

On the influence of financial and economic crisis in 2008 – 2009 on the region's economy and prospects of its development in 2010 – 2011



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An innovative way of development, currently defined as a basic scenario for the development of the Russian Federation, creates conditions for the formation of a regional innovation system, strengthening scientific and technical potential of the region, integrating science and education in the region through the establishment of scientific, technical, scientific and educational structures for solving the region's socio-economic development problems.

Using the potential of the Russian Academy of Sciences to identify the promising areas of economic modernization in the Vologda region, as well as a number of projects throughout the region will create a point of growth based on new technological structures, considerably increasing knowledge-intensive regional product.

Ultimately, the cooperation of science and government is investment in human capital and hence in the future the Vologda region. This resource must be replenished, strengthened and developed.

Cooperation of science and government gets particular relevance right now, in times of crisis.

Of course, nobody likes crises. However, the crisis is not just some sort of economic disaster, which we should try to wait till it is over without losses. The crisis is a time when not only the old organizations, ties, game rules are destroyed,

but also a time when the new are determined.

Year 2008 will definitely go down in economic history due to the aroused financial crisis and lots of attendant negative consequences.

The emergence of the crisis is *associated with the following factors*:

- general cyclicity of economic development;

- “overheating” of the credit market and mortgage crisis as its consequence;

and:

- high prices of raw materials (including oil);

- “overheating” of the stock market;

- using new unaudited financial techniques and instruments – credit default swaps and other derivatives.

The current crisis is clearly beyond the *normal cyclical crisis*. There are three of its important features.

First. Having begun in the context of globalization, the crisis is unprecedented in scope, covering almost all the dynamically developing countries and regions. And it has a stronger impact on those who were most successful in the past decade.

In contrast, stagnant countries and regions were affected by it in a less degree. The above is characteristic of domestic economic situation in individual countries, including Russia;

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the most serious problems occur where there was an economic boom, while the depressed regions almost do not feel the changes. This greatly complicates the process of overcoming the crisis: it is unclear who will become the “locomotive” of growth restoration.

Second. The current crisis is structural in nature, that is, it involves a major upgrade the structure of world economy and its technological base. It’s hard to say what structural changes will occur, but the result will be a redistribution of forces in the sectoral and regional aspects.

Third. The crisis is innovative in its nature. In recent years much has been said about the importance of innovation, the transition of the economy on an innovative path of development; that is exactly what happened in the financial and economic sphere. Financial innovation emerged and rapidly spread here - new financial market instruments, which, as it seemed, will be able to establish conditions for infinite growth. But as it turns out now, many leaders of the financial world had a very vague idea about them that led to a twofold effect.

Obviously the final evaluation of the effectiveness of anti-crisis measures is still to come. The leading countries of the world continue to adjust their anti-crisis programs. Nevertheless, there are several consistent trends.

Firstly, is the growing state intervention in the economy.

Secondly, is the marked social dimension of state support.

Thirdly, is strong support for investment and infrastructure projects, strengthening the competitive positions of the national economy in the post-crisis period.

These three directions are prior for Russia.

The first persons of the country say about the criteria for the gradual normalization of the situation. Prime Minister Vladimir Putin said that “the active phase of the crisis was overcome, and, starting with the second half of the year, economic growth has resumed”.

President Dmitry Medvedev is more cautious: “We are well aware that the 2010 does not promise instant joy”, – he said and warned that a withdrawal from the financial crisis will

be gradual. In 2010 the Russian economy will grow by 2.5-5% in the optimistic scenario, he said, inflation will be around 9%, and the fall in GDP in 2009 will amount to 8.7%.

The Vologda region, which is successfully integrated into a single global system, could not get away from the phenomena that violate the usual course of many people’s lives and reduce the rate of economic development of the region as a whole.

Up to October 1, 2008 the Vologda region was developing confidently and stably.

For industrial production by 1 resident the region was 2 times the average Russian level. We were the first in the Northwestern Federal District and among the four Russian leaders.

After October 1, the situation began to change profoundly. The Vologda region was among the regions most affected by the financial and economic crisis.

And the active phase of growth gave way to recession.

Export prices have fallen:

– for ferrous metals – 2.1 times (from 1057.0 doll./ton. in August 2008 to 503.7 doll./ton. in January 2009);

– for mineral fertilizers – 3.1 times (from 1029.6 doll./ton in September 2008 to 332.1 doll./ton. in January 2009);

– for timber – 2.4 times (from 243.5 doll./cub. m in December 2008 to 101.6 doll./cub. m in January 2009).

