIS countries' share in imports declined from 72.1% to 66%, and the share of non-CIS countries rose from 27.9% to 34%. Within the latter group of countries, the EU share was more than 60%.

It should be mentioned that the rates of rise in exports to some countries were much exceeding the general rates of rise of Belorussian exports to non-CIS countries. Thus, in five years its exports to the Netherlands went up by more than 6 times (primarily at the expense of considerable growth in oil products supplies); to Latvia by 7 times (oil products, complex organic solvents, articles of steel); to Norway by 6.1 times (potassium fertilizers); to Cyprus by 4.5 times (oil products, bars of non-alloy steel), to Sri Lanka by 9 times (potassium fertilizers), to Egypt by 4.1 times (semi-finished products from non-alloy steel, tractors), to the South African Republic by almost 17 times (potassium fertilizers), to Brazil by almost 7 times (nitrogen and potassium fertilizers), to Venezuela by 11.4 times (condensed milk and cream, potassium fertilizers, tractors and saddle tractor devices).

The analysis of the Republic of Belarus' export structure from the regional and product points of view confirms the prevalence of problems in its external trade and allows one to make the following conclusions:

First, most exported goods are not distinguished by the essential degree of processing; however they are produced from import raw materials. Thus, primarily oil products and ferrous metals are exported to European countries subject to increased product requirements. The chemical industry products, traditional for Belarus, are supplied to the basically less 'demanding' markets of Asian, African, and American countries. The share of means of transportation comprises more than a quarter only in the exports to Africa; their share in the supplies to other regions is much less considerable. The share of devices and apparatus is less than 2% of the exports to all the regions under study.

Second, the small extent of diversification in Belorussian exports should be mentioned not only as a whole, but also by region. Thus, there is one group of goods exported to each region whose share comprises more than a half of exports to that region; in European deliveries it is mineral products, in exports to Asia and America it is chemical industry products, to Oceania it is plastics. In the structure of exports to the African region there are several export groups that have dominant positions.

Third, Belorussian merchandise exports are also insufficiently diversified in terms of geography: the share of 15 countries accounts for more than 80% of Belarus' total exports to non-CIS countries, even though in general it supplies its goods to over 120 states.

Fourth, despite the increase in exports to non-CIS countries as whole, the deliveries of Belorussian merchandise to many countries have shrunk.

Under the conditions of the world's financial crisis, particular attention should be paid to the diversification of trade-economic relations, the search for new sales markets, and the intensification of relations with countries which were seemingly not very prospective earlier, but which obtained advantages, even before the developed countries, due to the fact that their economies were to a lesser extent subject to the world's financial-economic crisis. Thus, there is great potential in the development of trade-economic co-operation of the Republic of Belarus with Mexico, Venezuela, Syria, and Israel.

### 3.5.4. Kazakhstan

For a number of years, the external trade in Kazakhstan was one of the main locomotives of the country's economic development.

Table 3.6

**Dynamics of Kazakhstan's foreign trade in 2005-2009 (U.S. $billions)**

| Indices of foreign trade | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Foreign trade turnover | 45,201,5 | 61,907,5 | 80,511,7 | 108,987.3 | 71,604.4 |
| Export | 27,849.0 | 38,244.4 | 47,755.3 | 71,172.0 | 43,195.8 |
| Import | 17,352,5 | 23 663,1 | 32 756,4 | 37 815,4 | 28 408,7 |
| GDP | 57 123,7 | 81 003,5 | 104 853,5 | 132 247,8 | 107 713,9 |

*Source*: *the Committee for Customs Control in the Ministry of Finance, RK*

However, the events of 2008-2009 showed that the large-scale entering into the world's financial-economic system is associated with definite risks. The considerable share of the external trade segment in the national economy's structure makes it dependent on the situation in the foreign markets. Therefore, the availability of important sectors, where most products are intended for export, represents obvious risks for an economy and for the implementation of the current strategy of development.

The crisis phenomena in the world economy caused a fall in the volumes of Kazakhstan's trade with foreign countries in 2009. The key factors, under the impact of which the formation of Kazakh external trade took place in 2009, were the following: a rise in world prices for energy resources on the world's markets after their abrupt fall in the second half of 2008 (the increase in the world's prices for oil from U.S. $40 per barrel in December 2008 to U.S. $70 per barrel in August 2009 was possible due to a contraction in oil extraction by OPEC countries, a further extension in demand for oil by India and China, anti-crisis programmes implementation, and depreciation in the USD); instability of inter-country financial flows related to the crisis on the world's largest stock exchange markets; the repetitive rise in the price of foodstuff. All these factors made varying degrees of impact on the dynamics of the international trade flows of Kazakhstan.

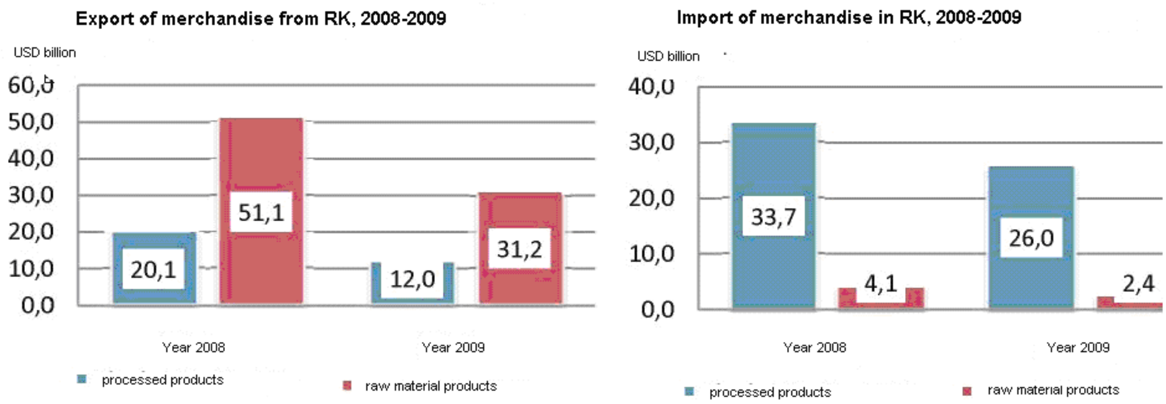


Fig. 3.16. Main indices of external trade in Republic of Kazakhstan (USD billion)
*Source*: *the data of the Customs Committee in the Ministry of Finance, RK*

For the year 2009, the dramatic shrinking in the value volumes of exports and imports was observed. According to the data of *The Customs Committee* in the Ministry of Finance, RK (Fig. 3.15), in 2009 exports contracted by 39.3% compared to 2008, while the decrease in imports accounted for 24.0%.

The foreign trade turnover, according to the same committee's data, in 2009 was U.S. \$71,604.4 billion; compared to 2008 it went down by 34.3% (processed products 29.3%, raw materials 39.2%).

In the total goods turnover, the share of exports in 2009 accounted for 60.3%, (in 2008 it was 65.3%) the share of imports 39.7% (34.7% in 2008).

Due to the high price of oil and other raw material goods in the first half of 2008, an accelerating rise in exports compared to imports was observed. However, in the second half of 2008, the sharp decrease in the world's prices for many raw material goods - primarily oil - began; this was still continuing at the beginning of 2009 and correspondingly led to the substantial decline in foreign trade indices by the following year.

The foreign trade balance decreased for 2008-2009 by U.S. \$18,569.5 million. If in 2008 it accounted for U.S. \$33,356.6 million, then in 2009 it went down to U.S. \$14.787.1 million. It should be noted that against the background of essential export shrinking, the foreign trade balance, nevertheless, remained positive.

The positive trade balance was possible basically due to the maintenance of physical volumes in raw material goods exports, the decrease in consumer goods demand in the internal market, including for imported goods, and the positive dynamics in the world's prices for energy carriers.

Kazakhstan's exports in 2009 accounted for U.S. \$43,195.8 million, and compared to those in 2008 went down by 39.3%. Thus, the export of processed products amounted to U.S. \$12,000.0 million, or 27.3% of total merchandise exports. 39.5% of the processed products were exported to Asian states, 22.9% to the EU states, and 21.5% to other countries of Europe and Asia.

The reason for the decrease in the value volume of exports in 2009 compared to 2008 is the dramatic decline in the price level for basic raw material goods exported by Kazakhstan at the end of 2008.

The economic crisis of 2008-2009 negatively affected the volumes of export of processed products, which contracted by 40.2%, and of raw material products, which contracted by 39%.

### 3.6. Measures of state anti-crisis policy

#### 3.6.1. Russia

Up to now, the Russian Federation government has formed and implemented a wide set of anti-crisis measures, which is unique in terms of the number of forms and directions of the government's impact on the economy and by the volumes of the resources used.

From the beginning of the implementation of an anti-crisis policy, the following priorities were declared:

- Maintenance (guaranteeing of stability) of the financial sector
- Social support of the population, maintenance and creation of new jobs
- Maintenance of those industries within the economy's real sector that are most sensitive to crises, based on the promotion of internal demand and import substitution
- Maintenance of system-forming and city-forming enterprises

In very condensed terms (practically from November 2008), a complex range of anti-crisis measures was declared in order to support the real sector of the economy, whose implementation required not only the development and adoption of a number of normative legal acts, but also the formation of new mechanisms of 'manual administration' by different instruments. A lot of these measures were implemented under conditions of rigid term limits and the strongest pressure on the part of various interest groups.

In general, the anti-crisis measures in Russia were directed towards solving the following tasks:

- the extension of companies' access to financial resources (direct crediting by state-owned banks or financial institutes of development, and their capitalisation; stimulation of private crediting by granting subsidies on interest rates and state guarantees; banks' recommendations on crediting; extension of terms in order to attract capital based on issuing shares and bonds and their purchase by the authorised organisations).
- To decrease the burden on business (tax load, import tax duties, administration load, limited rise in tariffs for services and products of natural monopolies subjects).
- Mitigation of negative social consequences and labour market development, increase in unemployment benefits, co-financing of regional employment programmes, restrictions on foreign labour utilisation.
- Stimulation of internal demand (public procurement, advancing, preferences for domestic producers, purchases and investment programmes for natural monopoly subjects, leasing, protective customs measures, subsidies for consumer loans).
- Support of small and medium-sized businesses (co-financing of regional programmes for SMB development, programmes of SMB crediting on the part of *Vnesheconomban*, competition development).

In general, the overall volume of additional resources proceeding from the existing estimates of the 'value' of separate anti-crisis measures related to the real sector of the economy, in October 2008 – December 2009, is estimated to be ruble 2.1–2.5 trillion.

As a whole, the anti-crisis measures, both by their number and their character of redistribution of resources, are concentrated 'in the brinks', i.e., on supporting large and small businesses.

The companies of many industries were the tragets of these anti-crisis measures. However, even taking into account the external 'diversification' of anti-crisis measures for numerous industries, the special supporting actions were represented insufficiently or not at all. These related to the chemical industry, forest-industrial complex, light and food industries, building material industry and a number of others.

If one is to judge the quantity of actions, then the industrial priorities are seen quite clearly: these are basically the support of car-building and agricultural chine building, defence-industrial complex, agro-industrial complex, housing building, and railroad transportation. However, if one is to take into consideration the scales of resources spent on these actions, then the oil and gas complex no doubt relates to the number of industrial priorities whose companies, according to some estimates, saved ruble 200-250 billion in 2009. The measure of both direct and indirect support of car and agricultural machine-building 'weighed' ruble 190-200 billion, UIC approximately ruble 180 billion.

The spectrum of instruments by which the country implements one or another anti-crisis measures is quite broad, and includes almost the full set of leverages it has at its disposal – from tax politics to administrative-organisational instruments. The groups of instruments primarily involved are as follows:

- Tax instruments (lowering of rates of some taxes; tax benefits; changes in order of imposing).
- Customs instruments (multiple differently-directed changes in customs duties).

Thus, one can state the definite misbalance in favour of selective measures, while as the negative crisis impact was expanding. To some extent, this was caused by the lack of implementation of systemic instruments of industrial politics.

### 3.6.2. Ukraine

In discussing the Ukrainian anti-crisis politics, one can emphasize several factors. The main directions of the impact of the world's financial crisis on the economy of Ukraine are the contraction in the demand for Ukraine's traditional export goods and the limited access of Ukrainian economic agents to the world's capital markets. Moreover, it should be mentioned that this negative external impact would exacerbate the internal institutional problems and structural misbalances, which have been accumulating in Ukraine for the past years. Therefore it can be stated that the current economic crisis in Ukraine is caused by a complex combination of internal and external factors that, in turn, affect the real opportunities for the country to resist the crisis effectively.

*The National Bank* was the first to respond to the crisis, as the financial system was its first victim. During NBU several times revised the politics of refinancing the commercial banks. Banks received an opportunity to obtain re-financing outside of the usual process, using practically any assets as collateral. This permitted banks to use freely their funds in correspondent accounts. On the 5$^{th}$ of January 2009, NBU increased its requirements to deposits in foreign currency reserving to 4% and 7% for time deposits and demand funds respectively. That reduced the attractiveness of increasing funds in foreign currency for commercial banks. Simultaneously, from December, the reservation of funds in local currency was made by the 0% rate. In this way, NBU stimulated a decrease in dollarization.

In October 2008, Ukraine was one of the first countries to address the IMF with a request to grant it a 'stand-by' loan to maintain financial and macroeconomic stability in the country. At the end of October 2008 *The Verkhovna Rada* (the local Supreme Council) adopted the anti-crisis act as being one of the terms to obtain the loan. The Act had some key components: banks recapitalisation, an increase in insurance coverage of population's deposits in banks (up to UAH 150 thou.), setting up a stabilisation fund and taxation of agriculture.

