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J. Chatterley:

We are eight years on from the financial crisis. We are in a world where the advanced economies are going to struggle to see growth above 2%. We are looking at USD 59 trillion in debt. We have gone from an average debt-to-GDP ratio of 50% to 80%. Now that debt, at this moment, is sustained by USD 10 trillion of negative-yielding bonds, and at the same time, we have had 654 rate cuts globally since Lehman Brothers went down. The Bank for International Settlements is calling this a gathering storm. What we are going to be asking is how do we bring that debt down, how do we better manage it, how do we restore confidence in central banks and in financial stability, but, at the same time, how do we get better growth, how do we make economies stronger?

Let me introduce my panel. We are joined by Andrei Klepach, Deputy Chairman and member of the Board for the Bank for Development and Foreign Economic Affairs; Minister Dimitris Mardas, the Greek Deputy Minister of Foreign Affairs; Deputy Finance Minister of the Russian Federation Maksim Oreshkin; Pavel Teplukhin, Chief Country Officer for Deutsche Bank Russia; and Oleg Viyugin, Chairman of the Board of Directors of MDM Bank.

Andrei, why is high debt a problem?

A. Klepach:

First of all, what does high debt mean? Japan has not only state debt, but a whole debt of more than 200% of GDP, but this is not very high because they have a very particular system of refinancing led by domestic sources. China's debt has now quadrupled. It can be understood as a whole debt because the sovereign debt is not high, maybe 40–44% of GDP, but the whole debt of non-financial sectors is now about 180% or something like that, with a smaller share of household debt.

In Russia, the situation is completely different because state debt, federal and local, is only 18% of GDP, but the whole debt may be 70% or more. The cost of servicing this debt, however, is much higher than in Japan or China. This is not just about the oil price, there is also some impediment regarding the price of borrowing on the world market – due to the sanctions, our potential to borrow has decreased. High for someone might be very small for someone else; that is maybe one position.

Second, it is not only the level of debt or the price of servicing that debt, but the purpose for which this debt is being serviced; how will it contribute to economic growth? I will not give an immediate answer, but these are maybe some additional questions for all of us.

J. Chatterley:

You have just separated a debt in the corporate sector from the sovereign side as well, but actually, whichever side it is, it zaps productivity growth, and weak productivity growth makes it harder to sustain that debt.

Minister Mardas, how much debt is too much, to pick up the point that Andrei was making there?

D. Mardas:

I do not think that there is a percentage that you can say is a good debt or not a good debt. As has been mentioned, we have seen that, in Japan, there is a government debt of almost 234%, Argentina's is 45%, and Russia faces, we can say, very low debt. However, we can see that Japan has full access to the markets, Argentina has no access, and Russia faces some problems in this case. Whether debt is sustainable or not depends on many other factors, depending, for example, on the mobilization of resources within a country, depending on the export potential, or depending on the structural measures which are applied. It depends on some qualitative factors relating to the economy. In this case, we have a mixed picture and we have a specific case per country, which means that we have to see all of the variables which depend on the debt problem, and, following these variables, we can see whether a debt is sustainable in a particular country or not. It is an equation that depends on many variables. Of course, the main variable is the growth trend which exists.

J. Chatterley:
Deputy Finance Minister, when does debt then become a problem? We have just heard that there are different types of debt, there are different levels of sustainability depending on growth, on interest rates, on public perception, and on investor perception.

M. Oreshkin:
First of all, people like to concentrate on the problem of the stock of debt – 100% of GDP, 200% of GDP – but what actually matters is not the stock of debt but the flows. What is debt? It is a situation when there is a structural mismatch between income sources and spending sources. You have an economy where those who spend are not earning the income. Look, for example, at the Chinese story. The key problem there is that those who are getting debt, corporates, are not earning enough cash or profits to finance or serve this debt and go forward, and you have a debt buildup. The trajectory is really important. That is why, in some of the cases, you can have rather low debt but a situation which is developing in the wrong direction, and in that case, you will have problems. In other stories, you can have high debt but an improving situation: the income of those who have that debt is improving, and in that case, everything goes right.

J. Chatterley:
Pavel, come in here, please, because if we take Europe as an example, we have Portugal with a debt-to-GDP ratio just shy of 130%, Greece with 180%, the UK now 90%, Italy 130%. Growth is weak. You can question sustainability,

particularly given weaknesses in the banking sector. How concerned are you still about Europe and their ability to manage it?

P. Teplukhin:

I think we should look at the origin of the debt as well. It is important because, in some of the countries that you mention, the government accumulated debt by acquiring private debt, the releasing or relieving of the corporate sector from accumulated debt that it was not able to service any longer, so somehow helping the local economy. In other countries, the origin of the debt is the budget deficit, basically a mismatch between revenues and the obligations of the government budget. This is the worst kind of debt.