Demand “compression” has caused a sharp, stepwise decline in the economic sectors – metallurgy, chemistry, forestry complex.

Only for 2 months of 2008 (October – November), we have lost more than 53% of metallurgical industry, chemical industry “subsidized” almost by 47%, decline in mechanical engineering – almost by a third, in the timber industry – by 22%. It was more than the whole of 1994 and more than in 1998 – 1999.

As a result the regional budget decreased twice.

Certainly, the economic problems caused structural changes in the labor market. Since November 2008 the number of unemployed and reducing the number of vacancies began

to increase in the region. As of May 18, 2009 (the “peak” of unemployment), the number of unemployed increased by 3.9 times (from 7.4 to 29.2 thousand people).

The Vologda region has built up its crisis management plan in the light of Russian and international trends.

Forging an economic strategy, one must always bear in mind the possibility of adverse developments. We talked several times about the danger of short-term fluctuations in world markets, so we consciously followed sufficiently accurate, balanced fiscal policy.

We talked about the cyclic development of economic sectors and the trends of growth slowing in major tax forming indicators, in particular, of reducing enterprises' profits.

In addition, in the regional budget, as well as in federal, financial reserve was annually formed, which now helps the region to work in difficult conditions of the global financial crisis.

The events of last year showed that our pessimism was justified.

Nevertheless, focusing on maintaining social stability, we have retained all previously existing benefits and social guarantees. The whole complex of measures of social support, ranging from targeted social assistance to the monthly cash payments is calculated in the amount of 7.2 billion roubles.

To fulfill the social obligations in the face of declining revenues austerity policy was enabled. Shaping the 2009 budget, we have “pressed” the expenditure by 8.4 billion roubles. The optimization of the costs of implementing long-term and departmental target programs, for the maintenance of state institutions, bodies of executive power in terms of reductions in labor costs, operating costs, costs of capital nature was made.

Our prompt action and implementation of targeted employment promotion programs helped to preserve the human resources of organizations, to increase competitiveness in the labor market of workers who were at risk of dismissal, including the promotion of entrepreneurial activity.

Many of the former unemployed having got an annual unemployment benefit (in the amount of 58.8 thousand roubles), developed business plans and won a grant of 300 thousand roubles as individual entrepreneurs.

As a result, to a greater extent in 2009, we have stabilized the situation on the labor market.

Maximum number of the unemployed was recorded on May 18, 2009 – 29.2 thousand people. Since that date, the unemployment rate started to fall. As a result, on December 31, 2009 the lowest number of unemployed citizens for the last 9 months – 24.2 thousand people – was marked. The unemployment rate on an annualized basis was retained within 3.7% (target – 3.9%).

In 2009, more than 3 thousand workers being at risk of dismissal were sent to training and retraining on demanded specialties. The number of employed in temporary jobs and employed on public works amounted to 54.3 thousand people. Assistance to 1.63 thousand unemployed citizens to develop small businesses was rendered.

The knowledge and ability to apply the full range of instruments of government support have allowed us to respond quickly to global challenges in the real sector of the economy.

To maintain economic vitality, we put all possible economic mechanisms, ranging from commodity interventions to provide support to enterprises in a critical situation (where it was necessary to correct errors inefficient management).

Support mechanisms for enterprises of real sector of economy:

1. Trade intervention.
2. Ensuring the formation of state order.
3. Forward purchases of goods and services from companies in the region.

In the absence of sales and revenue at JSC “Ammofos” forward purchases of mineral fertilizers for spring sowing in 2009 were carried. For this purpose the budget found supplementary funds in the amount of 164.5 million roubles.

4. Provision of direct financial assistance (subsidizing part of the costs of acquiring technology, equipment, repair, construction, etc.).

5. Provision of regional state guarantees on loans.

Regional government guarantees on loans of JSC "Corporation Vologdalesprom" are surrendered to start the production of chipboard in the settlement of Vokhtoga, "LDK № 2" Ltd. of holding company "Vologda lumbermen" (Vytegra District) to pay customs duties for technological equipment. As of January 1, 2010 regional government guarantees are provided to 20 organizations totaling 3.5 billion roubles.

