

# How can we survive the crisis?

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Of late, people keep asking, «How can we survive the crisis?» Scenario No.1 proposes total relaxation until better times arrive. Scenario No.2 requires a concerted effort to control liquidity, monitor markets, reconsider plans and projects, and establish new business in new markets which will allow them over time to join those who opted for the first scenario and to relax. In either case, the main thing is to stay calm.

The word 'crisis' has negative connotations, although it simply means 'a sharp, abrupt reversal in something'. If development occurred independently of the surrounding environment, then we would be able to see economic reproduction in a 'pure' form, i.e. growth proportional to the level of development achieved. In reality, as different resources develop at different rates, 'pure' reproduction is limited. A positive aspect to the crisis is that it is stimulating the economy to overcome the limitations of some resources and replace them with others so as to restore economic reproduction. Admittedly, this reproduction is beginning to look cyclical, but each slowdown in growth is just a signal that the development model should be changed. Whoever is first to find the new model will enjoy competitive advantages, albeit in new market conditions.

With respect to the current crisis, when the bubble of virtual securities burst, it was not just money supply that fell, but also confidence between market participants. Following the sharp drop in money supply, many goods must find a new equilibrium point. The reason market participants feel uncomfortable in a crisis situation is simply because in the early stage it is hard to identify which goods will see a more rapid drop in production volumes, and which will see a more rapid drop in prices. Whoever is first to guess the movement of prices and goods will also obtain competitive advantages. Drawing a parallel, the first banks to start trusting one another again will also enjoy genuine competitive



advantages, not just administrative advantages provided by non-market players.

Many governments have been fighting inflation recently, although inflation is not in itself an evil, but rather a reflection of accumulated economic problems. The crisis will bring comfort to those who are fighting inflation: the prices for goods will start to come down, and inflation will be replaced by deflation. But there will be a downside to this, as wages and salaries will also decrease. The fall in household income in waves will eventually affect the most profitable market players: the treasury and oil and gas suppliers. The general fall in demand will lead to structural changes: demand will switch from property to consumer durables, and from durables to essential products, and then within this category, demand will be for the cheapest products. Whoever is first to find the means to supply the market with the cheapest goods and services in each group will also receive competitive advantages in the new, post-crisis economy.

Applying all the above to the economy of southern Russia, it is already very clear that, unless we are lazy and stupid, there are no fundamental grounds for the crisis to develop in the region. With an income of 30% less than the Russian average, the relatively poor population of southern Russia could not afford to gamble heavily on the stock market and, accordingly, they have not suffered significant losses that would have reduced money supply

in the region. However, the losses of large financial players that have branches in towns in southern Russia will lead to a withdrawal of capital back to Moscow. The outflow of speculative capital is giving local business people a new chance.

Changes in global demand are creating favourable conditions for southern Russia to promote its goods and services. At a time of recession, the following sectors are at an advantage in terms of the 'price to quality' ratio they can offer: agricultural products, food, machinery, energy resources, transport, residential housing construction, and even tourism and recreation services.

The development of southern Russia is a priority under all the scenarios for the development of the Russian economy until 2020, i.e. the 'inertia' scenario, the 'energy/raw materials' scenario, and the 'innovation' scenario. Moreover, the resources for developing the region should be allocated in the near future, with the implementation of plans for the construction of facilities for the winter Olympics, the development of transport infrastructure, and an increased geopolitical role for southern Russia. The regional authorities and the business community of southern Russia must, in a timely fashion, produce projects that are to be publicly funded and bid in tenders for the implementation of these projects. In fact, this is a task for everyone who wants their business to benefit from the advantages enjoyed by southern Russia at a time of recession on global markets. For

example, even when global energy prices are falling, internal prices will approach global levels, i.e. they will increase between three-fold and five-fold. This means that both the general public and businesses in southern Russia will require European energy saving technologies.

For southern Russia, it is not of fundamental importance to try to identify which sectors will thrive following the crisis. The diversified economic structure gives everyone working in the region an opportunity to find their niche in the new market. There are success stories in every sector, and a common formula can be derived from these cases: a successful business person knows their business, knows the markets in which they operate, and uses any advantages they have in terms of production, marketing, human resources and finance. They also have a clear business development strategy.