The other question is, obviously, when the government is increasing the stock of debt, what is the purpose? Again, it could be to help the national economy by stimulating growth or stimulating consumption or something, or it could be to increase government spending, including investment.

I think, again, we should look very carefully at two aspects: first of all, how the debt is funded, because if the debt is funded, like in Italy, through local sources, that is reasonably stable. If the debt is funded from external sources, then it could be very dangerous. The second aspect is the old theory we all learned during our university days that, in a period of crisis, every government should spend in order to help the economy to recover. Maybe it was a good theory, but I do not think it is still valid in the current economic situation because it helps, indeed, in some countries like the United States, but it does not help in small European countries because most of these stimulants to the local economy are taken away from the country by external owners of corporates or external labour.

In each case, I do not think that there is common ground between the cases that you mention. We should look independently at each case, at each country, at the origin of the debt, the usage of the debt, the ultimate goal, and whether it is good to finance the future growth through government debt. I think this is wrong. It used to be a good theory, but no longer.

J. Chatterley:

I use Europe as a specific example because there we have Mario Draghi buying sovereign bonds. He is now buying corporate bonds as well. You have Germany, which can effectively be paid to borrow money for ten years. This a region where Mario Draghi said last week, “Look, actually we cannot do this alone and we need to see governments do more”; actually you would not mind European countries spending more, adding to the debt, because that is what is needed.

Oleg.

O. Viyugin:

Actually, it is possible to put debt to sleep using easy money. But it is impossible to force a full debt default. This is a good lesson for any attempts by central banks to produce a lot of easy money in order to solve the debt problem. In reality, as I understand it, there are no objectives to solve this problem. It is just urgent measures in order to avoid debt crisis.

What does excessive debt mean? That means that there is a lack of trust on the part of investors to finance this debt, or weak trust. Then you have limited options to solve this problem. First of all, print a lot of money and create inflation; second, default or restructuring; and third, if some genius finds some new technologies which will be able to create absolutely new production capacity levels in the economy.

Now, if you take into account the global debt problem, no option is realized, because we have these urgent measures to make easy money in order to put debt to sleep, but it is impossible to make it sleep at all times; at some time, this debt will wake up, and something should be done.

Inflation: that is one of the options, but we actually see that printing money is not now efficient at creating inflation because of limited trust in investment, because investors are not sure that the global economy will be productive enough to cover the borrowing from the future. Somebody has to create trust that the economy will be productive. Japan is a good example. We know that, for decades, there has been at least stagnation in Japan's economic growth, mostly because of big debt. It is mostly internal debt, but it does not matter; the big debt is some sort of obstacle to further development.

The only way out without inflation and without some dramatic restructuring or dramatic default is to create new technologies, which will be effective enough to prove to investors that there is a good future. Companies or sovereign entities will be in a position – not to repay the debt; the debt will not be repaid – but at least to manage this debt effectively. As Mr. Oreshkin said, the global economy will be able to produce enough flows to finance the debt and interest rates and so on. It is a key question which is now open.

J. Chatterley:

I will come back to that question.

M. Oreshkin:

Julia, can I jump in on this part of the story? I believe that it is really an important aspect: why is Mario Draghi pushing governments to act more? Because there is definitely a different story depending on whether your economy is in cyclical recession or not. In the first case, when you are adding new debt, you are putting unemployed people to work. You are putting those spare resources that are not used in the economy to work and they are producing GDP, so additional flows to cover the debt. But if you have an economy with full employment and you are adding new debt, you are just redistributing resources. If the redistribution leads to low productivity, then, in that case, you will be facing your debt problems really soon.

J. Chatterley:
What is the solution?

M. Oreshkin:
The solution is different for different countries because, in Europe, where you have cyclical recession, more debt is a positive thing. For economies like Russia or China, adding more debt where you already have full employment can lead to a bad result if those added debts lead to a worse allocation of capital in the economy.

J. Chatterley:
This actually leads me to the point I was going to make. You mentioned the term ‘excess debt’, and you have basically all mentioned China. Is this the big one here? Is this the big fear, the kind of credit creation that we are seeing and the levels of debt that they are now having to sustain? Or do you see other countries where, on all the different metrics that you have given, someone actually has dangerously excessive debt?

M. Oreshkin:
If you look at that region, it is not only China, because there are a lot of countries around China, such as Thailand and Malaysia, for example, which are facing the same problem. If the problems all start in China, they will impact the whole Southeast Asia region, and the impact on the global economy has the potential to be the same as the global financial crisis or even worse in that case. But it will be another area of pain. Previously, it was the United States; mainly, it was Europe; this time it will be more Southeast Asia and among the developed countries that

are exporting heavily to China and that region, like Germany and Japan. This is the key source of possible problems going forward.