6. Promotion the marketing of products.

To support the engineering workers in the framework of preserving and further enhancing the portfolio:

- appeals are sent to the leading automotive plants in Russia, enterprises of the Republic of Belarus, and this year to Kazakhstan;

- agreement on cooperation between the regional government and KAMAZ on the expansion range of buses manufactured by JSC "Vologda Machine-Building Plant" is concluded;

- "Olymp" buses (JSC "Vologda Machine-Building Plant") and trolleybuses "Avangard" (JSC "Trans-Alfa Electro") are included in the list of purchases of vehicles and municipal vehicles (using a federal grant) for state and municipal needs. *In 2009, JSC "Trans-Alfa Electro" won a tender to supply 109 trolleybuses in 12 cities of Russia, in 2010, in particular, they concluded contracts with "Tushino engineering plant" to supply 45 trolleybuses in the amount of 385 million roubles.*

7. Optimization of the tax burden:

- rate for a simplified tax system for taxpayers engaged in socially important sectors (food, light industry, folk handicrafts, public utilities, tour operator activity in the domestic tourism) is minimized (reduced to 5%);

- tax burden on tax payers of a single tax on imputed income is optimized. In 2009, the size of the correction coefficient is reduced in 7 municipalities (in Vashkinskiy, Vologda, Kyrillov, Nikolsk, Syamzha, Sheksna districts and in Cherepovetz);

- tax incentives for investors are saved;

- low regional supplements (only 20%) to the rates of payments for forest resources are kept;

- legal persons are given the opportunity to restructure the debt of the regional taxes levied on them, penalties and fines, formed on 1 April 2009.

8. Support for businesses in a critical situation. First of all, these are Ltd. "Monzensky MLC", JSC "Elektrotehmash".

9. Socio-cultural objects owned by JSC "Severstal" are transferred to the gratuitous use of the Cherepovetz municipality. For this purpose Cherepovetz' budget got a grant in the amount of 123.2 million roubles.

10. Moreover, the crisis has prompted us to action aimed at supporting small businesses. Small business as an institutional sector of the economy fulfills two important functions: a social one being the source of employment growth, and an economic one as it creates a competitive environment.

- In addition to optimizing the tax burden for small and medium businesses rates of rent for the use of regional assets are 30% reduced; the priority forms of business support are implemented: subsidies to own business (grant support), for reimbursement of expenses to pay interest on loans.

During the work of the expert council on the development of small and medium-sized businesses 597 grant applications are reviewed, 158 of them are recommended to the grant (the total amount of 46.3 million roubles).

As part of the direction to compensate for the interest rate on loans of 247 applications submitted for small and medium enterprises 173 projects are approved totaling 34.4 million roubles.

A system of microfinance is developed.

- The mechanism of the Guarantee Fund is launched.

Today we can say with confidence that the measures of financial and material support, reducing the tax burden, as well as eliminating redundant administrative regulation have actually worked.

Overall, our anti-crisis policy was adequate arising challenges. We did not allow to collapse in the real sector, “restrained” food market, reduce the tension on the labor market, keep political and social stability.

Through a combination of measures of state support of the real sector of the economy, the work of the enterprises, as well as changing the situation on the market by the end of 2009 we managed to reduce the backlog committed in the beginning of the year.

Index of industrial production in 2009 compared with 2008, amounted to 87.6% (1 quarter of 2009 – 72.4%).

The level of production in steel industry reached 88% by 2008, in wood processing – 92.2%. There are industries where there is a positive trend. In particular, the chemical industry showed a growth of 6.5% in the textile and clothing industry production increased by 8%.

But it is too early to know rest, we mustn't relax.

There are still enough uncertainties in the global economy.

Export prices for ferrous metals, mineral fertilizers have relatively stabled, but growth is not observed.

At the same time, the situation with the restoration of domestic demand is not encouraging.

The financial system is still not strong enough, credit crunch is additional proof.

We estimate that in 2010 industrial production in the region will grow by 2.5%. However, perhaps we won't come out on the level of 2008.

“During the crisis, Russia has fully felt, what turns a lack of economy diversification, weak domestic financial system, infrastructure constraints, low productivity, waste of resources, ineffective corporate governance”, – said V.V. Putin.

The crisis' development showed that the hard time is not a shock crisis' phase, it is not a piece of recession, but the transition to a growth phase.

In spite of the sharp reduction of the opportunities and the sources of financing we should

continue investment projects' realization and should also develop infrastructure for the new economy's subjects.

Even under hard financial conditions it is necessary to continue strategic projects' realization planned for the regional economic development for years ahead.

It was possible to retain the investment activity in the area.

In many branches even during the crisis the investment activity was not interrupted; the new capacities were placed in operation, the equipment enhancement was carried out.

At JSC “Ammophos”, which is the largest manufacturer of the phosphoric fertilizers, the complex on vitriolic production (the last of the four on this product's manufacturing) has been launched. After reaching its designed capacity (2.7 million tons a year), the enterprise will produce 30% of the Russian sulfuric acid release (9.1 million tons), that determines its indisputable leadership among the Russian manufacturers.