From November 2008, *The Parliament* and *The Cabinet of Ministers* adopted a number of 'anti-crisis' normative acts in the fiscal sphere, directed to the support of the real sector, including industry, construction, and agriculture. In particular, the "Act on Domestic Industry Support" proposed to exempt equipment, its components and spare parts transported to Ukraine by industrial companies temporarily – from 1 January 2009 to 1 January 2011 – from entrance duty and VAT, aiming at new industries creation and the implementation of energy saving technologies.

According to the anti-crisis act approved in October 2008, the State budget for 2009 proposed the establishing of the Stabilisation fund in the amount of UAH 20.0 billion. It was planned to direct the returns from the privatisation and sale of non-agricultural property (UAH 9.8 billion), loans of international organisations (UAH 4.2 billion), and the insignificant share of the state budget revenues. However, there was a risk of financing current costs at the expense of the Fund instead of directing the funds to infrastructure projects. In particular, the allocation of 350 million a month from the UAH Fund for miners' wages evidenced in its favour.

At the same time, the systemic problems in the Ukraine's economy and the lack of a consolidated and economically sound position on the part of politicians and government leaders with regard to the goals, principles, and methods of monetary and economic policy, aiming at overcoming the crisis phenomena, essentially worsened the prospects for the Ukrainian economy's development in the nearest future, and its opportunities to quit the recession soon.

### 3.6.3. Belorussia

In order to level the negative consequences of the worlds' financial economic crisis, the Government of the Republic of Belarus is undertaking a whole complex range of corresponding anti-crisis measures, comprehending all industries of the economy.

Thus, the Government of Republic of Belarus approved "The system of actions ensuring the economic security of the Republic of Belarus under conditions of the world's financial crisis". This programme document includes three main sections: the banking sector, the budget sphere, and the real sector of the economy.

A whole complex range of measures had been taken within the framework of the above System. In particular, in order to maintain the banking system liquidity at the budget's expense, the key banks of the country received some support; the Decree of the President of the Republic of Belarus was approved, incorporating the state's guarantees of individuals' deposits returns in any bank in the country; the decision was taken to increase from 1 January 2009 the minimal amount of the normative capital, for those operating banks having a right to run banking operations to attract individuals' funds into deposits, from Euro 10 to 25 million in equivalent, which increases the bank's stability and ensures their high level of responsibility.

Under the conditions of the financial crisis and taking into account the possible contraction in budget revenues, it was required to optimise the budget revenues, in particular to introduce limitations on non-primary costs and to determine the highest priority directions of budget funds spending.

The projected economy of budget expenditures dealt primarily with the contraction in budget organisations costs and the rather considerable decrease in their capital spending.

In order to contract the state expenditures, the inventorying of state programmes was conducted according to their importance for the economy; duplicate programmes of low-effectiveness and investment projects were cancelled. Nevertheless, the financing of the most important social programmes remained almost the same.

Thus, the approaches used to optimise budget expenditures would allow full-scale financing of the priorities of the budget politics of the country, i.e., the social budget expenditures.

The main task of the real sector of the economy is to maintain the rates of exports and to return the export proceeds to the country. The industrial and regional actions aimed at the stable economic development of companies under the conditions of the world's financial crisis were approved everywhere subject to execution. The Republican and local bodies of government continuously carried out work on the extension of using domestic materials and components in the process of export production manufacturing; on supplies of products of Belorussian origin on leasing conditions; and on granting discounts and payment graces to buyers of Belorussian products. The possible prolongations of credit agreements concluded with foreign banks are under study as well.

Moreover, the first-priority measures in terms of economic operation liberalisation were elaborated and approved by the Prime Minster of the Republic of Belarus. The results of their implementation in the first half of 2009 were the following:

- More favourable conditions for a simplified system of taxation were created.
- The list of goods subject to price regulation was contracted, and the registration of prices for new goods was cancelled.
- Starting 1st February, the effective mechanism of implementation of the application principle of economic subjects' registration was adopted, resulting in a considerable increase in the number of organisations registered.
- The certificate-granting activities in the areas of construction, sanitation, anti-fire norms and regulations were simplified; the compulsory certification of tourist services and some kinds of building works was cancelled.
- The procedures of construction, reconstruction, modernisation, repairs of objects 'under key' were up-graded; the order of conducting project works was defined.
- The order of conducting transactions with securities was simplified.
- The list of types of handicraft activity was extended.

Moreover, additional measures aimed at stimulating domestic inventors and producers to create and implement new high-technology products based on R&D results were taken.

The law on bankruptcy and on insurance was upgraded.

In order to improve ownership and land relations, the process of conducting auctions was simplified; the order of state-owned property disposal, the procedure of its alienation, and the mechanisms of the property's involvement in the economic turnover were improved.

The purposes and main directions were determined; new mechanisms of governmental support of small business subjects were introduced within the framework of state support of small businesses at the expense of funds from the Republic's and local budgets.

A number of other actions of a liberalisation character were implemented. They were aimed at stimulating an increase in business activities, entrepreneurship development, investment process activisation, and solving other problems having the most negative impact on the business environment. 68 of 75 amendments were fulfilled, more than 50 normative legal acts and other decisions were adopted, and 17 drafts projects were prepared.

The conclusion can be made that the Government of Republic of Belarus currently carries out expedient and complex work on preventing the negative impact of the world's financial crisis on its economy, which allows such consequences to be neutralised or at least minimised.

### 3.6.4. Kazakhstan

Kazakhstan was one of the first countries to begin the implementation in practice of a strategy for state support of the national economy.

By the mutual plan of the Government, the *National Bank*, and the *Agency for Regulation and Supervision of the Financial Market and Financial Organisations*, the volume of stabilisation measures reached tenge 2.17 trillion, or U.S. $14.5 billion. The main block of actions financed from the *National Fund* funds comprises five elements; stabilisation of the financial sector; support of the housing sectors and mortgage lending; development of small and medium-sized businesses; development of the agro-industrial sector; and implementation of innovative, industrial, and infrastructure-development projects.

At the expense of a decrease in reserving norms by *The National Bank*, the second level banks raised their resource base by tenge 350 billion, and the decrease in tax load saved tenge 500 billion for business. Furthermore, *The Foundation of Stress Assets* in the volume of tenge 122 billion was set up. During 2009-2010, additional financial support was allocated in the amount of tenge 500 billion, or $4 billion, presuming the re-orientation of revenues from the raw material sector of the economy on the implementation of extended stabilisation actions, primarily in the banking sector.

The anti-crisis measures of Kazakhstan's government were similar to those taken in the developed countries. Thus, in the countries of the G-20 nations the decrease in tax rates comprised a third of anti-crisis measures, in Kazakhstan only 11%. The main distinction of the measures taken in Kazakhstan is their monetary character: during 2008-2009, $16.3 billion was spent from the National Fund as transfers. The anti-crisis measures of Kazakhstan were basically oriented to the financial and construction sectors, and to a larger extent, to households. While Canada, Great Britain, and the United States declared an increase in unemployment benefits, Canada, Korea, and Japan granted monetary transfers to households; Australia and Germany gave monetary aids to support children and gave monetary benefits to pensioners. In Canada, Germany, Indonesia, Italy, Great Britain, and the USA, the rates of income tax were lowered for individuals, together with the lowering of corporate rates. In Kazakhstan, the rates of corporate income tax, VAT, and social rates were subject to a decrease.

### 3.7. Conclusions

Economic problems in the United States and other developed countries had a negative impact primarily on stock markets. In September 2008, the fall in stock indices was caused by the fact that foreign investors began actively to get rid of their shares, including those in CIS countries. The negative influence of this factor manifested itself considerably in Russia, Kazakhstan, and Ukraine, where the stock market development is at a relatively high level compared to other countries in the region.

The development of adverse trends in the CIS countries' economies in the second half of 2008 unfavourably affected the region's countries' solvency, their ability to execute their debt liabilities to creditors timely and completely, and the investment attractiveness of the countries as a whole.

Thus, the vulnerability of CIS countries' national economies was caused by their strong dependence on the world's market conjuncture. In the pre-crisis period, the overall regional economy had been growing rapidly as a result of an increase in volumes of export supplies and also foreign investments inflow. This, in turn, required considerable investments. Western companies and banks began to issue loans to post-Soviet countries' companies. Later on, the rates of economic development in CIS countries for almost the past ten years stopped meeting the requirements of the world's capital market of goods and services and were transformed by the action of the world's financial crisis.

The problems in the financial sectors of the economies of CIS countries entered an acute phase of development in the fourth quarter of 2008, inevitably leading to crisis processes in the real economy.

The development of crisis processes in the financial and real sectors in the economy led inevitably to the augmentation of social pressure in CIS countries. Many companies and overall industries in the economy proved to have an excess of labour due to the contraction in the demand for goods and services in external, regional, and internal markets. As a result, starting at the end of 2008, an active rise in unemployment was observed in some post-Soviet countries. In the first quarter of 2009 compared to the analogous period in the previous year, the maximum rise in the number of unemployed on the registered labour market was reached in Ukraine (36%), Moldova (32%), and Russia (27%). In Azerbaijan, Belorussia, Kirghizia, and Tajikistan, on the other hand, a decrease in the number of unemployed citizens registered at the labour exchange was observed.

Thus, the development of crisis processes in the financial sector of the economy in the fourth quarter of 2008 negatively affected the CIS countries' economic and social development at the end of 2008 and the beginning of 2009; the steady economic growth of almost ten years was substituted for economic recession in a lot of countries in the region. The depression of economic activities is expressed by the fall in industrial output volumes, investment contraction, reduced cargo transportation, growth in unemployment, and also in the decline in the GDP volumes of a number of post-Soviet countries.

The character of the anti-crisis politics operating in the Commonwealth countries differs to some extent depending on the crisis spread and depth, and on the internal possibilities of the economies. In some countries (Russia, Kazakhstan), the anti-crisis measures are realised within the framework of a single anti-crisis programme; in other countries (Belorussia, Ukraine etc.) they take the form of separate normative-legal acts. The largest and strongest economies of the post-Soviet countries (Russia, Kazakhstan), while implementing anti-crisis actions, relied on their own financial resources that had been accumulated during the pre-crisis period as a result of profitable trade, but most states (Belorussia, Ukraine) relied on other countries' and international organisations' resources.

## CHAPTER 4. COMPARATIVE ANALYSIS OF THE GLOBAL ECONOMIC CRISIS' CONEQUENCES AND IMPACT ON CIS COUNTRIES ECONOMIES

### 4.1. Introduction

The CIS region appears unique in terms of the global financial-economic crisis' impact on it. It includes both the countries that have been least affected by the crisis, and those countries that have suffered more than others. Azerbaijan, Turkmenistan, and Uzbekistan maintained positive and comparatively high rates of growth (over 5%) due to their specialisation in hydrocarbons and the relative closeness of their economies, and primarily to their low extent of integration into the world's financial markets. Belarus, Kazakhstan, Kirghizia, and Tajikistan also remained 'afloat' (with positive rates of growth but essentially lower than in the first three countries). The group of the most suffering states is headed by Ukraine, where, due to its strong dependence on external financing, the economy overheated in pre-crisis years, and whose GDP, due to a lack of agreed actions by monetary and budget authorities in the sharp phase of the crisis, fell by 15%. A similar situation developed in Russia (GDP -7.9% in 2009), Armenia (-14.4%) and Moldova (-9%). In general, the impact of the crisis was defined by external trade specialisation, dependence on the international capital markets, its trade relations with Russia, the size of its labour migration, the quality of its internal economic policy and other factors.[10]

The restoration of the region's economy began in the second half of 2009. Among several factors of recovery, the main impact on CIS countries was due to the rapid rise in demand for raw materials on the part of the Asian-Pacific region, primarily China. In 2010, growth was observed in all CIS countries and with a wider base. However, the restoration proceeded unevenly. Despite the base effect, those countries that suffered less during the crisis were growing faster. The slowest growth in the first quarter of 2011 was in Russia.

Often, the deterioration in the budget situation becomes the impulse to introducing reforms in many countries. A lot of them continue to co-operate with the IMF, but programme coordination proceeds slowly because the Fund demands the introduction of politically unpopular structural reforms. Therefore, countries try to use alternative sources of funds that do not require taking on a lot of commitments for a very short time. These may be loans from other international organisations, intergovernmental loans, or entering the euro bonds market (currently the road show taking place in one of the closest countries in the region – Belarus). Nevertheless, it is hardly possible to avoid structural changes completely. On the other hand, the penetrating euro bonds market requires a substantial increase in public finance transparency, which also constitutes a significant structural reform.

Thus, the reforming process in those CIS countries that have suffered most from the crisis will, probably, go faster than in the less suffering ones. The exception will be Russia, where due to the 'safety pillow' accumulated during the pre-crisis period, the problem of budget financing is not so acute. However, one can see definite changes in the Russian economic policy: first of all the politics of *The Bank of Russia* are being changed, then its budget politics. In regard to the latter, one can refer to the Ministry of Finance's decision about the extension of the budget deficit financing at the expense of internal loans. And finally, the work on lowering administrative barriers for small businesses is proceeding slowly. However, dramatic improvement in the business climate is not taking place, and the

[10] Alesina, A. and Fuchs-Schuendeln, N., 2007. 'Good Bye Lenin (or not?) – The effect of communism on people's preferences', American Economic Review, 97, 1507-1528.

issues of social stability maintenance should probably prevail over the issues of modernising the economy.[11]

Overall, it is too early to talk about growth in every country. Much will depend on the situation in the global economy. Furthermore, the crisis demonstrated how critically important is the quality of the government administration, including the financial sphere, and also the competitiveness of non-raw material sectors. Therefore, the growth stability in CIS countries in the post-crisis period will be dependent on the extent of their adjustment to new global realities and their ability to improve their internal politics.