J. Chatterley:

Of the USD 59 trillion of debt that we have added since the financial crisis, the vast majority of that has come from emerging markets, even though we have made a big issue about the debt in advanced economies as well. Pavel, how concerned are you about China?

P. Teplukhin:

Actually, I agree with the previous speaker about the China problem. It could have a very serious knock-on effect, not only on Asian countries but also on most of the European exporters and European economies, which are not in good shape on their own. That would definitely trigger a potential negative trend for the European economies, so it is a problem indeed.

At the same time, I think there is a magic stick. In the Chinese case, because the Chinese currency is gradually becoming a reserve currency for global participants, that might help, because it is one thing when you print money and another thing when you print reserve money; they are kind of different animals. When, for example, some Russian economists advocated that the Russian government should use more debt to finance growth, bringing the American case as an example, my response to that is that, unfortunately, we do not print dollars; we print roubles. Those are two different currencies. In our case, the rouble debt would be financed internally, while the dollar debt is financed globally. That is kind of a different debt. In the Chinese case, coming back to that, there is some kind of magic stick that some of the global players will start financing Chinese debt through their own investments.

J. Chatterley:

Oleg, please.

O. Viyugin:

Concerning China and probably the South Asian countries, actually China still has some room for manoeuvre because there are some opportunities to increase productivity and the capacity utilization of the economy. Let us simply say that not all modern technologies are already applied in Chinese industry. They have some chances to borrow some technologies and continue to increase their capacity utilization. But of course, any further increase in debt should be seriously discouraged. If China continues the same policy of accelerating its debt accumulation, especially at the regional level, it could be a big problem.

J. Chatterley:

You just mentioned a point as well about de-dollarization or trying to get away from the US dollar. We had the Federal Reserve last night saying effectively that rates are going to be on hold for longer. Is that a huge sigh of relief, a sort of buying of time for countries, particularly in emerging markets, that still have a significant proportion of dollar-denominated debt? Deputy Finance Minister?

M. Oreshkin:

Of course it gives more time to some of the emerging markets, but it actually leads to an increase in the size of the problem because, for example, look at what is happening with China. In the second half of last year, when there was the first talk about an increase in rates and then an increase in rates in December, we had, really, the first decline in China’s international results. Of course, what was happening this year was declining long-term yields in the United States, which delayed the second hike. We have risk globally, and if you look at China, the capital outflows have slowed down sharply. There are still outflows, but they are of a much lower magnitude. This only allows them to continue to build structural programmes into bigger programmes. The faster the explosion happens in China, the better for China, actually; the longer they wait, the worse it will be.

J. Chatterley:

We came into this year with borrowing costs for emerging markets at five-year highs. Fast forward to today, and actually they are at a thirteen-month low. As much as the switch is important, it is a lack of certainty about where those borrowing costs are going, quite frankly, that I see as a huge problem here in particular – a problem for investment and a problem for tackling what you said, Oleg, about the productivity gap that we continue to have. Minister Mardas, you understand a lack of investment and the impact that has, particularly on debt sustainability and tackling productivity.

D. Mardas:

Before that, I would like to point something out. Let us see the forest and not each tree separately. This is not a new story that we are facing now. Over the last 60 years, we have had 95 countries which have faced default and had almost 600 cases of delinquent defaults. That is the first thing. Second, it is nice to remember history. The first case which was written down relating to defaults, haircuts, and other well-known stories was almost 2,500 years ago. It concerned Athens and the Delian League. If you compare this period to our period, it is exactly the same case. We faced haircuts during that period, we had an international currency, we had an IMF during that period, and they discussed exactly the same issues during that period. Take into account that we had fiscal policies, restructuring policies, any kind of policies – and finally, what was the result of these policies? An increase in debt.

The forest is the following: we have to find other types of solutions for dealing with this problem, because for all these 60 years, we have discussed the same problems and the same solutions. We have found some new means, but eventually the probably is not solved. Instead of focusing our attention on our debt management, we have to see the other part of all this, which is dealing with growth and the interconnectivity of economies. We have seen how we can manage the problem through international cooperation, because all these issues have not been tested during all this period. We have only discussed debt management, haircuts, exchanging bank loans for sovereign bonds, and all that. We have to pay attention to the second part of this system, which is growth and how we can cooperate on an international level in another way in order to face a problem which is well-known and which we have not been able to solve since the Second World War.