At JSC “Veliky Ustyug plywood manufacturing plant “Innovator” large-format plywood production is carried out.

At JSC Cherepovetz Metallurgical Plant “Severstal” the blast furnace № 1 has been started-up.

In Vologda Ltd. “Nestle Russia” started constructing the factory on producing momentary cooked cereals within brand “Bystrov”. The Company “Ice berry” is realizing the investment project on ice-cream production.

The production expansion is also carried out at the enterprises of agriculture, forestry, commerce, catering and services.

In 2009 within the framework of the investment projects' realization about 3.2 thousand new workplaces were created. The spectrum of the newly-created workplaces is rather wide; it's metallurgy, woodworking, mechanical engineering, textile manufacture, food-processing industry, trade and entertainments sphere (2 persons at Ltd. “Immid” and 700 persons at the Company “Ice berry”).

Realizing, that the prospect of the investment partnership exists only in a highly organized territory, we systematically carry out the work on the infrastructure gaining information. Not only engineering, transport, and information infrastructures, but also public health services, education, culture, social policy, and administrative infrastructure are included here.

The construction of the road infrastructure's objects continues (in 2009 25 km of motorways and 3 bridges were placed in operation, 37 km of motorways and 2 bridges were repaired.). The works on reconstruction and major overhaul of the Volga-Baltic hydraulic engineering constructions are being carried out. Power engineering projects (the construction of the fourth largest power generating unit at the Cherepovetz state district power station, the combined-cycle plant in the regional center, and gas-turbine heat-and-power plant in Veliky Ustyug Region) are realized. The advanced telecommunication technologies and services are actively put into practice in the area (the multi-service network with IP-telephony application, service of the wideband access to "Internet", the radio access systems). Municipal economy objects (water pipes, boilers were also placed in operation (from the end of 2008 8 gas boilers were placed in operation).

Budgetary constraints in 2009 did not prevent the completion of schools', kindergartens', medical institutions' and sporting facilities' construction; and co-financing of the constructions of the educational and rescue center "Vytegra" of the Russian Emergency Ministry.

The creation of the industrial parks and economic clusters is a perspective form of interaction among business and authorities aimed at the increasing investment attractiveness of the area.

For this reason one of the priority regional investment projects is the development of the industrial park "Sheksna". The infrastructural satiation of the territory here is carried out at full speed.

Geological and hydrological engineering researches of the territory were carried out,

some part of the grounds (400 hectares) became the industrial grounds, the road to the industrial park was constructed and the in-territory roads are under construction; the waterpipe of drinkable water, the linear part of the technical waterpipe, the household water drain and the gas pipeline were constructed.

The construction of the railway branch line with the attraction of the credit resources of the Russian Bank of Development is carried out. The start-up of the railway is planned to be carried out in 2010.

For the new consumers' steady work in the town of Sheksna it is planned to construct gas piston heat and power plant with the electric capacity of 40 MWt and thermal capacity of 21 Hcal.

As a result, the hi-tech companies become the park's residents. In May of the current year putting into operation the factory on the roll-formed welded shape production by the Close Corporation "Severstal Pipe-Profile Plant – Sheksna" is planned.

The similar design decision is planned to be realized within the framework of the industrial park "Sokol" creation in the town of Sokol on the basis of both grocery and technological diversity. It is priority for the decision of the enhancement matters of the mono-profile cities' economy.

The uniqueness of the new industrial park's territorial arrangement is that in Sokol three important transport arteries converge: the Northern Railway, the water-way (river Sukhona), the federal highway Moscow – Archangelsk. The river transport of the river Sukhona has the outlet to the sea through the lock system of in the Volga-Baltic and Severodvinsk systems leading to the ports of the five seas. Air lines' availability can be measured by a half-hour distance. There are railway terminals and gas mains.

The industrial park's platform makes about 200 ha. The distance from the platform to the ways makes about 110 m; engineering networks and communications are situated within the limits of 1.1 km.

The first resident of the park will be a factory for the production of oriented strand board (OSB). The proposals for placement of a modular housing factory, production of soft roofing materials, insulation and furniture are under study now.

An industrial park along with the cluster approach (in the town of Sokol there are two interrelated powerful clusters being formed – the forest cluster and low-rise industrial wooden housing cluster) are an effective mechanisms to increase investment activity and economic development of the town – an increase in employment, wages, tax revenue in local budgets, rise of resistance and competitiveness of industrial production.

In this regard, future development of the region focuses on the projects of large modern pulp and paper and other wood processing industries.