### 4.2. Spreading of the global crisis within CIS countries

The recent global economic crisis began from the financial tremors at the end of summer 2007. Then it spread from the mortgage market in the United States to its banking system and touched on the interbank markets of both developed and developing countries. The financial institutions of the developed countries incurred direct losses from their participation in the 'bubble' established in the mortgage market in the USA and some other countries (Great Britain, Spain, Ireland, etc). The financial markets acted as the main channels of the crisis spread, so mostly developed countries suffered from it in the first stage. However, in these very countries the 'infecting' by crisis phenomena went from the financial sector to the real sector, expressed in the rates of slowdown in economic growth and the beginning of the economic recession in the first and second quarters of 2008.

At this stage of the crisis spread, developing countries were affected by it to a much lesser extent compared to developed ones. However, they too faced a number of problems, including the problem of an increase in the cost of borrowing on the world's financial markets. Countries with a high level of external indebtedness and a deficit in the balance of payments current account (i.e. highly dependent upon external financing) appeared in the 'group of risk'.

Regarding the countries comprising the Commonwealth of Independent States (CIS), their financial institutions took practically no part in investments in complex financial products, popular in the developed countries. However, in Kazakhstan, whose banking system was then one of the most developed in the CIS, a high level of external indebtedness had been incurred. The country's external debt in 2007 accounted for about 93% of GDP, and approximately half of it comprised the banking sector. In addition, an apparent 'bubble' was formed in the real estate sector of the country. Therefore, Kazakhstan became the only state within the CIS group that was considerably impacted by the first wave of the crisis. It affected mostly the country's banking system, real estate sector, small businesses, and retail trades (the latter because of the limited access to credit). However, the 'basic industries' (fuel-engineering, metallurgy) still kept the country's economy 'afloat'.

The second wave of the crisis began in summer-autumn 2008 and enveloped most CIS countries. It spread according to the following channels:

An outflow of foreign capital from the developing countries' markets occurred. Foreign portfolio investors were striving to return their funds into their home countries (primarily developed countries) to cover the financial losses suffered and to solve their liquidity problems. The CIS countries themselves experienced the capital outflow from stock markets as early as summer 2008, when the fall in stock indices began in those countries, which had been relatively developed. From the end of May 2008, the decline in the indices of the Russian stock exchange (MICE) and the Ukrainian EESTS began, and from July 2008 in

[11] Countries of Central & Eastern Europe versus global economic crisis / edited by Jerzy Kitowski. - Warsaw : Polish Academy of Sciences, Institute of Geography and Spatial Organizations, 2009. - 430 p.

the Kazakhstani stock exchange. In general, from the beginning of 2008 to the beginning of 2009 the MICE index fell by 67%, that of the Kazakhstani stock exchange by 66%, and that of the EESTS by 74%.

The corresponding changes manifested themselves first in the balance of payments as a contraction in portfolios, and then in direct and other foreign investments. It is logical that the maximum stability in the crisis period was demonstrated the flows of direct investments, while the investment inflow of portfolio and other investments was often replaced by their outflow (together with the repayment of commitments taken on previously).

The contraction in demand for exports from developed countries caused a chain of decline in prices for raw material goods. For instance, the price of West Texas Intermediate brand oil fell from $47 per barrel at the beginning of 2008 to $45 per barrel at the end of 2008. As the CIS countries are basically exporters of raw material goods and goods with a low degree of processing, the decline in prices for their exporting products led to a significant shrinkage in their external trade volumes. If, according to the annual data for 2008, this fall was not so marked (due to the extremely favourable impact of foreign economic conjuncture in the first half of 2008), then in the first half of 2009, it manifested itself completely in the statistical data. Thus, the total volume of foreign trade operations in the first half of 2009 compared to the analogous period in the previous year declined in Ukraine by 5%, in Russia by 45%, in Kazakhstan by 42%, in Belorussia by 40%; meanwhile the average prices for exports for the first half of 2009 fell by 4% on average.

The decline in exports and production volumes in the key industries of manufacturing resulted in wage reductions and/or workers' dismissals, which negatively affected internal consumer demand. One more channel of its impact on the labour supplying countries in the CIS labour market became the contraction in the number of migrants that had been working abroad and had lost their jobs due to the crisis. Thus, in Ukraine, the credit by the balance of credit article 'current transfers' went down in 2008 compared to 2007 by 9.3%. In other countries – specifically the major recipients of current transfers (Moldova, Georgia, and Tajikistan) - the rise continued in 2008 as the crisis' impact had not manifested itself fully. However, in the last quarter of 2008 and in 2009 this impact was seen clearly. Thus, in Moldova, in the first half of 2009 compared to the analogous period in 2008, the article 'current transfers' went down by 30%, and in Tajikistan by 42%. In Armenia, the gross inflows of individuals' transfers through commercial banks for the period from January to October of 2009 (compared to the analogous period in the previous year) declined by 27%. It should be mentioned that the number of labour migrants for the country during the pre-crisis period was very highly significant, including from the aspect of economic growth promotion. Thus, for example, for Tajikistan, the volume of inflow from transfers abroad accounted for 49% of GDP, for Moldova 29%, and for Kyrgyzstan 27% in 2007.

Under the action of external factors and a demand for foreign currency, and in the uncertain circumstances, pressure to move towards lowering their rates on the national currency markets took place. Real possibilities to support the exchange rates existed only in the countries with considerable currency reserves (Russia, Kazakhstan, and Azerbaijan). Nevertheless, practically all the countries were trying to avoid the decrease in their exchange rates by using currency interventions. However, rates of national currencies declined simultaneously and gradually in practically all of them. In Ukraine, the rate of local currency went down sharply from the end of October to the end of December 2008, in Russia it declined from November 2008 to February 2009, and in Belorussia and Kazakhstan a one-time depreciation was carried out in January of 2009. On the one hand, the currency depreciation resulted in accelerating inflation and a rise in the external debt burden.[12]

If one is to judge events according to economic dynamics indices, i.e. real GDP and industrial output, then Armenia, Kazakhstan, Moldova, Russia, and Ukraine experienced the most negative impact of the world's economic crisis. Kyrgyzstan, where in 2008 the crisis' negative effect was softened by the rise in revenue from the export of gold extracted in the country, demand for which had increased during the crisis, represents an interesting example. The increase in the industrial output in the country, according to the results of 2008, reached 5%; however, even in the first half of 2009 compared to the analogous period in 2008, the industrial output contracted by almost 9%.

### 4.3. Comparative analysis of monetary sectors within CIS countries

Most countries maintained the politics of a fixed or quasi-fixed currency rate of exchange, which limited the central banks' impact on the money mass and interest rates and made the situation inside the country greatly dependent upon international markets.

In the less integrated countries in the global financial markets, the exchange rate depended on the prices for basic raw material exports, and the effect of currency proceeds inflow could be regulated at the expense of the stabilisation funds.

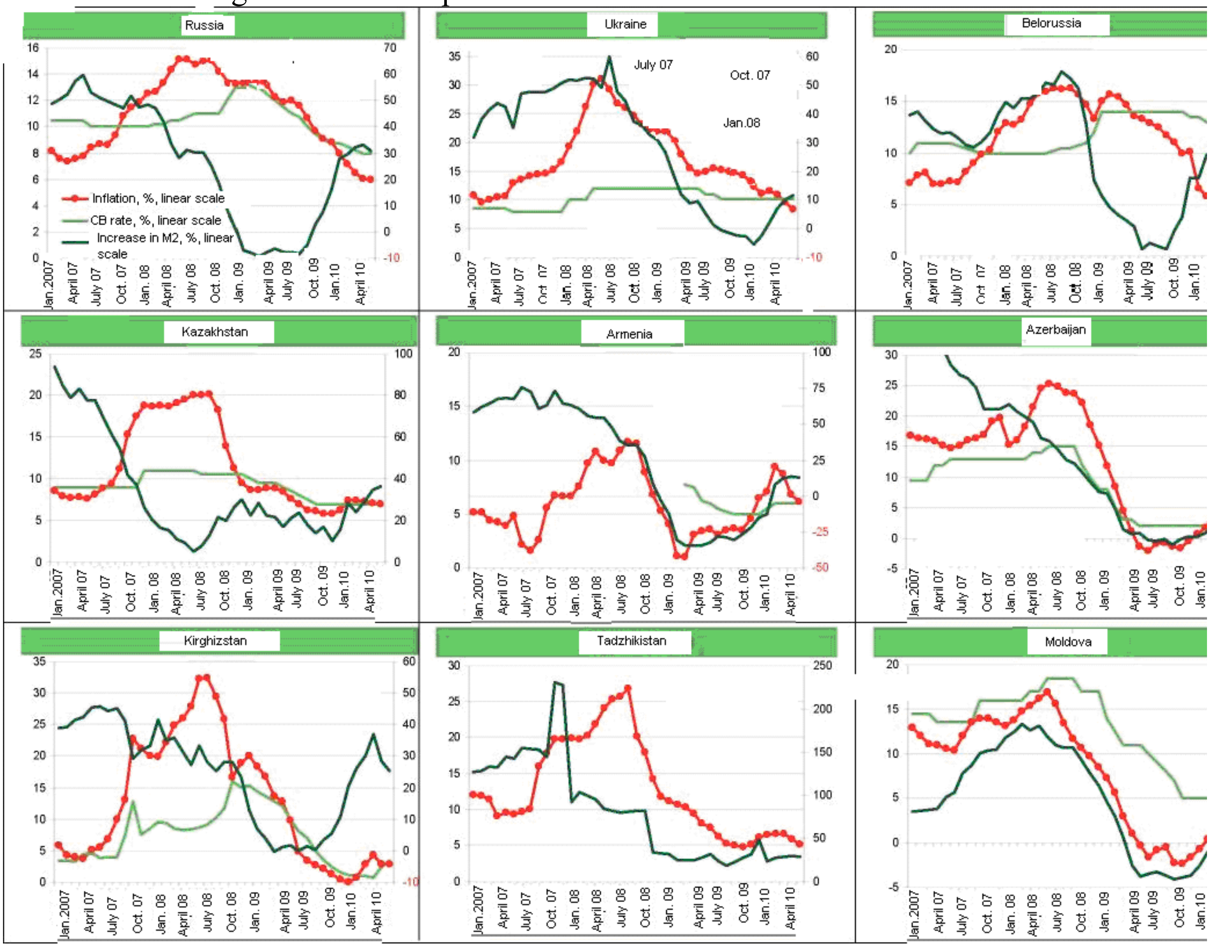


Fig. 4.1. Rates of inflation in CIS countries (%, linear scale)
*Sources*: *Bloomberg, Committee for Statistics of CIS*

[12] Denisova, I., Markus, E. and Zhuravskaya, E. (2008). 'What Russians think about transition: Evidence from RLMS survey', CEFIR and NES working paper n°113.

The process of decrease in inflation rates in most countries is slowing down and even moving into the stage of stabilisation and a new spire of increase (Fig. 4.1). At the beginning of 2009, the rising trend was noted in Azerbaijan, Armenia, Moldova, Kirghizia, Belarus, and Kazakhstan. This trend proved to be unstable in all of these countries except Belarus. For several months, the slowing down and even the fall in the rates of price increase was observed. In any case, the sharp rise in inflation had stopped. That was only partially connected to the start-up and acceleration in the positive rates of economic growth, and to a large extent was caused by the rapid restoration of money mass in the previous months.

The financial crisis was accompanied by the capital outflow and/or the decrease in export proceeds, which stimulated the CIS countries currencies' depreciation. As a result, the central banks of all CIS countries (except Azerbaijan) conducted an essential depreciation of their currencies (Fig.4.2).