J. Chatterley:

Andrei, if it is not about building up debts and haircuts to reduce the debt, but actually about tackling the other part of that equation, i.e. productivity and growth, how do you go about it? If there is a pro forma for all these countries, then greater growth would be the answer. How do you do it, particularly when your economy is burdened by high debt?

A. Klepach:

I think that all countries have debt, but the story of this debt as it affects economic growth is very different. In the case of Greece, yes, the level of debt, and, first of all, sovereign debt, is very high. The parameters of household debt or corporate debt are not so high, not only in comparison with other European countries but also in comparison with emerging markets.

In Russia, for example, we have a very low level of household debt. It has now started to decrease due to the recession. In Russia, debt-to-GDP is also nominal.

This does not mean that these debts now are not high, because the cost of servicing the debt compared with, for example, the USA is high, if you look at the servicing of this debt as a share of household revenue. The actual level in Russia is 13% of GDP; in the USA, for household debt, it is about 90% of GDP.

I think that the problem is not in the figures. The problem may be more in the cost of this debt for economic growth, and also the impact of this debt on economic growth. The countries which have increased their debt very fast in recent years were also the countries with the higher rates of growth, I think with the exception of Greece. Greece was not able to demonstrate impressive growth during the 2000s. It is the same for Russia. We increased our corporate debt, not state debt, very fast in the middle of the 2000s when the situation with the oil prices was good and access to the world market was also very good. Since the crisis and the shock of 2008, we have had stagnation of our corporate debt for eight years in nominal terms. The stagnation has now slightly increased due to devaluation in Russia, the debt-to-GDP, but the amount of corporate debt or bank debt has also stagnated. Without such growth, we could not show good growth in the 2000s, and as for the future, I also think we cannot accelerate our growth without a new wave of increasing non-financial corporate debt. Concerning government, it is easy for me to talk about Russia. We have a really different view.

J. Chatterley:

I think we have a ‘chicken or egg’ problem here, because you want to create growth, but you are burdened by high debt, so do you have a haircut on the debt and then allow consumers or corporates to releverage to borrow more? There has never been a better opportunity to get access to credit with rates so low, negative in some cases, but if you are already burdened by debt, how can you take on further loans to stimulate your economy and create growth when, unfortunately, you are full to the gunwales with debt that you have created previously? I can see you are agreeing, Minister Mardas, but I know you wanted to come in here.

D. Mardas:

I would like to point out something regarding Greece. Greece participates in the eurozone, and the countries of the eurozone have a common fiscal policy, a common monetary policy, a common banking policy – which is in process with the same interest rates – and we do not have a common policy dealing with debt servicing. It is a paradox. What is the next step? We need an integrated system dealing with debt servicing. Of course, now we are in the process of constructing this kind of mechanism, but the system cannot survive when we have four common policies and, for one policy, the only responsible party, the most competent party for the application of this policy is a member state of the eurozone or of the EU.

We have to manage that, and of course we have said in Europe that we have to manage that. That is why we are progressively seeing a more active policy of dealing with debt servicing with a QE increase, with a more dynamic role played by the ECB, and all the well-known stories, which is something that is necessary. Without this, the system cannot survive.

J. Chatterley:

I can feel Wolfgang Schäuble, the German Finance Minister, shuddering as you just spoke there about the prospect of some kind of debt sharing. But Oleg, come in here.

O. Viyugin:

Actually, the logic is very easy. If you have excessive debt – and I am not talking about Greece in particular – you are not in a position to show investors that you can produce enough flows to pay this debt and service this debt, which is tightly connected to economic efficiency and the ability to increase productivity. Then you need debt relief. If debt relief is not given, your country or company will spend all of its energy fighting creditors, and there will be no growth and no serious progress or prospects for the country. It is easy to talk about the local situation in this country, but if we talk about the global economy, the situation is much more complicated, because who can give relief? God? Or something else? Or the Federal Reserve? Yes, to some extent, but the Federal Reserve is not a god. It is just a source of reserve money or production.

J. Chatterley:

Central banks are trying to give that relief, because they are pumping the system full of money. They have brought rates as low as they can. Now what?

O. Viyugin:

It is temporary, actually. It is not a tool to solve the problem overall. It is just temporary relief. If you give some genius guys the opportunity to create new ideas and technologies and push the global economy to new ideas, then probably investors will forget about the money.

J. Chatterley:

Really? So we just “put the debt to sleep”, as you said?

O. Viyugin:

Yes, to sleep! Temporary!

J. Chatterley:

Temporary forever!

O. Viyugin:

And provide the opportunity for some companies, entities, or persons to create something new in the economy, to create progressive technologies which will be enough to build trust for the future. It is the digitalization of the world which will give a twofold increase in production and capacity utilization. That is one option, but of course we will see.