Of course, any bank would be happy to have this kind of business person as a customer, but in southern Russia, Center-invest Bank goes one step further and actually helps its customers become this kind of business person. Almost every week, during meetings with its customers, Center-invest Bank informs them of the latest changes to legislation and best international practice, and helps them tackle the challenges they are facing. Center-invest Bank has the same attitude towards its retail customers. The crisis has forced many people to reconsider their plans, and the bank is working together with its customers to help them identify acceptable options in the new conditions.

In October, Center-invest Bank conducted a survey among its customers and 80% of the respondents said they intended to increase sales of their goods and services despite the crisis. In Russia as a whole, only 30% of people surveyed have expressed the same optimism. Regular meetings with customers who are working in a variety of economic sectors and in different locations have confirmed that their optimism is not feigned, but well-founded: business people in southern Russia really do know their businesses, their markets, their strengths, and the risks, and they do not want to try to survive the crisis by relying on scenario No. 1.

The measures taken by the government to pump money into the state banks to support state compa-

nies has not had a significant impact on the region's economy. We could complain: "They've forgotten about us again", but the southern Russian mentality is such that we are more likely to think, "It's good they didn't remember us, that they're letting us tackle our problems ourselves, as we will find a way out."

Given the contraction in overall money supply and the reduced circulation of money, the priority for both the business community and the authorities of southern Russia is to manage liquidity. And we do not even need to find new ways of doing so. In 1996 Center-invest Bank published a guide for its customers: NON-PAY-ME-NTS. Most of our business customers are remembering our recommendations, and they are passing them on to the new generation. But in the current situation, as well as controlling liquidity, it is essential to act to restore both the circulation of money and lending to the real economy. Provided that money is not taken out of the region, and that it is not hidden away under mattresses, then even with only a small amount of money it will be possible to maintain economic growth rates despite the global crisis.

In view of this, the most important task is to restore the trust of the population by ensuring that obligations to the population are met: obligations to pay wages and salaries on time, and obligations to depositors. It is only by showing faith in people that we can gain the trust of depositors, ensure that taxes are paid in full, and, ultimately, maintain social stability in the region.

Large companies need time to adjust to new conditions. Center-invest Bank talks to its customers all the time, and we can see that the new environment requires a new way of thinking. Here is an example: A customer is willing to pay upfront in full at current prices for an order that will not be delivered until November of next year. The supplier, who has only just managed to survive inflationary pressure, is worried that prices of materials will go up again during the course of the year. In fact, the cost of money will increase, and whoever has this money will start dictating the prices to suppliers. In the new conditions, companies must constantly monitor markets and prices, and regularly review their own pricing strategies, customer bases, product ranges and sales channels. To manage liquidity in the new conditions, compa-

nies must, on the one hand, monitor customer defaults, and on the other hand, introduce measures to boost sales.

The crisis forces us time and time again to reconsider our plans and programmes, find new ways of financing projects, pool our efforts to develop infrastructure, and require the local authorities to try harder to find public money to fund projects. Ultimately, rather than being backward steps, the measures we are taking should help southern Russia secure the place it deserves in the global economy, with new markets, new companies, and new regulation.

President of the Russian Federation, Dmitry Medvedev, has outlined the contours of this new financial world order: effective supervision, risk management, information disclosure, accountability of auditors and ratings agencies, and removal of international barriers. Center-invest Bank's own experience confirms the wisdom of this approach. Thanks to its cooperation with international financial institutions, Center-invest Bank has introduced codes of corporate conduct and ethics, as well as modern systems for risk management, internal control and strategic planning. Also, for over 12 years it has been successfully audited in accordance with both international and Russian accounting standards. The ratings agency RusRating has upgraded the bank's rating to 'BBB-', and with a Moody's international rating of 'B1, outlook stable' the bank has managed to maintain its reputation, attract a \$60 million syndicated loan, and be included on the list of 50 Russian banks whose guarantees are accepted by the Bank of Russia.

Thanks to these measures, in October alone we managed to issue more than five billion rubles in loans to the general public and businesses in southern Russia, and to attract about 5,000 new customers.



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