Most countries began the process of devaluation (perhaps under control) at once after the crisis started (Russia, Ukraine, Kirghizia, Moldova, Uzbekistan), but some of them decided to hold the stable rate for a long time (Kazakhstan, Belarus, Tajikistan, Armenia). For the crisis period, many countries spent the essential amount of their gold-currency reserves (hereinafter referred to as GCR): Kazakhstan (-17% GCR from September 2008 to January 2009), Armenia (-29% of GCR from August 2008 to February 2009), Belarus (-36% from August 2008 to January 2009). Of all the central banks in CIS countries, only the National Bank of Azerbaijan succeeded in holding its local currency (manat). However, as a result of its policy, the currency reserves have contracted by 16%.[13]

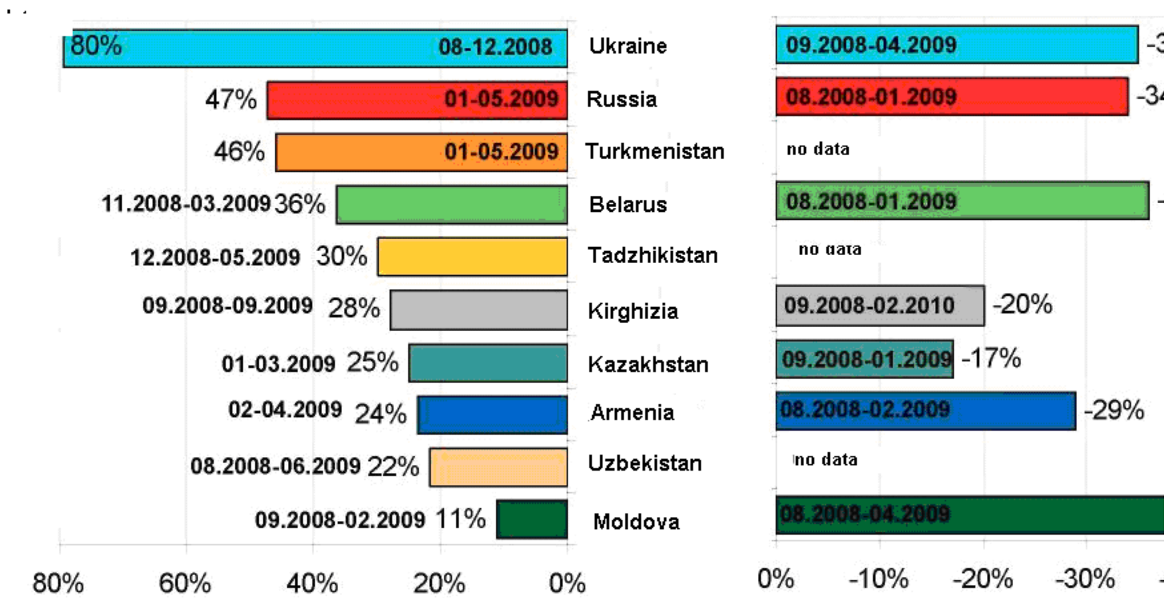


Fig. 4.2. Currencies depreciation and decrease in GCR in CIS countries, %
*Source: Bloomberg.*

The hryvna and the ruble depreciated the most. These currencies belonged to those countries that were most integrated into the world's financial system and that suffered most from the crisis. Moreover, the substantial part of reserves (34% in Russia and 35% in Ukraine) was spent. The Kazakhstani tenge depreciation was lower due to the fact that the

[13] First the transition, then the crash : Eastern Europe in the 2000s / edited by Gareth Dale. - London : Pluto Press, 2011.

People's Bank of this country did not try simultaneously to hold its local currency rate and to save the banking system at the expense of its massive crediting by new loans.

### 4.4. Comparison of real sector within CIS countries' economies

Among CIS countries, one can find several variants of the crisis' impact on them, as follows:

- Slowing down the rates of growth under maintenance of high indices (more than 5%): Uzbekistan, Azerbaijan, and Turkmenistan.
- Keeping back the rates of growth at a level close to zero: Belarus, Kazakhstan, Kirghizia, and Tajikistan.
- Rapid fall in the rates of economic growth: Russia, Ukraine, Armenia, and Moldova.

The listed groups can also be used to distinguish the countries by their rates of restoration. Where the rates of growth remained positive in 2009, the beginning of 2010 appeared much more productive (Fig. 4.3): the rates of growth in GDP were higher in the first two groups of the countries despite the fact that the 'base effect' could take place in the third group of countries (i.e., the annual rates in growth proved to be higher due to its fall in the previous year).

Of particular attention is the almost unbelievably high growth in Kirghizstan (+16.4% yearly in the first quarter) and Turkmenistan (+20% yearly for the first half), although this was not due to the 'base effect' (their growth in 2009 was positive and comparatively high. In Turkmenistan, the state statistics are among the least reliable; therefore, it is difficult to judge the trustworthiness reports of such growth and their sources. Investments were increasing in this country (according to some information, the rise in investments for the first half of the year exceeded 50%), and as a result of the economy's small size, it may have had such a dramatic effect.

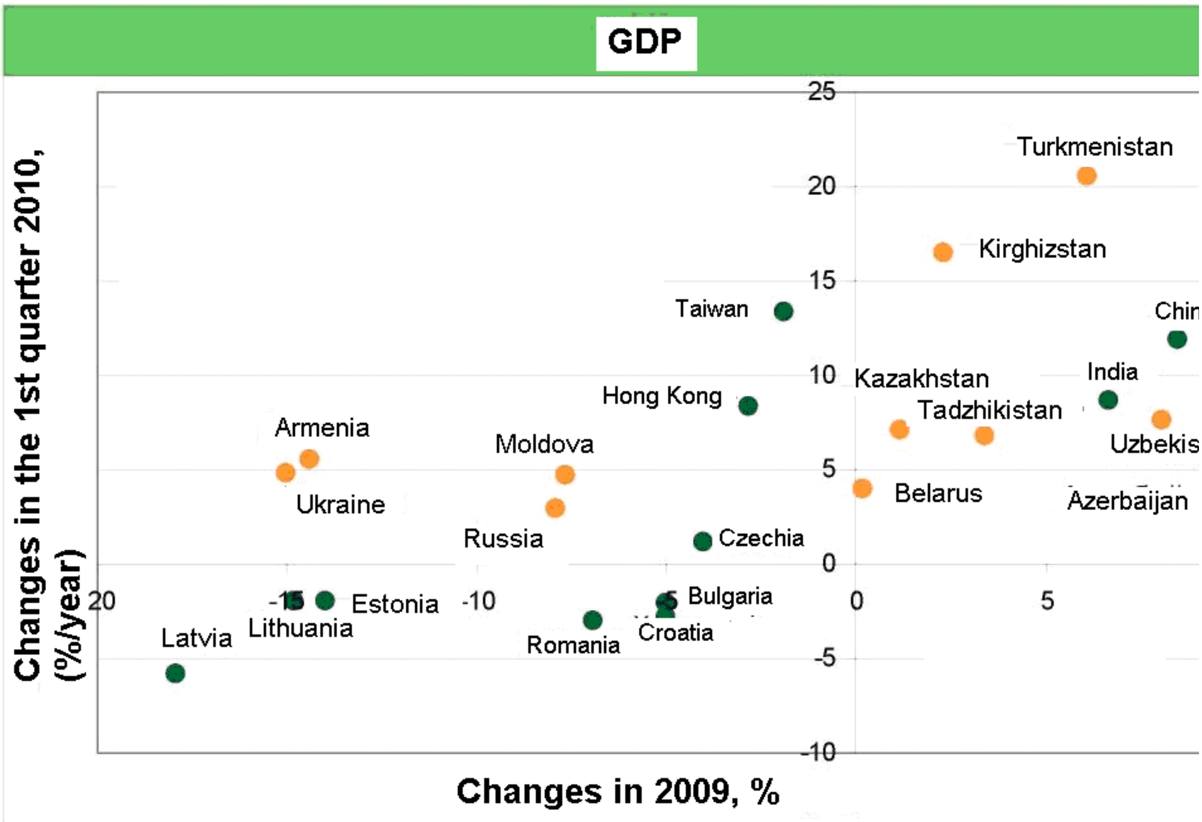


Fig. 4.3. Rates of growth in CIS countries' economies
*Source: CIS Committee for Statistics, Haver Analytics.*

The situation in Ukraine did not differ essentially from that in the most crisis-hit countries of Eastern Europe. This is explained by the similar pre-crisis tendencies. In both the Baltic countries and Ukraine, a boom in the lending market was observed during pre-crisis years. Also, there was a high deficit in the current operations account and rapid growth in the volume of external borrowings. That is why the fall during the crisis proved to be so deep (if one does not take into account the political situation). Ukraine perhaps managed to return to growth more quickly thanks to devaluation (the Baltic States could not make up their mind to do this), the restoration of prices for metallurgical products, and also to political stabilisation. The country faced another problem inherent to the countries of Eastern Europe: the poor state of public finances, and Ukraine is still very far from a solution. Recently, serious efforts were undertaken to reach a final agreement with the IMF; however, Ukraine is far from a full stabilisation of the situation.

Concerning the fast-growing Asian part of CIS, the dynamics of its restoration are similar to that in some countries of Southeast Asia. However, the comparison here is not completely correct. In China and India, the economies began to recover rapidly because of internal demand, determined to a large extent by the measures of state politics.

Speaking of internal consumer demand, its role still remains very weak, even in the first quarter of 2012 It is seen to be proceeding well from the dynamics of industrial output and retail product turnover, showing that the rate of these factors' restoration is related only slightly to the rate of GDP recovery (Fig. 4.4-4.5).

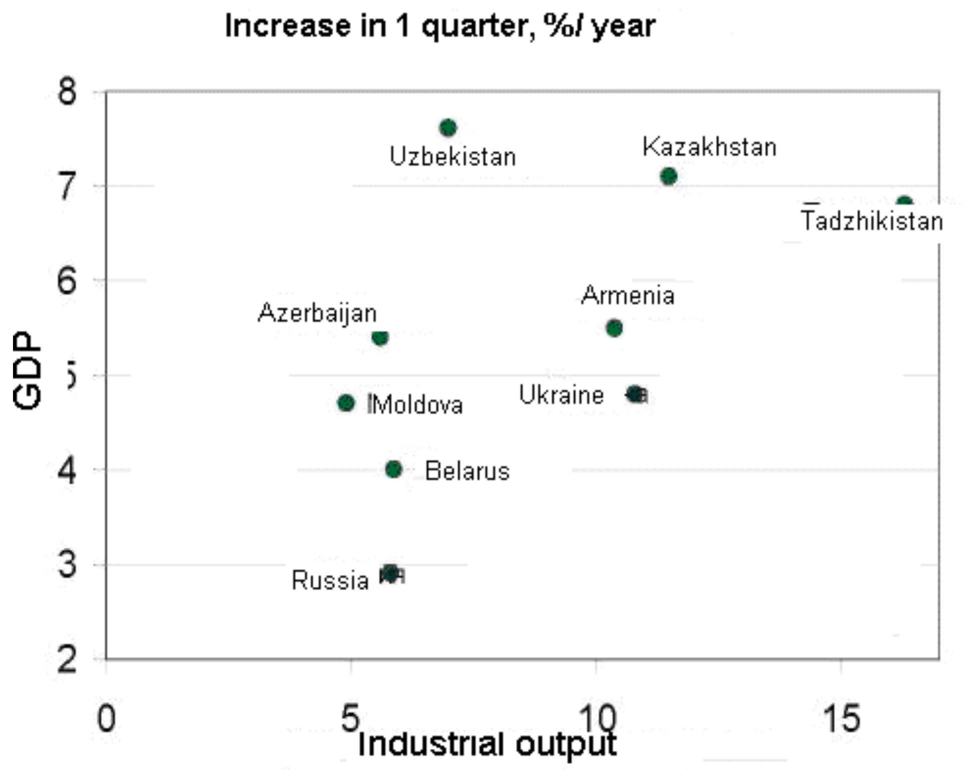


Fig. 4.4. Increase in industrial output in CIS countries, %

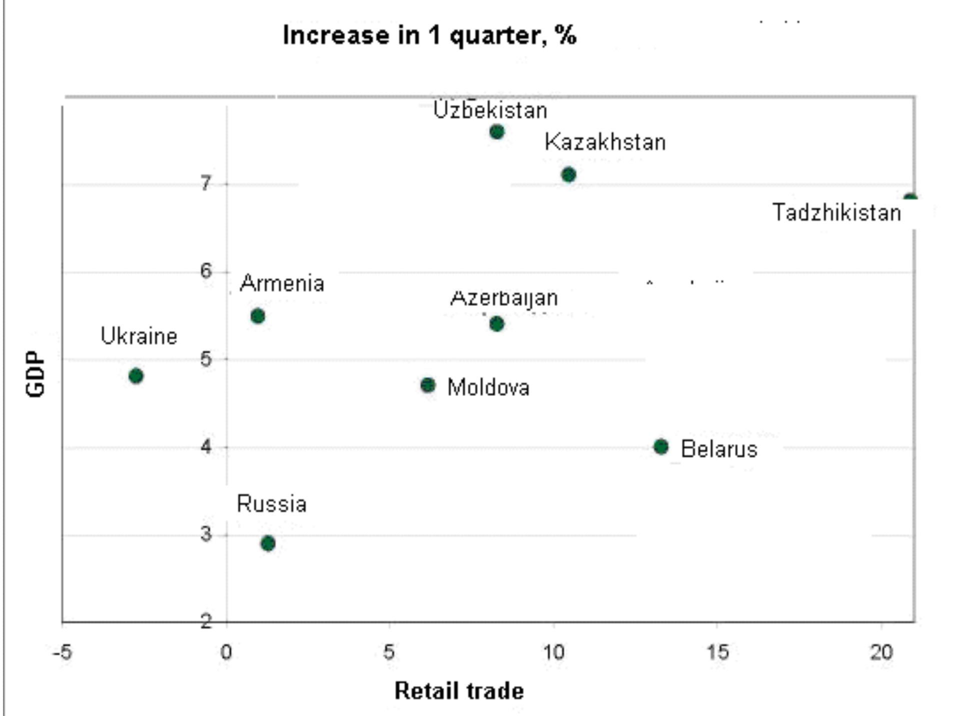


Fig. 4.5. Increase in retail trade in CIS countries, %
*Source: CIS Committee for Statistics*

### 4.5. Public finances in CIS countries

The fall in export proceeds and the necessity to support the economy negatively affected the public finances in all the countries of the region; the budget deficit in 2009 was negative in all the countries. Most of them were forced to use loans from the IMF or other organisations (EBRD, WB) or countries (Russia, China).

At the beginning of 2010, most pure exporters of the resources of the region gained a positive budget balance: this was the case for Azerbaijan (oil), Kyrgyzstan (gold), and Tajikistan (aluminium).