J. Chatterley:

Oleg, very quickly, how long does it take to get that innovation to boost growth that you are talking about in order to bring debt ratios down? What are we talking about?

O. Viyugin:

I think we are talking about ten years, and that is a very brave assumption, of course!

J. Chatterley:

I think it is very brave! Pavel, come in here.

P. Teplukhin:

I am not sure that, for example, Europe could survive ten years if we keep the current situation going.

J. Chatterley:

The central banks will not survive for ten years.

P. Teplukhin:

Obviously, I agree with our Greek colleague that it is a fundamental problem when you have a common monetary policy and individual fiscal policies. Then

you either have an explosion, which has already happened – and then we will probably have follow-up explosions, because obviously the two polices are not synchronized – or you have a temporary solution like the European Central Bank trying to buy out the debt, which is basically monetary policy solving fiscal policy issues. It is a temporary solution. You should either let Greece go and have its own monetary policy, or you should save it if you want to save the monetary union. Unfortunately, there are no instruments available. There is no central government in Europe in the sense of budget management. Saving fiscal policy by means of monetary policy is the wrong attitude anyway, by definition.
There is a problem. The problem is fundamental. I do not see any practical steps to the resolution of the problem. I will definitely expect similar cases to Greece happening sometime soon, and definitely within the next ten-year period we are talking about. Then the next explosion could be a really serious one.

J. Chatterley:
In the last week, Bill Gross looked at the bond markets and the negative yields that we face – USD 10 trillion worth of bonds now with negative yields – and said we are looking at a potential supernova, an explosion. Deputy Finance Minister, how far away are we from a supernova?

M. Oreshkin:
We will see, but the story here is that negative rates, for example, in the developed countries allow us to hide structural problems that we face globally. Once again, let us look at China. The problem is not the debt itself; the problem is that the Chinese banks are financing projects that are not profitable, so this is the root of the problem. The longer you have a negative-rate environment globally, the more you can kick the can down the road. That means that the problem is becoming bigger and bigger, and harder to solve.

J. Chatterley:

Basically, we are financing zombie banks and zombie businesses. That is not just a Chinese problem; that is a global problem.

M. Oreshkin:

Zombie industries and, in some cases, zombie economies, I would say.

J. Chatterley:

Pavel, that is a problem in Europe, too, and in the supposed strongest countries in Europe, too.

P. Teplukhin:

Indeed, and we can add on top of that the migration crisis and European expansion because, through that element, whatever stimulant you use for your own domestic economy, the money is taken away from the country into neighbouring countries. Government stimulants do not help the local economy. What is the point of increasing the debt if the money is going to be taken to other countries and not help the local one? Again, I do not think that we are anywhere close to that resolution. We have very nice formulas and models of behaviour in the current situation, especially taking into account that the situation in different countries is quite different, obviously. We can talk about Brexit as well, because that is yet another story that might negatively impact the whole situation.

J. Chatterley:

How concerned are you by Brexit?

P. Teplukhin:

It is a British and European problem.

J. Chatterley:

But the spill-over effects? The potential for other European economies to go, “You know what, hang on, we think the European project is a bit of a nightmare, too. Why do we not have a referendum?”

P. Teplukhin:

Politically, it is very dangerous because there is a political balance in the European Union. If Britain leaves, then the system is not balanced, and therefore it will have a further knock-on effect on other countries, obviously. But from the economic point of view, I guess the positive and negative arguments actually balance each other perfectly. If we believe the British Chancellor when he says that the United Kingdom will lose GBP 30 billion over the course of the next four years, and because of Brexit, the UK will save GBP 1 billion a year in annual membership payments, these are perfectly balancing numbers. From the economic point of view, I do not think there will be any effect, but politically, it is really dangerous.

J. Chatterley:

Minister Mardas, come in here.

D. Mardas:

No Brexit will take place. It is very simple. However, we have not paid attention to something which is very important.

J. Chatterley:

Wait, can I just interrupt a second? Do you mean that voters in the UK will not vote to leave?

D. Mardas:

They will say they are going to stay in Europe. But what is the result of this process? We have not paid attention to that, and I think it is very serious. Through all these discussions, we are going to see that one principle dealing with the free movement of persons has been violated through all these arrangements in favour of the UK, which means that there is a threat of creating an *à la carte* Europe in the near future because of this process. I think that we have not paid attention to that.