On the industrial site of JSC “Sokol Pulp and Paper Mill” a large country project “Vologda paper manufactory” is being prepared for implementing. Over the past 25 years there was no such project in Russia. It provides for issue of import-substituting high-quality coated printing papers (lightly coated and coated lined).

At JSC “Sokol Woodworking Mill” (“Sokol-sky DOK”) there have launched the modernization projects connected with increasing capacity for the housing production (houses made of laminated veneer lumber – up to 85,000 sq. m per year; modular homes – up to 75,000 sq. m per year).

The modernization project at JSC “Sukhonsky PPM” (reconstruction of the existing paper production and recovery of cellulose cooking) has started. The volume of production – 150 thousand tons of container board annually, 120 tons of pulp for cooking annually.

And I can say with certainty that without these projects the region will remain depending on the results of the metallurgical and chemical industries.

It was their realization that will give a stimulus to the development of mechanical wood processing, as well as provide a multiplier effect on the development of related industries.

In addition, they will contribute to the saturating of domestic market with import-substituting paper and wood-based panel products and to their exporting to Europe, and as for the trade balance of the Russian Federation they will also replace export of unprocessed timber by highly competitive and highly efficient products of deep processing.

In 2010, we'll continue implementation of measures to support and develop small businesses.

The emphasis of government support for small business is shifted to providing subsidies to offset of the interest rate on credit. If in 2009 the maximum amount of subsidy was 400 thousand, but this year its size increases to 800 thousand roubles. Under such circumstances, the borrower can get almost 12 million roubles.

And besides, if last year we staked on preserving jobs and creating new ones in small business, this year the priority is to support business in the innovation sector, in the manufacturing sector and in the services sector.

Our focus for the near term will remain on improving energy efficiency of the regional economy. Namely, reducing the unit cost of production and use of energy resources due to rationalization of their consumption, use of energy-efficient technologies and equipment, reducing the loss of production of fuel and energy complex.

Behavioral patterns “do it as everybody does it” that is virtually “do nothing to save power”, are prevalent so much because they deliver from both information retrieval and making one's own decisions.

In this regard, in the matters of energy saving and increase in energy efficiency we need to organize a strong relationship with the business community as well as to set the human factor in motion, providing information and educational support for our ongoing activities at all levels.

We have taken the first steps in this direction.

We have established Coordinating Council and the six working groups on the energy saving projects, designated by the Ministry of Economic Development of the RF:

1. “Count, save and pay” – implies a massive installation of meters and control electricity, which will enable to use energy economically and pay less.

2. “New World” – provides for the replacement of incandescent light bulbs with more energy-efficient lighting devices and the development of national production in this area.

3. “Energy efficient quarter” – the modernization of entire neighborhoods and towns and replication of their experience throughout the country in future period.

4. “Energy-efficient social sector” – project aims at creating, i.e. the use of energy efficient technologies in public institutions, primarily in clinics, schools and hospitals.

5. “Low energy complex” – includes the production and introduction of energy efficient equipment for the local power sector (this is the replacement of inefficient old technologies with new heating small objects, using the gas turbines).

6. “Innovative Energy Sector” – the implementation of breakthrough projects related to superconductivity, as well as to the use of biofuels.

And we understand that only a consistent and purposeful work can lead to concrete results:

- more efficient use of energy resources;
- development of energy saving in the municipal sector;
- reducing the negative impact of energy on the environment;
- creating conditions for attracting investment in order to introduce energy-saving technologies in the region.

One of the projects implemented in our region can become a United Nations Development Program and the Global Environment Facility (UNDP/GEF) to improve the energy efficiency of buildings in the North-West Russia.

Based on the preliminary agreement, there has determined an experimental ground of the project – low-rise buildings in the village Nifantovo, Sheksna district in area of 50 hectares with the use of new construction energy efficient technologies.

Co-financing of UNDP/GEF project in the period from 2011 to 2015 from the region within developing long-term target program “Energy saving in the Vologda region” is planned in the amount of 120 million roubles (including opportunities for profitable part of the regional budget for the financial year).

Funds from the regional budget will be directed at infrastructure development in the design and construction of energy-efficient district in the settlement of Nifantovo.

In general, except for the negative effects any crisis had some positive moments. The so-called “natural selection” takes place on the economic market. Only the most viable companies with strong policy management are afloat. Uncompetitive companies leave the market. In addition, a general economic recovery takes place, and our domestic producers move to the forefront.

In conclusion, I’d like to note that the crisis sweeps the worst participants out of the market as well as it allows the average participants to improve themselves and the best ones to take higher position and the latter is much more important. The crisis is almost inevitably followed by growth: we all become more cautious, smarter and more economical.