However, the budget situation remains tense in most countries, including Moldova, Armenia, and Belarus. The situation in Ukraine, where the state budget deficit is the main 'headache' for the whole economy, is even worse. The official statistics are lower than the real figures, according to its Prime Minister Nicolay Azarov. In 2009, the budget deficit reached 16%, which is the maximum value among all the CIS countries.

With regard to this, the co-operation with the IMF does not lose its topicality for most CIS countries. However, it requires an essential adjustment of their internal politics. That is why the countries are seeking other creditors and other means of financing their budgets.

The programme with IMF for $3.4 billion ended in March 2010, and the IMF remained a little dissatisfied with the way Belarus dealt with some of its commitments (in line with some reforms, including carrying out privatisation). The next mission will come to Minsk in October 2012. The IMF insists on including structural reforms into the programmes of Belarus. However, the need for funds will, probably, force it to reach a consensus with the Fund.

Using its comparatively stable economic situation, Belarus decided to try another way of budget financing: borrowing on other capital markets. Currently it is conducting a road show aimed at allocating euro bonds to the amount of, possibly, $500 million.

For small CIS countries, there is no alternative to co-operating with the IMF. Moldova ($574 million since January 2010), Armenia ($540 million), Kyrgyzstan ($100 million), and Tajikistan ($116 million) are still receiving loans from this organisation.[14]

### 4.6. Changes in the foreign sector and trade in CIS countries

The fall in prices for raw material goods affected the economies of CIS countries strongly and adversely during the crisis year 2009. For those countries that are pure exporters of raw materials (Ukraine, Moldova) it helped to reduce temporarily the current operations account deficit (Fig. 4.7–4.8).

[14] Robert C. Shelburne and Jose Palacin, Remittances in the CIS: Their Economic Implications and a New Estimation Procedure, UNECE Discussion Paper No. 2007.5.

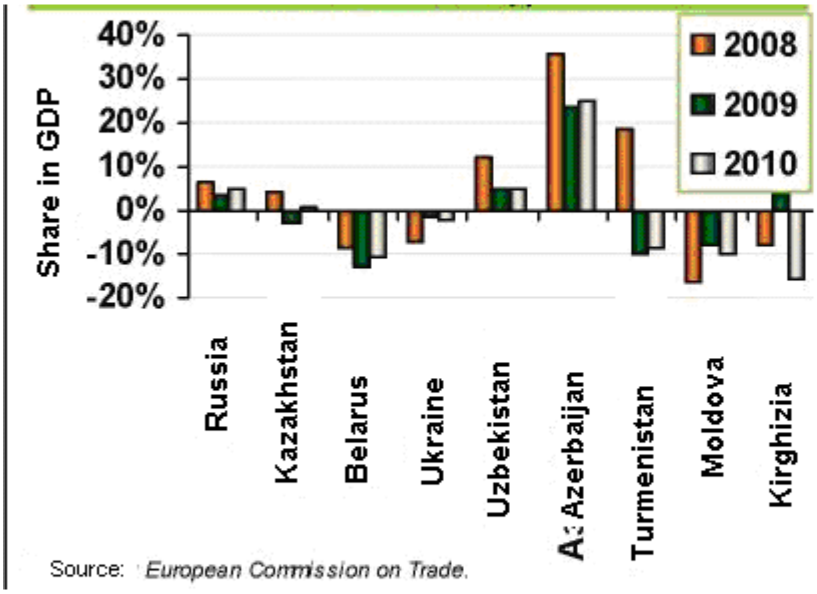


Fig. 4.7. Balance of the current operation account in CIS countries for 2008–2010 69 (%, share in GDP)

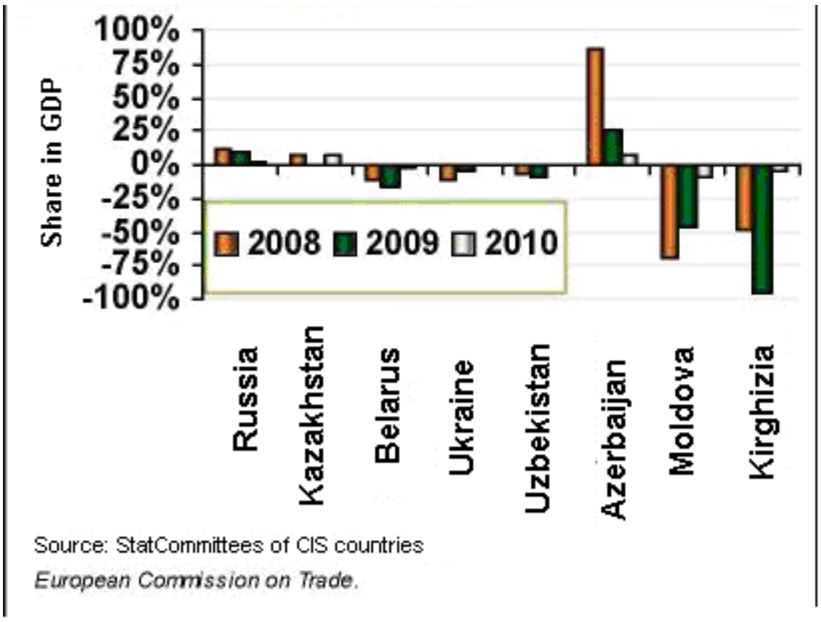


Fig. 4.8. Net trade balance in CIS countries for 2008–2010 (%, share in GDP)

As a whole, during the crisis year 2009, the foreign trade turnover of all CIS countries reduced sharply (on average by 38.2%): from -24% in Kirghizia to -62.1% in Azerbaijan. The foreign trade turnover of the Customs Union countries, i.e. Russia, Kazakhstan, and Belarus (hereinafter referred to as the Customs Union) fell by 41.3% in 2000, according to CMI estimates. The trade inside CIS also essentially declined (-36.5%) in the same year.

In the first quarter of 2010, the signs of apparent improvement began to manifest themselves on the basis of an increase in prices for exported raw material goods. Correspondingly, the most rapid growth in international trade was observed in Azerbaijan (partly as a result of a low base effect), Russia, and Kazakhstan, which helped the fast recovery of these countries' economies. Despite Belarus' apparently lagging behind, the external trade of the Customs Union was rising by higher rates than the CIS average (42.9% compared to 39.5%). The trade inside CIS during the first quarter of 2010 went up by 29.5%, i.e. lagging behind the rates of increase in trade with far overseas countries.

Both the international trade of CIS countries and their economies can hardly be called diversified. Among them one may distinguish several countries - raw material goods exporters with a considerable share (over 20% of GDP) of net exports - namely Azerbaijan (oil and oil products), Kazakhstan (oil, oil products, and mountain metallurgy products), Tajikistan (aluminium), and Turkmenistan (gas).

Beginning from 2000, a trend of decline in the intensity of trade inside CIS countries was evidently seen which manifested itself as a decrease in the trade turnover share of CIS countries in the total trade turnover.

The share of the Customs Union countries in the total trade turnover accounted for 18.0% in the first quarter of 2010, and 19.4% at the end of the first quarter of 2009.

The availability of energy carriers and other raw material resources inside the CIS exporter countries had determined the outside orientation of the Commonwealth, i.e. to far overseas countries, basically the European Union and China, and, for some of the CIS countries (Turkmenistan, Moldova, Ukraine), Turkey.

In general, the results of the analysis of internal trade among CIS countries allows one to come to a distressing conclusion: the CIS countries cease to be important trade partners with their Commonwealth neighbours because of their involvement in their trade with non-CIS countries. This in turn has an impact on the relationships inside CIS. The Customs Union including Russia, Kazakhstan, and Belorussia, which began operating in 2010, would perhaps be able to correct this situation. In the near future, the appearance of investment projects oriented to the mutual market of the three countries comprising it may be the result of the Customs Union establishment. In this case, and in the case of its extension to a larger number of countries, the effect of its being set up will be considerably increased.[15]

On 6th July, 2010 the Customs Code came into legal force, elaborated within the framework of the Europe-Asian Economic Community (EAEC) on the territories of Russia, Belorussia, and Kazakhstan.

The formation of the Customs Union presumes the creation of a single customs territory where customs duties and limitations of an economic character are not applied, except special protective, anti-dumping, and compensational measures. The single customs tariff and other unified measures of merchandise trade with the third countries are applied within its framework.

Since July, the procedures of customs registration have been simplified on the Russian–Kazakhstani and Russian–Belorussian borders; the customs posts will disappeared on the 1st July 2011. The export duties within the framework of the Customs Union of Russia, Belorussia, and Kazakhstan will continue to be applied until the single economic area (SEA, presuming free movement of goods, services, capital, labour with no quotas, limits and limitations) will be set up, which started on the 1st January, 2012.

The remaining members of EAEC - Kirghizia and Tajikistan – are considering the possibility of joining the Customs Union.

[15] Russia after the global economic crisis / Anders A    slund, Sergei Guriev, and Andrew C. Kuchins, editors. - Washington, DC : Peterson Institute for International Economics : Center for Strategic and International Studies ; Moscow : New Economic School, 2010.

## 4.7. Mutual investments within CIS countries

During the pre-crisis period (2000-2007), two more directions of CIS countries' mutual economic relations underwent further development: mutual investments and money transfers of migrants from one country of the Commonwealth to others. Here, to a larger extent even than in foreign trade, Russia was the centre of economic attraction for other CIS countries. Kazakhstan also played a very significant role.

Investment in the countries of the region became very attractive in the pre-crisis period due to the economic growth, which had begun there and was accompanied by high rates under the low accumulation rate. However, for Russia itself, the importance of investment in CIS countries was not so high, at least according to official statistics. The share of CIS countries in direct investment abroad by Russia has been fluctuating between 7-9% for recent years, and in the crisis period this index demonstrated a trend to decrease.

The assessment of investment flows in the post-Soviet area is complicated because of disparities in the data provided by statistical institutions in different countries, and the large number of off-shore jurisdictions involved in carrying out interregional investments. In this research, we rely on' the data of Russia's and the CIS countries' balance of payments.

The steady growth in absolute volumes of Russian investments in CIS countries was observed until approximately the second quarter of 2008.

From the total amount of Russian direct investments, those in CIS countries in 2007 exceeded the previous year's index by 65%; in 2008, the increase was only 8%. However, according to the results of the first half of 2009, the rise in FDIs volumes amounted to 11% compared to the analogous period in the previous year. That is, the crisis did not lead to the outflow of Russian investments from the adjacent countries, but rather to the temporary slowing down of the increase in their volumes. The CIS countries' investments in the Russian economy essentially shrank; however, their absolute volumes even in the pre-crisis period were not significant.

The dynamics of portfolio investments by Russia in CIS countries to a large extent reflects the crisis phenomena in their economies. In the third quarter of 2007, the value of assets became positive. This was probably connected to the sale of Kazakhstani securities to Russian investors against the background of financial shocks that had spread in Kazakhstan even in that period. In the first quarter of 2008, investments made previously were withdrawn from CIS countries; later this process was stopped for a while, and during the fourth quarter of the same year, the Russian players again started to acquire actively the cheaper securities from CIS countries. Nevertheless, in general, the value of Russian portfolio assets in CIS countries in 2008 contracted from $113 million to $24 million, and in the first quarter of 2009, a new outflow of investments began. The volume of Russian liabilities also shrank greatly, and in the second quarter of 2009, for the first time, a net outflow of CIS countries' portfolio investments from the Russian economy took place.

Analogous trends were reflected in other investments' dynamics from Russia to CIS countries. For the year 2008, the amount of Russian assets in the region decreased, but in the first half of 2009, a considerable rise in other investments from Russia was observed again. The amount of liabilities, as formerly, demonstrated the steady trend of contraction.

In the pre-crisis period, most investments were directed towards the real sector of the economy. However, with the development of crisis phenomena, increasingly more FDIs were dealing with the banking sector: thus, in the fourth quarter of 2008, its share accounted for over half of all Russian investments. This was primarily connected with the difficulties experienced by the national banks in CIS countries. The Russian investors exploited the situation and conducted an active expansion of the banking sector in the region. As an example, one can cite the purchase of a number of Ukrainian banks by Russian financial institutions: 75% of *Prominvestbank*'s shares were acquired by the Russian *Vnesheconombank* (the amount of the transaction accounted for $1,080 million). *VTB* and *Sberbank* (Savings Bank) are also very active in Ukraine. In addition, there is a probability that *Alpha Bank* will acquire *Ukrprombank*, which appeares to be in a crisis state. As mentioned above, the overall trend in Ukraine is a decrease in foreign investment activities; however, the three largest transactions in 2008 were carried out with the participation of Russian players. They were the above acquisitions of *Prominvestbank*, CJSA Investment Company *Mirinvest*, CJSA Mini-Metallurgical plant *ISTIL* and *Miahko*v Ltd. (vodka products) by the Russian Association *Sinergy*.

An analogous situation was observed in Kazakhstan: in 2009, Russian investors concluded a number of big transactions in order to purchase gold-extracting companies (40% of *KazakhGold* shares were purchased by the Russian OJSA *Polus Zoloto*; OJSA *Atomredmedzoloto* acquired 50% of Trade Ltd. *Karatau's* shares and 25% of JSV *Akbastau*. In addition, there are plans to purchase OJSA *Polymetal* (in Varvarinskoye gold-copper mine) and some companies in the machine-building sphere (e.g. Russian *Avtovaz* intends to acquire the Kazakh company *AsiaAvto*)).[16]

This demonstrates that, even against a crisis background, investments in CIS countries remain attractive enough for Russian players. The decline in the cost of assets and more expensive loans abate the Russian companies' penetration into the Commonwealth markets. This means that the crisis indirectly promotes the intensification of the investment interaction in the region. Moreover, at the end of December 2008, some fears sounded in Ukraine that the representatives of Russian business could use the crisis situation that had developed and perform an aggressive expansion in the country's banking sector. Thus, the general conclusion can be made that the investment channel did not become the powerful re-translator of the crisis, and it could not even mitigate it. Formal Russian aid to a number of CIS countries in the form of granting loans should also be taken into account here.