If you will permit me to come into the discussion about boosting growth, growth is a function of positive expectations. If we have positive expectations, we will have growth. How can we keep positive expectations in a country which faces financial or debt crisis? We can keep it in one way: the debt problem can be arranged in the short run, which means that all discussions, all primary surpluses, all fiscal arrangements and everything must be arranged in the short run, which means a period of no more than three years. If we exceed these three years, if we do not make all the appropriate arrangements during these three years, in that case, positive expectations are relaxed, and in that case, there is a growth problem for a country facing a debt crisis. You have seen that in Korea, Israel, Sweden, Turkey: in three years, they found an appropriate solution, and then they continued. Elsewhere, in Greece, for five years since 2009, we have tried to find a solution, and we did not find an appropriate solution in the right time. These were the first expectations of Greece, and now we are trying to rebuild these expectations, but that confidence and these expectations cannot be rebuilt in one day or in some months. Investors have another way of thinking about that. This is the main constraint of countries which cannot solve their debt problems in a short period.

J. Chatterley:

How do we change that? You are talking about a three-year period. Oleg was talking about a ten-year period of trying to boost growth via innovation. How do you tackle that three-year period where you try to give consumers or investors positivity, as you call it?

D. Mardas:

It means, in a short period, all fiscal measures and all measures related to the structure of the economy: we must be in a position to apply all these measures, and everybody has to know that there is a process of market regulation.

J. Chatterley:

I just do not think that works. I think if Greece turned around and said, “Actually, we are going to try and boost spending, we are going to do this, we are going to do that to achieve growth”, everyone would go, “Oh, here we go again, Greece is overspending again.” The markets would have a real shock, and once again your funding costs would be up at 15% or 16%. How do you balance those two things? How do you grow your economy, however you choose to do it, but also maintain investor confidence? Pavel?

P. Teplukhin:

As I mentioned, there is no solution here, because when they have external monetary policy providers, in this case the European Central Bank, and a local fiscal policy provider, then there is no solution. You should either make monetary policy local by letting Greece go, or you should centralize fiscal policy by letting the Greek government go – with all due respect. When you have the two things together, today, or tomorrow, or the day after tomorrow, they will explode.

J. Chatterley:

You are basically saying Greece is better off leaving?

P. Teplukhin:

I am not saying that. That is for someone else to decide, because what is good or bad? Maybe it is better to default than to give away your independence or sovereignty. It is all kind of individual.

J. Chatterley:

Mr. Mardas, respond to that. Is default sometimes the better option, because your economy has been asphyxiated over the last few years?

D. Mardas:

As far as the euro is concerned, it is actually difficult because the impact would be huge, I would say.

J. Chatterley:

Go outside Europe, then.

D. Mardas:

I will tell you, we have to see what the specific factors are for each country which can influence this process or not. However, as I have mentioned, we have experience of 600 cases of defaults, but the economy continues.

J. Chatterley:

We are not learning anything.

D. Mardas:

In some cases, we can discuss: is it a problem of creditors and debtors? Like I say, there must be a strategic plan dealing with that, which means that if there is a default, this must be the result of a discussion and not just an autonomous action on behalf of the state. If it is an autonomous action, then we have the example of Argentina. You have seen what the expectations are for Argentina and how difficult it is for Argentina's economy to build now.

J. Chatterley:

In the case of Argentina, though, you brought together investors from all over the world. Is there some need here for global, coordinated action to address excessive debt? Can you envisage any kind of scenario where this could become some part of a solution? Pavel, you were talking about Europe, but you said there is no solution. What about globally? Is there a solution to this globally, other than the 600+ defaults, this boom-bust cycle that we live in?

P. Teplukhin:

Default has negative connotations, obviously, just when we are speaking about it, but in fact there is nothing negative about it. That is part of the cycle. Defaults should happen from time to time because, otherwise, what is the point of separating risks: high-risk and low-risk countries, etc.? If you did not have a clear option of default, our investors would never differentiate the risks. Defaults are important, and they should take place at a corporate level, sovereign level, regional level, etc. That is a possibility.

J. Chatterley:

Defaults mean a lot of suffering, though. Not only are we building debt, but we have not talked about the socioeconomic consequences on wealth in the economies we are building. There is an incredible unfairness in the system that is increasing at the same time as this debt buildup, and actually the marginal benefits of that debt-to-growth are diminishing all the time.

P. Teplukhin:

Let the social network look after that aspect, obviously. We are talking about economists, businesses, investors, etc.

J. Chatterley:

Is there not a better solution, though, than just bingeing on debt and defaulting? Is there not a middle ground here? Is growth the only way forward and innovation the only thing we can rely on, Oleg? I am a bit depressed!

O. Viyugin:

First of all, if we are talking about some local problem, like Greece, for example, the decision is quite easy. Definitely for this size of debt, debt relief is needed and, as I understand, it was given.

J. Chatterley:

It was promised, and it has been promised a few times before.

O. Viyugin:

Debt relief, and in exchange for consolidation of budget policy. It is a normal step. Of course, sometimes it is very difficult to make this step in reality, but, in theory, debt relief and consolidation of budget policy is the only way to solve the local sovereign excessive debt problem. If you are talking about some sort of bigger issue like global debt or the debt of the European Union, I do not think that there is any constructive option to make a giant effort to manage an excessive debt problem. The only option which is used now is some sort of easy money and some sort of conditional debt relief for borrowers in order to maybe make some structural reforms, maybe some budget consolidation, or some sort of monetary framework for serious steps in the structural area.

J. Chatterley:

The problem is, a crisis has to precipitate that. You have to have crisis before we see significant levels of reform, of tackling these kinds of issues, like we saw in the eurozone.

I just want to go down the line very quickly, and then, Mr. Mardas, I know you want to come back on this, but are we in a worse situation today, given the potential supernova in the bond markets and the USD 59 trillion worth of debt that we have added, than we were before the financial crisis in 2007–2008? Is the situation today more precarious?

Oleg.

O. Viyugin:

Actually, the global economy has continued to accumulate some negative potential for the future because, first of all, in order to keep debt sustainable today, you can just continue to increase this debt. It is very difficult to cut this debt without serious changes in productivity and structural approaches. For politicians, all these issues are completely difficult, and we do not see any serious steps in developed countries or developing countries to solve these problems.

J. Chatterley:

You just get your central bank to buy your debt.

O. Viyugin:

Yes, but we have already agreed that this is just a temporary tool in order to keep the situation stable and to give relief for people’s brains to find a real exit from this situation. But, in general, it looks like we continue to swim with the flow.

J. Chatterley:

Pavel, are we in a worse situation today?

P. Teplukhin:

I do not think the situation is in any way different from what we had before. What is different is that we know much more about the situation than we used to know before.

J. Chatterley:

But we are not learning!

P. Teplukhin:

We did not know about mortgage securities in the United States ten years ago. We did not care about it because everything was fine. In fact, it was not fine; we simply did not know about it.

J. Chatterley:

But we are not going to have that problem today. It is going to be a different problem.

P. Teplukhin:

It is a different problem, but the same negligence. We should learn and do our homework. We should look at the quality of credit every single time, and we should be aware that default is possible. Otherwise, there is no free money, and that is it. The situation is not much different.

Coming back, for example, to Russia, we believed that there was very low debt in the Russian economy in 2008, before the crisis, which was indeed true according to the statistics that were provided by the Central Bank. But in fact, we did not know about the huge amount of debt at the level of shareholders, which was beyond Russia's borders in the international, global financial markets, and we simply did not know about that. It became a problem when the crisis happened and we were not prepared for that. This is the reason why the crisis in 2008 was so difficult for Russia, because we were not aware of the size of the problem. Now, I hope, the situation has changed, because we at least look around and we have that information, and it is up to us to analyse the information in a more professional way.

J. Chatterley:
Deputy Finance Minister?

M. Oreshkin:
First of all, defaults and crises are a normal way of life because they always help the banks not take excessive risks going forward. It helps to cure those imbalances that are spread across the global economies. It is a normal way of life, and yes, there will be more crises going forward. We will address them and everything will be back here, so we should definitely not be depressed. We are in St. Petersburg in June. Nobody is depressed here.

J. Chatterley:
You make a great point there, actually, about the fact that banks are not taking excessive risk, but you could argue that banks are now so over-regulated that the liquidity is not there anymore. If we do have a blow-up here, you have significantly less liquidity available, and we could actually have a more violent response.

M. Oreshkin:

Banks are more regulated in the United States, but the same is not true, for example, for Chinese banks. We are talking about the global banking system. The excesses are building up in different regions across the globe.

J. Chatterley:

I am glad you know more about Chinese banks than anyone else does, quite frankly. Minister Mardas, come in.

D. Mardas:

Default is, like I have said, the last resort. Before that, we have some other means, which are, for example, haircuts, extension of the debt for 30 years, and reduction of interest rates. We need good faith between debtors and creditors so that we can find a solution outside of default. And this can be done. As an example, we sometimes hear how a haircut can take place. In some cases, we can accept it. I would like to remind you that the first haircut took place during that period 2,500 years ago; it was a haircut of 80%, referring to 10 out of the 13 city-states in Greece. And they survived.

What is the delicate issue that we have to pay attention to in any kind of solution? We have to keep the positive expectations for potential growth alive. This is the delicate issue. I think we can keep them without any default because the international community can negotiate, can have the faith that is required, and can find a solution outside of default through the extensive cooperation that exists.