### 4.8. Perception of the economic crisis by the populations of CIS countries

In November-December 2009 the research institutes of Armenia, Belarus, Kazakhstan, Lithuania, Russia, and Ukraine conducted nationwide sociological population interviews within the framework of the twelfth wave of the regular "Eurasia Monitor" project (http://www.eurasiamonitor.org/rus/). A number of sets of questions were included in the questionnaires concerning the perception of the crisis by the countries' residents.

Table 4.1

**Time of interviews conducting and volumes of sample aggregates**

| | Countries | Time of interviews | Sample volume |
|---|---|---|---|
| 1 | Armenia | 12-23 November | 1,066 |
| 2 | Belarus | 21-30 November | 1,091 |
| 3 | Kazakhstan | 6-16 November | 1,543 |
| 4 | Lithuania | 23-30 November | 918 |
| 5 | Russia | November | 1,600 |
| 6 | Ukraine | 20 November -1 December | 3,117 |
| TOTAL | | | 9,335 |

[16] Russia after the global economic crisis / Anders A slund, Sergei Guriev, and Andrew C. Kuchins, editors. - Washington, DC : Peterson Institute for International Economics : Center for Strategic and International Studies ; Moscow : New Economic School, 2010.

The questions regarding the topic were selected by the participants themselves, proceeding from their research interests. Overall, more than 20 questions were asked concerning the crisis problem in all the countries.

According to the estimate of the impact of the world's economic crisis on each country, two groups of countries can be identified:

- Optimistic countries: the population as a whole evaluates positively its state's position under crisis conditions.
- Pessimistic countries: the population is increasingly uncertain about the ability of its state to cope with the crisis phenomena.

Belarus, Kazakhstan, and Russia can be included in the first group, Lithuania and Ukraine in the second. Concerning Armenia, the world's economic crisis impact on it, from its population's view, cannot be considered as synonymous. Nevertheless, a comparative analysis leads one to include it in the pessimistic rather than the optimistic group of countries.

In the first group of countries the population considers the crisis situation in a positive way. Thus, 45% of respondents in Kazakhstan, 42% in Russia, and 38% in Belarus believe that their country either is passing or has already passed through the crisis. For these countries, the low level of expectation is characteristic of the negative scenarios of the crisis development in the last six months. For example, some of the population in Belarus and Kazakhstan (32% and 34% respectively) expect that the strength of the crisis will abate or at least that it will be possible to maintain the current state of the economy in the future (36% and 28% respectively). Only a fifth of respondents in Belarus and a quarter in Kazakhstan think that the crisis will worsen in their countries. In Russia, 32% of respondents noted that hard times are ahead, while 30% believe they are experiencing them now, and 27% think that they are already behind.

In the second group, the pessimistic estimates support the opinion of the long-term character of this crisis. In Lithuania, three quarters of respondents suggest that "The country is only entering the crisis" (76%). In Ukraine, only 25% of respondents think that their country "has already quit" the crisis or "is quitting it gradually". 52% of Lithuania's respondents and 46% of those in Armenia incline to the opinion that "the current world's financial crisis is a long-term process, and one cannot expect a positive outcome soon."

One more aspect attracting our attention in this issue is the fact that this group of countries' respondents believes that the crisis has hit their country the hardest in comparison with others. Thus, 36% of Lithuanian residents claim that their country suffered more than other countries of the post-Soviet space (by comparison, in Belarus, only 9% share this point of view); 66% of Lithuanian respondents state that their material well-being does not depend on themselves, but is subject to the effects of external circumstances. In Armenia, 45% of respondents believe that "Ukraine suffered the most from the global crisis as a whole".

The most significant indicator for the assessment of the crisis' impact on the population is considered to be the level of its effect on the material well-being of the typical family. In general, the interview revealed a decrease in the welfare of a large number of people in the countries under study. The main problems that most residents of these countries had to face were the low levels of income and the rise in prices of all essential goods and services.

More than 80% of respondents in Belorussia, Lithuania, Russia, and Ukraine felt the crisis' impact on themselves and the members of their families. In addition, more than 80% of residents in Armenia, Belarus, Kazakhstan, Russia, and Ukraine began to save money to different extents. These savings affected the purchasing by the citizens of the above countries of such very important articles as foodstuff, clothes and shoes, recreation and holidays. Thus one can demonstrate a decline in the standard of living of the overwhelming majority of residents in all the countries that participated in the research.

The interview has shown (exemplified by Belarus, Lithuania, Russia, and Ukraine) that most people in these countries do not have essential savings, and a third do not have them at all (in Ukraine, this index accounts for 43%, in Russia 53%).

Nevertheless, even now one can notice the difference in the degree of adjustment of the populations of the countries participating in the interview to the crisis. In this case, two groups of countries can be distinguished, as follows:

- A group of countries with a high degree of adaptation by the population to the crisis.
- A group of countries with the low degree of adaptation by the population to the crisis.

These groups of countries coincide with the optimist/pessimist classification above: Belarus, Kazakhstan, and Russia can be related to the first group, and Armenia, Lithuania, and Ukraine to the second one.

Furthermore, according to the interview results, one can form a conditional rating of the countries according to their level of adjustment to the crisis (it is considered conditional because of the lack of a single/integral index of the population's adaptation to the crisis)

Table 4.2

| Rating | Country |
|---|---|
| 1 | Kazakhstan |
| 2 | Russia |
| 3 | Belarus |
| 4 | Armenia |
| 5 | Lithuania |
| 6 | Ukraine |

The residents of Kazakhstan, which had entered the crisis phrase a year ago adapted to new economic conditions to a larger extent than the residents of other countries. Thus, 53% of Kazakhstan's citizens evaluated their lives during the past crisis year as follows: "everything occurred as we expected"; 18% of them stated "everything appeared easier than we expected". At the same time in Ukraine, everything appeared harder than they expected for 48% of residents; 42% of Armenia residents were greatly concerned about the economic crisis in their country (the share of worried people in Kazakhstan was 27% and in Russia 35%).

The adaptability and the general high level of optimism among Russian citizens manifested themselves in their evaluation of their chances of finding a new comparable job in the event of losing their current one. Of all respondents, 44% believe that they will find one easily or with little effort.

Kazakhstan's respondents proved to be more reserved in their answers. Nevertheless, 67% of them are sure that they will be able to find equivalent employment by making every effort. According to the interview results, the employment problems in Ukraine are more acute compared to Russia and Kazakhstan. Thus, 34% of respondents claimed that "it is practically impossible to find an equal value job in the case of job loss". In Russia, the analogous index accounts for 14%, in Kazakhstan 19%.

As the research data show, despite the decrease in living standards, most of the population in 'optimistic' countries (Belarus, Kazakhstan, and Russia) are not inclined to participate in large-scale protest actions; more than 60% of respondents do not tolerate such a possibility for themselves. Approximately 20% of respondents in Belarus and Kazakhstan could, under certain conditions, undertake such an action. In Ukraine, this index is much higher: according to the November interview, 48% of respondents are ready to sign petitions, appeals, claims, and to take part in demonstrations, strikes etc.

The information is of great importance for the assessment of the scale of the crisis' impact on different countries. This is created by electronic and printed mass media. As a whole, none of the respondents of the four countries (Armenia, Belarus, Kazakhstan, Ukraine), when answering the question about their satisfaction with the information about the economic crisis, presented positive evaluations of the quality of informational elucidation. The residents of Ukraine demonstrated the maximum level of lack of confidence in mass media information. Only one fifth of respondents consider the information they receive as objective and sufficient, 67% of them are not satisfied with the way material is processed Approximately half of the respondents in Kazakhstan (51%) and Belarus (59%) demonstrate criticism regarding the information received due to various reasons ("mass media are not elucidating the economic crisis openly and fully enough, and they often embellish the reality", and "mass media frequently exaggerate the crisis phenomena consequences"). In Armenia, where the issue is considered through the governmental evaluation of information, the interview results are also full of criticism. The prevailing majority of respondents (79%) think that the information about the economic crisis presented by the government is twisted for various reasons (in order not to provoke public panic and protest actions, to distract attention from other problems of great priority). Only 20% of them consider the information as impartial and sufficient.

Judging from the interview results, the economic crisis was a serious test for the populations of the chosen countries. Most respondents did not appear to be prepared for the crisis either financially or psychologically. The share of those who experienced absolutely no worry about the crisis is fluctuating on the level of 5-7%. The crisis deprived people of confidence in their future and gave birth to pessimism, made them review their needs, and introduced the need for savings in their budgets.

It is worth noticing that the respondents, while admitting the external character of the crisis, do not absolve either the government or themselves of the responsibility for the economic situation in the country (Belarus, Lithuania). Nevertheless, the lack of financial funds caused the majority of respondents to be dependent upon their environment, i.e., upon the state (Lithuania, Ukraine). The perception of the crisis by the population of the countries under research is the direct consequence of the effectiveness of their governments' performance under crisis circumstances. The lack of confidence in the official information regarding the development of the situation in the country (Armenia), the confidence in the long-term character of the crisis (Lithuania), the lack of confidence in the financial system and the storing of money in cash form (Ukraine, Kazakhstan, Belarus) – all of these are responses to the politics conducted in the country.

Therefore, based on the data obtained in the course of research, it is possible to state that the economic crisis greatly affected the living standards in all six countries participating in the project. The deterioration in their material welfare, the rise in frustration with regard to inflation and unemployment, the decrease in social optimism levels are general 'calamities' caused by the global crisis' consequences at the local level. At the same time, the results of the comparative analysis of the mass interviews show the lack in similarities and the specific character of the situation, which developed in each country. The crisis perception in each case is formed according to a complex interaction of factors: the respondents' own feelings under new economic conditions; the informational background to the crisis problems formed in the country; the comparison of one country's situation with that in other states; the evaluation of the government's anti-crisis performance, etc. All the above allow one to suggest scenarios for post-crisis development that are unique for each country.

## 4.9 The restoration of the economies of the main CIS countries after the crisis

The low promissory loading at the beginning of the crisis in 2008 was considered as an advantage for the main CIS countries in their ability to adapt themselves to the crisis and avoid a sharp spike in inflation. A weakening of fiscal and monetary policy in the developed countries, with the purpose of fighting against the crisis, activated these processes in the CIS countr93ies. It mainly helped to activate consumer but not investment demand, the renewal of which falls behind the dynamics of consumption.

A weak monetary policy exerts an insignificant influence on inflation. Foremost, the CIS countries succeeded in restraining a price advantage on foodstuffs as a result of a growth of supply. However, the growth of internal demand affects the state of the balance of payments - high rates of growth of imports promote the probability of a successful attack on the exchange rate (which already happened in Belarus). The problem of the high credit loading on the economy of Belarus remains, in that it can assist higher inflation and will limit possibilities for an expansion of investments. Ukraine - which ran into the problem of a decline in promissory loading before others - demonstrates the most considerable lag in the renewal of investment demand. This process is not yet completed, and in both countries extra time will be required for the renewal of macroeconomic stability. Gradually the lag between countries increases: the remuneration of labour in Belarus and Ukraine in the dollar equivalent substantially falls behind that in Russia and Kazakhstan. The low efficiency of the economies of consumer countries of raw material as compared to donor countries becomes an obstacle to providing strong growth in the standard of living and becomes. Low promissory loading on a budget as advantage before the developed countries created additional possibilities for weakening fiscal policy during the crisis. In the most difficult periods, the budget deficit reached 5-10% GDP. In the period of post-crisis restoration, countries did not succeed in avoiding the budget deficit that remained in this interval for almost two years. Renewal of budgetary equilibrium took place only at the beginning of 2011. In Russia, the balance of the budget was restored almost a year earlier. Thus most countries continued with a weakening of monetary policies: increase of the amount of money by 10% and more in 2008 and the beginning of 2009 was explained by internal sources (including crediting).

Ukraine softened its monetary policy only once during the post-crisis period. Ukraine and Kazakhstan were limited in their ability to weaken on monetary policy, as due to the crisis they experienced one of the highest credit loadings on an economy and in particular on individual persons. A more tough monetary policy since 2009 allowed the credit loading to be brought down, including to a level comparable with other countries in relation to GDP. Credit loading on the economy of Belarus, on the other hand, grew considerably during the post-crisis adaptation of the economy and chimed in with the level of this index in Ukraine.

In Russia the level of credit loading grew a bit on the economy, but credit loading on business grew even more, while the relation of bank loans to the population to GDP remained on the level that was typical before the crisis in 2008. Heightening of the credit loading on an economy promotes risks of bankruptcies or the substitution of private debt for state debt (in the case of the government’s consenting to accept the promissory burden for the sake of protecting business). Apart from the potential threat of an increase of "bad debts", a weakening of monetary policy is usually bound to the inflationary threat. However in modern terms this threat was not realized. Moreover, the price of foodstuffs in the period of post-crisis adaptation began noticeably to fall behind the dynamics of exchange prices of basic foodstuff (in dollar expression), which temporally allowed inflation to be kept under control.

A feature of a post-crisis period is an active stimulation of demand in the population instead of an expansion of productive investments. Thus in some countries the rates of restoration of demand differentiates to the pre-crisis level, but in most of the main countries a lag is seen in the renewal of investment demand as compared to consumer demand. Most actively there was a stimulation of demand in Belarus: the real indexes of demand in the second quarter of 2011 grew as compared to before the IV quarter 2007. Here, if the increase of commodity turnover of retail business in the real expression, reflecting the dynamics of consumer demand, was 37%, the height of investments for the same period was only 9%. In other main CIS countries, the indexes of demand were below the pre-crisis ones, although there was a more rapid renewal of consumer demand compared to investment demand. Therefore, in Russia and Kazakhstan in II quarter 2011, retail commodity turnover in the real expression was below the level of IV quarter 2007 by 4% and in Ukraine the difference was 13%.

Slowing of investment demand was substantially higher in all countries: difference in the volumes of investments in the real expression as compared to the pre-crisis level for the same period was 13% in Kazakhstan, 42% in Russia and 71% in Ukraine. A higher volume of promissory loading at the time of crisis and a subsequent decline in credit loading on the economy in Ukraine, and also a monetary policy that was tougher than in other countries influenced the stagnation of investment demand and its slow restoration comparing to other countries. A stimulation of consumer demand results in the rapid loss of equilibrium in the currency market.

The increase of consumer demand influences a more hasty growth of imports as compared to a rise in wages - similarly, that development of the processes of substituting imports does not work to increase the stability of economies and so stimulate the growth of internal demand. Foremost it is related to the fact that the processes of replacing imports were more actively developed to produce goods for long-term use, while in the post-crisis period demand was concentrated on foodstuffs and food commodities for current consumption, where a high stake of import remains. The situation could be even worse if it were not for the high elasticity of exports to the price advance on foreign markets. The rates of growth of exports exceed price dynamics on basic raw material commodities and here fall a bit behind the peaks of growth and decline (the lag time is about 2 months). Therefore a basic imbalance in trade may arise in spring 2013 if devaluation does not bring down the propensity to consume imported products and the government does not stop "sponsoring" consumer demand. Meanwhile the inflow of direct foreign investments in the crisis practically did not go down in the main CIS countries.

The possibilities for coverage of the surplus import related to the current consumption due to this source are limited. A surge of inflow of direct foreign investments was observed in Ukraine. In other countries the average post-crisis level of direct foreign investments to GDP does not exceed pre-crisis values. For the inflow of direct foreign investments, there can be an obstacle of the high loading on an external debt (except Russia, where the level of the external promissory loading remains at the average level for developing countries). Kazakhstan demonstrates the positive dynamics of a decline of pressure of external debt, but to reach average indexes it will be required to provide the higher rates of GDP on the decline of foreign loans. The stability of the currency market still strongly depends on the supplies of currency reserves. As an alternative to this, there could be a strengthening of goods turnover between CIS and other developing countries. Such a tendency was established in relation to China, while the goods turnover within main CIS countries regarding their external goods turnover in 2011-2012 is growing relatively slowly. More noticeable is a growth of this index in Ukraine as compared to the other main CIS countries that move towards forming a Customs union. Foremost it is related to the decline of exports from Russia to such CIS countries as Belarus and Kazakhstan, and also the decline of imports from Kazakhstan in the general volume of import in 2012.

Due to the revision of GDP growth projections for CIS countries (Fig. 4.1), high-frequency indicators began to point to a dramatic loss of growth across the region. The current CIS GDP forecasts reflect significant fall-out from the current slowdown in the Western European economy, despite avoiding recession. In contrast to the Euro zone (where economists expect -0.1% GDP growth in 2013), the current GDP growth forecast for the CIS region still implies the lowest regional economic expansion in the last decade, disregarding the substantial regional GDP contraction of -6.1% recorded in 2009. Only in CIS countries is a modest improvement expected in 2013 compared to 2012 (a projected GDP growth of 1.3% for 2013 versus a contraction of 0.2% in 2012). This assumption is mainly based on the significant macroeconomic rebalancing that was seen in the region over the last 2-3 years. However, economic growth in CIS will still remain subdued and well below potential in 2013.

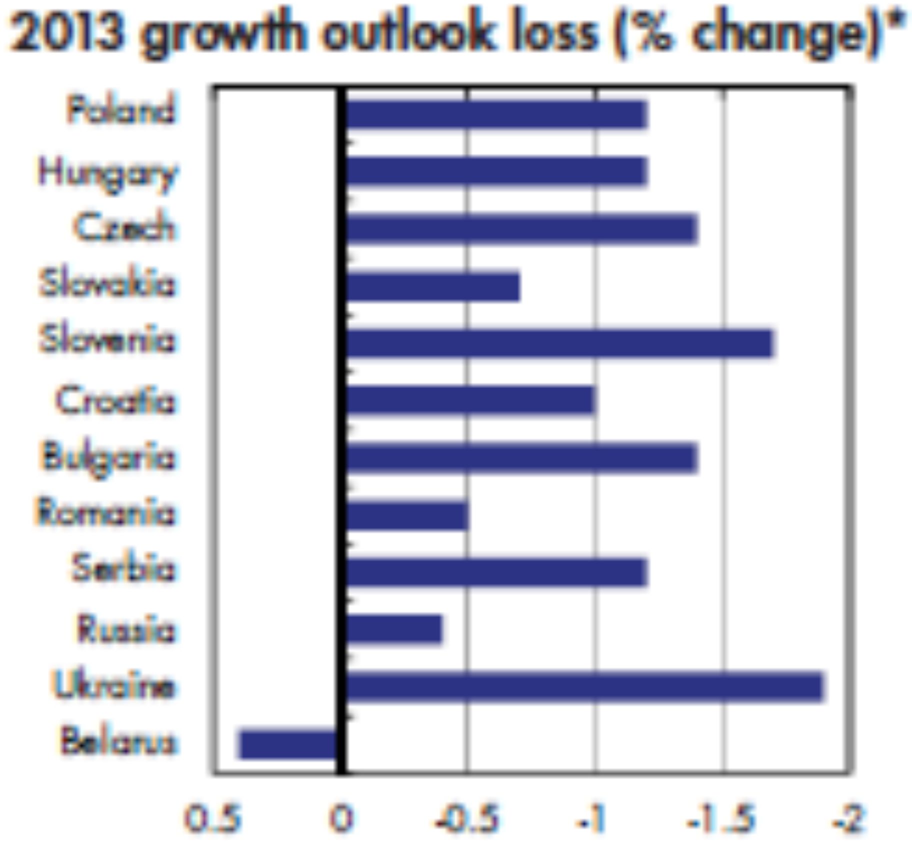


Fig. 4.1 *Difference in 2013 GDP growth consensus forecast between October 2012 and January 2013 (% change)

Source: Consensus Economics, Reiffeisen RESEARCH

So when will the current slowdown end? In 2011 and 2012 economic growth and financing conditions in CIS region were relatively resilient to the troubles in the Euro zone. However, due to the increasingly negative spillovers from the Euro zone troubles into the overall Western European economy, growth momentum in the CIS slowed down substantially in the second part of 2012. This was especially true for countries such as Poland, Slovakia, Russia and Ukraine, which had held up well in the first part of 2012.

This set of the most severely affected countries shows that larger economies with sizable domestic markets, such as Poland or Russia, also took a hit recently. There were several CEE economies, e.g. Hungary, the Czech Republic and Slovenia, where economic growth momentum was already weak in 2012, and these economies will struggle hard to emerge from recession in 2013.

The growth slowdown in CIS cannot be attributed solely to the worsening situation in Western Europe, as parts of the economic recovery in recent years were based on a fairly shaky foundation. One issue, which is believed to be clearly constraining the CIS growth outlook, is the relatively slow investment growth in the region. Typically, economies emerging from a crisis (as in 2008/09) experience two types of recovery. The first type of recovery is associated with higher investment growth, underpinned by stronger external demand and fairly good integration into the world division of labour. The second type of recovery relies on a domestic demand push and domestic stimulus policies, while investment growth remains subdued due to weaker external demand and limited benefits from the international division of labour. Often, the first type of recovery is associated with domestic stimulus policies and the use of savings for replenishing lost external demand. Normally, the second type is also called “investment-less growth”, which is difficult to sustain over a medium- to long-term perspective. As a result, economies experiencing investment-less growth - which has been the case in some CIS countries - are very prone to sudden economic slowdown if external demand remains weak while stimulus policies logically remain rather limited in nature and cannot be carried out for too long.

According to the current forecasts, a tangible improvement in growth momentum is expected across the CIS region in the second part of 2013, which is more or less in line with the Euro zone growth outlook. However, it is pretty clear that there are certainly downside risks too and most likely they are even slightly higher than the upside risks on the growth side. Firstly, a revival in domestic demand hinges on improving consumer and economic confidence, which is very difficult to forecast. Secondly, there is not much leeway for counter-cyclical measures on most public sector balance sheets. In fact, in 2012 most CIS countries were still busy tightening their fiscal policies following budget deficit increases in 2009 and 2010 and fiscal policy leeway still has to be rebuilt. Thirdly, recovery transmissions to CEE might occur in the fourth quarter of 2013.

Although the external demand from developed economies may strengthen in the second half of 2013, it is not expected to have immediate transmission effects for the CIS economies, which may experience sluggish growth for another quarter before things start to change for them too. Logically, this would place expectations for a turnaround in the situation into the second part of 2013, which might not be enough to guarantee higher growth rates for the whole of 2013. Moreover, it remains to be seen to what extent the financial/banking sector stability in CIS region can also be translated into growth. Furthermore, it must be stressed that most CIS countries will still be growing well below their potential rates during the expected recovery period in the second half of 2013 and 2014. Output gaps are likely to remain larger compared to the Euro zone. Hence, structural economic policy challenges should not be underestimated in 2013. This holds especially true as we enter 2013 with relatively high unemployment levels in most CIS countries.

Given the on going loss of growth momentum in CIS as well as relatively strong currencies in most CIS countries, there is clearly a case for using monetary policy as a counter-cyclical tool. Moreover, in most cases monetary policy remains the only counter-cyclical tool.

Market sentiment towards CIS risk and CIS sovereigns was fairly positive in the second part of 2012. This holds true across the board, i.e. including the more vulnerable countries such as Ukraine, translating into net foreign private capital inflows. The tight risk pricing of nearly all CIS credits is partially supported by the decreased macro-financial vulnerabilities. Nevertheless, it is uncertain as to what extent the current market optimism can be maintained, and a lot will depend on government action.

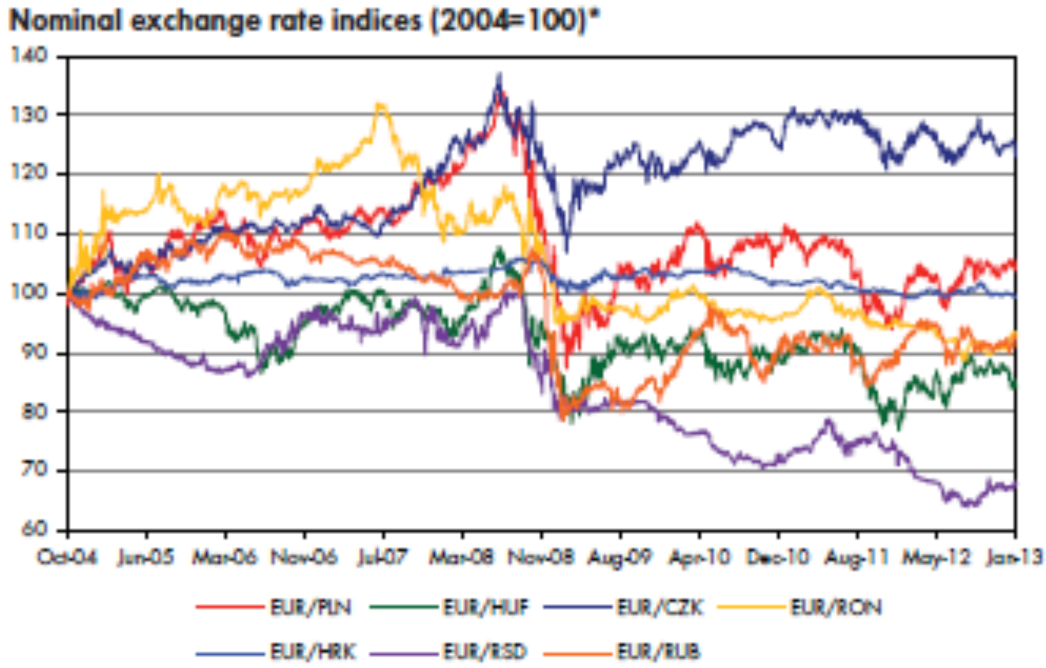


Fig. 4.2 Nominal exchange rate indices
Source: Bloomberg

This holds especially true for the more fragile co8untries. The year 2013 will most likely be an uphill battle in terms of meeting fiscal targets and in a lot of CIS countries the easy policy options (such as using pension system assets, hiking tax rates and introducing special crisis or sectoral taxation) are exhausted. Although there will not be imminent negative rating pressure, negative news on the rating front will likely outweigh positive rating news. Any tangible structural reforming process in the Euro zone periphery, which then could also be rewarded by financial markets, may exert some downside pressure on the more solid CIS EU credits. All of this may make it sound as if there are substantial risks for a correction on the CIS financial markets. However, as a counterbalancing factor one should also stress that net private capital flows to emerging markets and CIS are expected to increase in 2013 vs. 2012 and investment in EM government bond markets is becoming more and more “buy and hold” in its nature.