J. Chatterley:

Actually, what you are saying here is that we cannot have coordinated action on how to tackle debt, but we can have coordinated action on trying to make growth stronger, to boost growth. Look at the G20: we have been talking about this now for five years, and, again, I do not see any kind of coordinated action to try and boost growth. We have a lot of talk and not a lot of action. Is this the conclusion that we are coming to here, basically that it is not about actually tackling debt; it is about better coordination of growth globally?

D. Mardas:

Increasing interconnectivity among countries and among economies. This is what we need, this is what we discuss, and this can take place because we have had this increased cooperation in the area of trade since the 1960s, but we have to develop this cooperation in areas dealing with growth, investment, and other related activities which can influence all of the problems dealing with debt servicing.

J. Chatterley:

The problem is the fear that businesses or individuals have about investing when debt is so high and growth is so low, and expectations are that your economy is going to continue to stagnate. Let us talk about Russia on this point, Andrei. Do you find we seem to be potentially turning a corner here for the economy in terms of growth? Hopefully we will see growth next year, according to the Central Bank, but if you talk to individual businesses, they are concerned that the economy is going to continue to stagnate. How do you generate growth when the perception is that weakness is going to continue?

A. Klepach:

Russia can look like some experiment where you had a very hard budget policy devoted to decreasing the budget deficit to zero. If you rather had a monetary policy with not a nominal but the real interest rate – if you look at the key interest rates by the Central Bank, it is now about 4% or more – it hardly stimulates the economy with the best institute which can grow up in this case. I think without some adjustment or softening of the budget policy, which means growing debt –

sovereign debt first of all – and also a softening of monetary policy, which also means growing corporate and household debt, we will not see any growth in the Russian economy unless we see high growth of world prices, because the problem of debt is not a problem of the size of the debt but the price of the debt. With the interest rate in real terms at 4%, or more than 10% for corporate borrowing, it would be crazy to increase debt, but if we want to return to growth and create the conditions for recovery, we should create the conditions for a decrease in real interest rates. Some growth of debt, whether of corporate debt or household debt, will be a necessary condition for the growth of the Russian economy.

I can be more general, not concerning Russia. I think that maybe we have exaggerated the problem of debt a little bit. When I was a student more than 30 years ago, there was also a very active discussion about what the future debt crisis in the American economy would be, because it was a very high level of corporate or household debt. This was at the beginning of the 1980s. But after this, we saw record growth in the American economy in the 1990s and at the beginning of the 2000s, despite the growing level of debt. Now, yes, maybe it is a very high level and it needs some adjustment, but, generally, the problem is not how to develop with decreasing debt or frozen debt, but maybe how we can grow with growing debt, but great conditions for servicing it. This debt will be productive and contribute to growth. This may perhaps be a good model for resolving the problem. If we have growing debt, as was the case in Greece or as was also the case in Russia in the 1980s, without growth or with modest growth, it really will come to a default or some other strong adjustment.

J. Chatterley:

We have to wrap up, but we have talked about a number of different regions. We will keep Europe as one area. If you had to name one country or region – you can go with Europe – that you think is going to be most pivotal for investors in terms of shaking market confidence and damaging the outlook on global growth here, just name it. I am going to go down the line because we have only a few moments left. What is the big risk here for you in terms of debt? Which country are we talking about?

O. Viyugin:

We are of course talking about potential risk? I think China.

J. Chatterley:

China. Pavel?

P. Teplukhin:

No, I will pass. They are all dangerous. Just be careful.

O. Viyugin:

It is better to dig a big hole in the earth and go down in it.

J. Chatterley:

Oleg, you win the gold star for answering! Deputy Finance Minister?

M. Oreshkin:

There is a nice video on YouTube of Trump repeating, “China, China, China”, so China.

J. Chatterley:

I get it. Minister Mardas?

D. Mardas:

Not Greece, we can say. Some of you probably had Greece in your mind, but Greece is integrated into a system, and we have seen how efficient a system can be, even in cases where the system is not fully integrated. Otherwise, we would manage the problem in a better way, without all these problems that we have faced. The problem is cooperation in the area. If one country remains lonely, one country which faces a huge debt, in this case, the threat exists in this area. If there is cooperation, we can avoid any kind of threat in dealing with excessive debts.

J. Chatterley:

You are saying that if there is not better cooperation, then Europe is still a hotspot.

Andrei, the biggest risk out there?

A. Klepach:

Maybe it is not the traditional view, but I think the highest risk is the USA's sovereign and corporate debt, and also maybe Britain. Not Russia. Not Greece.

J. Chatterley:

I am surprised, with Donald Trump saying that he can negotiate with US debt and debtors, that perhaps this was not the region, but clearly not. Thank you to the panel.