In Russia, it remains to be seen to what extent OFZ market liberalisation may affect the LCY bond market and the Russian ruble. Investors in Russia should at least continue to experience more exchange rate volatility than in the past, due to the decreasing willingness of the central bank to fine-tune the exchange rate. We expect the current account to remain in surplus, but to decline to some extent. At the same time no drastic hikes in capital outflows are expected, resulting in a rather neutral fundamental stance on the ruble in 2013. However, the ruble may profit both from a seasonally strong current account in first quarter and additional portfolio inflows due to the forthcoming market liberalisation. Moreover, the recent period of low-risk pricing also led to very low sovereign risk premia in the case of Russia, despite the lack of meaningful progress in structural reforms and a still fairly weak non-oil budget position. Nevertheless, the increased macro-management has reinforced the resilience of the Russian economy compared to 2008/2009. However, the question remains as to what extent Russia will follow this improved macro-management framework. This holds especially true on the fiscal side. In order to maintain the current fairly positive investor stance towards Russia, the country must also avoid sending out contradicting signals on the economic policy side in 2013.

There might still be some depreciation pressure on the Ukrainian currency in 2013. It remains to be seen to what extent depreciation - if needed - can take place in a more or less orderly manner.

IMF/IFIs and possibly renewed discussions about a continuation of their involvement or new engagements will remain relevant factors in the CIS region in 2013. In terms of IMF/IFI cooperation, one of the most important questions will definitely be whether or not Ukraine can sign an IMF deal in 2013. There is a chance that Ukraine will sign an IMF deal at the beginning of 2013. However, it remains to be seen how long Ukraine can keep a potential IMF programme on track. Presidential elections are scheduled for 2015 and this will start to weigh on the reform drive in late 2013/early 2014.

### 4.10. Conclusions

The development of crisis processes in CIS countries went in several directions, both global and regional; however, their ratio and the summary strength of their impact were different depending on the level of the country's development, the availability of its internal crisis potential and the degree of its integration into the world economy.

As a result of the fact that the source of the crisis was beyond CIS borders, the global channels of its transmission played a significant role in its spreading, as follows: worsening of the conjuncture in the world's fuel and raw materials markets, outflow of capital abroad, and limited access to external sources of financing. This channel of the crisis' spreading had great importance for the economies of the CIS countries most integrated in the world economy (Russia, Ukraine, and Kazakhstan). At the same time, the spreading of the crisis through the external trade channel was very essential for practically all CIS countries.

Of great importance for some Commonwealth countries in the crisis phenomena development was the so-called regional factor, relating to the contraction in the sales of goods and services in the CIS region (Belorussia, Russia, and Ukraine), and to the decrease in money transfers to CIS countries (Tajikistan, Kirghizia, Moldova, Armenia) from migrants working primarily in Russia. The current political situation in the states of the region is also worth taking into account. The long-lasting political crisis in Ukraine and the unstable political situations in Georgia and Moldova do not promote the overcoming of crisis processes in these countries.

It is necessary to mention that the global financial crisis to a large extent played the role of the starting mechanism in the crisis processes spreading over post-Soviet countries. That was caused by their national economies' internal problems (insufficient development of the financial system, non-diversified export structure, dependence on imported goods, etc.).

While deepening the CIS countries' integration in the world economy, the impact of negative global factors, including those related to the crisis phenomena, on national economic systems will be increasing. In order to maintain sustainable economic development, the countries of the region need to develop their own financial systems, to diversify the geographical and merchandise structure of their foreign trade, to stimulate the output of competitive import substitutions, and to carry out a search of internal sources for their growth. The effective implementation of anti-crisis policies, both at national and at international levels, the development of international processes, and the implementation of mutual projects regarding the economy's modernisation within the regional framework, may not only promote recovery from the current crisis, but also ensure long-term sustainable development.

## CHAPTER 5. GENERAL CONCLUSIONS AND PROPOSALS

According to the research results, it is possible to make the following conclusions:

The most vulnerable economies among the CIS states were those of Ukraine, Kazakhstan, Moldova, and Tajikistan. These countries had to deal with at least two of the three types of external shock simultaneously.

The demand for metals, as one of the main exports of Ukrainian raw materials, will remain extremely low for another long period of time; therefore, it is probable that, for Ukraine, the crisis consequences will appear the most fundamental, and to overcome them will require considerable financial funds. The states living on money transfers from their migrant labourers, i.e. Tajikistan, Moldova, Kyrgyzstan, Armenia, and Georgia will also stay 'at the end of the list'. They will have to wait for the revival of investment activities in those countries where there is a demand for migrant workers' services.

It is evident that Moldova will quit the crisis earlier. The significant proportion of agriculture in its economy will easily allow this.

The states exporting hydrocarbons, necessary for the global economy's normal functioning, will begin to overcome the crisis before others. Russia, Kazakhstan, Azerbaijan, and Turkmenistan are among these states.

The countries that are to the minimum degree integrated into the global economy appeared among those least affected by the financial crisis. They did not feel the sudden crash because they, even in their best times, were not very attractive to foreign investors and creditors.

In the current crisis situation, the CIS countries' governments intend to take and implement a number of long-term and operational measures in order to diversify their exports and sales markets, and to minimize consequences of the global financial crisis. These measures are the following: to liberalise their economies, to stabilise and strengthen their monetary and banking systems, to maintain and develop competitive production in the real sector of their economies, and to ensure social guarantees for the population. Moreover, it is necessary to make financial resources accessible to the real sector of the economy, to intensify the performance of security markets directed towards the attraction of additional investments and capital by means of issuing securities, and the sale of companies' shares to foreign investors in these countries.

The amount of increase in capital investment in light and processing industries, agro-industrial complexes objects, and in companies manufacturing commodities and rendering services to the population, in order to increase their share in the total volume of investments, should also be mentioned. Priority must be given to those projects that ensure a considerable decrease in the proportion of resource consumption and, as a result, in production costs and the output of import-substituting goods.

It is important to presume various subsidies and preferences for investors, including those relating to a decrease in tax pressure, aimed at the attraction of investments in the national economies of CIS countries.

Particular attention should be paid to the fuel-power engineering system aiming at the decline in the proportional energy consumption, creating additional organisational-economic conditions for their transition to efficient local energy-producing installations.

The implementation of the above measures will promote the overcoming of the crisis by CIS countries.

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## Summary

The world financial crisis, which has begun as the result of problems at the mortgage market of the USA in 2007, gradually got distribution practically in the whole world. The sale of assets and conclusion of money from other countries by the largest American corporations resulted at first in shortage of liquidity and credit resources on the financial markets, and afterwards to problems in real sector of economy. Many countries of the CIS, pursuing in recent years active policy of integration into the world economy, didn't become an exception.

Specifications of the development of the crisis, its depth and consequences differ over the countries and regions. In CIS countries the significant role in distribution of the crisis was made by vulnerability of their own economies. World crisis revealed economic problems of the former Soviet Union, which can be estimated as national factors in distribution of criris processes in these countries.

Among main problems of CIS countries, which strengthened impact of the global financial and economic crisis in these countries are:

1) backwardness of a number of market institutes, including insufficient development of national monetary systems, as well as strong dependence on foreign loans;

2) low extent of diversification of economy of mainly fuel and raw orientation and strong dependence on global investment demand (oil and oil products, metals, fertilizers);

3) weak competitiveness of non-oil sectors of economy and high dependence on import goods (technology, cars, equipment, foodstuff).

Considering the fact that the nature of the crisis in the developed countries and the developing ones (including CIS) is different, mechanisms which have started distribution of the crisis phenomena, are different as well. A «starting hook» in the USA for the development of the criris were problems on the market of mortgage lending, while in the former Soviet Union countries the crisis process had started mainly as the result of problems in a banking system and in the real sector of the economy.

On degree and channels of impact of the world crisis in the region there might be allocated some groups of countries:

1. Very strong influence mainly on global channels-Ukraine and Russia. Deterioration of terms of trade on the world markets, large-scale outflow of the capital, restriction of access to external sources of financing and, as the result, reduction of investments into fixed capital substantially promoted such drastic economic recession.

2. Strong influence as the result of the combined operation of global and regional channels of influence-Armenia and Moldova. Besides global channels of distribution of the crisis, the great value for an economy of these countries had the reduction of money transfers from Russia.

3. Moderate influence as the result of a strong recession of the trade with CIS countries (mainly with Russia) and other countries of the world-Belarus.

4. Weak influence as the ruslt of recession of foreign trade and reduction of receipt of money transfers from Russia-Uzbekistan.

5. Weak influence as a result of reduction of external demand for oil and gas-Azerbaijan and Turkmenistan.

In the current crisis situation, the CIS countries' governments intend to take and implement a number of long-term and operational measures in order to diversify their exports and sales markets, and to minimize consequences of the global financial crisis. Moreover, it is necessary to make financial resources accessible to the real sector of the economy, to intensify the performance of security markets directed towards the attraction of additional investments and capital by means of issuing securities, and the sale of companies' shares to foreign investors in these countries.

## Zusammenfassung

Die globale Finanzkrise, die als Folge von Problemen am Hypothekenmarkt der USA im Jahr 2007 begonnen hat, verteilte sich als bald praktisch in der ganzen Welt. Der Verkauf von Vermögenswerten und der Abschluss von Geldmarktgeschäften, geführt von den größten amerikanischen Konzernen führte zunächst zu einem Mangel an Liquidität und Kredit-Ressourcen, die zur Folge zu Problemen im Realsektor der Wirtschaft führten. Viele GUS Länder, die in den letzten Jahren aktiv Politik zu Integration in die Weltwirtschaft verfolgt haben, sind nicht die Ausnahme gewesen.

Spezifizierungen der Krisenentwicklung, sowie Intensität und Folgen unterscheiden sich zwischen den betroffenen Ländern. Die Auswirkungen der Krise und dessen Nebeneffekte wurden durch die Verwundbarkeit der eigenen Wirtschaft in den GUS Ländern zu einem besonderen Problem. Die Weltwirtschaftskrise offenbarte der ehemaligen Sowjetunion nationale Wirtschaftsprobleme, die als Schätzung der Auswirkung von Prozessen der Krise in GUS Ländern verwendet werden kann.

Als Hauptprobleme der GUS Länder, die Einfluss auf die globale finanziellen Krise , waren:

1) Rückständigkeit mehrerer Marktinstitute, ungenügende Entwicklung der nationalen Geldsysteme, sowie starke Abhängigkeit von Auslandsdarlehen;

2) niedriges Ausmaß an Wirtschaftsdiversifikation, welche hauptsächlich Roh- und Kraftstofforientiert sind und starke Abhängigkeit von der globalen Investitionsnachfrage (Öl- und Ölprodukte, Metall, Dünger);

3) schwache Wettbewerbsfähigkeit von Nichtölsektoren der Wirtschaft und hohe Abhängigkeit von Importwaren (Technologie, Autos, Ausrüstung, Lebensmittel).

In Anbetracht der Tatsache, dass die Natur der Krise in den fortschrittlichen Ländern und den Entwicklungsländern (einschließlich GUS) unterschiedlich ist, sind die Mechanismen der Verbreitung der Krise ebenso unterschiedlich. Als "Startschuss" in den USA für die Entwicklung der Krise waren Probleme auf dem Hypothekarmarkt, während in den ehemaligen Ländern der Sowjetunion der Krisenprozess hauptsächlich als ein Ergebnis der Probleme im Banksystem, sowie dem Realsektor der Wirtschaft angefangen hatte.

Im Hinblick auf den Auswirkungsgrad sowie die Verbreitungskanäle der weltweiten Krise, lassen sich die Länder in folgende Gruppen einordnen:

1. Sehr starker Einfluss vor allem auf die globalen Kanäle, beispielsweise Ukraine und Russland. Verschlechterung des Handelsstandpunktes auf den Weltmärkten, außergewöhnlich große Abflüsse des Kapitals sowie Einschränkung des Zugangs zu externen Finanzierungsquellen und die Reduzierung von Investitionen, führten zu solch drastischen Rezession in den Ländern.

2. Starker Einfluss durch kombiniertes Handeln mit globalen und regionalen Kanälen, wie die Länder Armenien und Moldawien. Neben der weltweiten Verbreitung der Krise hatte die Verringerung der Geldüberweisungen aus Russland einen großen Wert für die Volkswirtschaft dieser Länder.

3. Moderater Einfluss als das Ergebnis einer starken Rezession durch den Handel mit den GUS-Ländern (vor allem mit Russland) und anderen Ländern der Welt-Belarus.

4. Schwacher Einfluss als Ergebnis der Rezession des Außenhandels und der Reduzierung des Eingangs der Überweisungen aus Russland und Usbekistan.

5. Schwacher Einfluss als Folge der Verringerung der externen Nachfrage nach Öl und Gas wie in Aserbaidschan und Turkmenistan.

In der aktuellen Krisensituation haben die Regierungen der GUS Länder vor, mehrere langfristige und betriebliche Maßnahmen vorzunehmen und durchzuführen, um ihre Exporte und Verkaufsmärkte zu variieren, und die Folgen der globalen Finanzkrise zu minimieren. Außerdem ist es notwendig, Finanzmittel zugänglich für den Realsektor der Wirtschaft zu machen, die Leistung von Sicherheitsmärkten zu verstärken, die als Anziehungskraft von zusätzlichen Investitionen und Kapital mittels der Ausgabe von Wertpapieren und dem Verkauf der Anteile von Gesellschaften ausländischen Kapitalanlegern in diesen Ländern wirken.