

UDC 338.124.4(470.22)

© E.G. Nemkovich

© A.E. Kurilo

The crisis influence on economy of Karelia and opportunity of its overcoming

In this article the main causes of the global financial crisis and its influence on the economy of the autonomy of Karelia are presented in brief. It influences the timber industry complex, the banking area, and as a result the social sphere in Karelia's economy. In this under-populated region the small-scale enterprises' activity plays an important role under the circumstances of the critical situation. In this article the ways and opportunities of the overcoming the crisis by means of the invariant decisions are represented.

Karelia Autonomy, anti-crisis measures, the steps of realization.



**Evgeny G.
NEMKOVICH**
Ph.D. in Technics,
Chief researcher, Institute of Economics of Karelian scientific centre RAS



**Anna E.
KURILO**
Ph.D. in Economics,
Senior researcher, Institute of Economics of Karelian scientific centre RAS

The global economic system is a special structure of relations between producers and consumers of goods and services. Crisis appears in case of imbalance between the elements of this system. Crisis can be influenced on by the epoch's peculiarities, by the level of the economic development of a country, its integration into the world's system, and by the complex of economic and political processes during the crisis times. The frequency of the economic crises' appearance, their intensity, and the periods of their duration depend on the destruction degree in the main reproduction ratios.

The global financial crisis, having started in the USA in the mortgage lending sector, influences the social and economic situation in Karelia autonomy. After having influenced both the timber industry complex and the banking area, it shows up in the social sphere.

Any crisis can be defined as a hard transitional state or a turning-point with serious consequences. There exist different types of crises such as agrarian, stock-exchange, currency, industrial, and transport ones. The special type is made up of economic crises. During the period of their duration the main ratios of the reproduction processes and the unified econom-

ic system of the normal social operation are broken. There appear disparities among the types of economic activity. These disparities show up in the production volume's decay, in the investment of capital's reduction, in bankruptcy number's increasing, in stock depreciation, in unemployment's growth, in living standards' fall, in social discontent rise, and in the other negative phenomena.

Both financial and economic crises interfere the world's economic system in general and different countries separately; but the scales of all these crises differ. They can appear within the period from 2 to 10 years, with the average frequency of 4 years, being characterized by different degrees of expansion and caused harm. Bank and transport systems, trade and land sectors, stock exchanges become more vulnerable at the times of crisis. But in all cases those economic sectors which suffered most of all, recovered and passed on to the new level of development.

The crisis dating back to the mid-2008 is global. Its appearance was caused by the wish of all the participants of the economic process to get the maximum profits by means of minimal expenses and in the shortest space of time. The USA credit system turned out to be the weak point in the world's economic system. In many experts' opinions, the crisis' preconditions can be found at the beginning of 1990s, when high-risky financial steps were taken, the mortgage lending of the persons with low incomes or bad credit events was expended. Low rates in the mortgage lending helped raise demand, and everybody was satisfied, as the consumer got the flat, the bank got its profits, and the insurer got the premium. Thus the credit system, having enclosed all the markets on it, made them dependent on their liquidity and solvency. Not tangible assets, but credit contracts became the object of insurance. The scopes of sold and bought credits exceeded the scopes of mortgage credits themselves. The unlimited credit expansion took place. The credits became cheaper, people started to buy fixed property, cars, and the other objects for

comfortable existence. As a result in 2007 the crisis of the USA mortgage credit broke out. Then from the crisis in the sphere of fixed property it grew into the crisis in the sphere of real economy, it caused the setback in production, which became the forerunner for the global financial and economic crisis.

The crisis of the hypothec system, having shown the mistakes in the legislative control and the danger of the tolerant monetary policy, taught severe lessons of necessary management in the field of financial risks. As the financial systems of Europe and the USA are closely related, both had losses.

For some time the governments of the mentioned countries were partly solving their banks' problems. But the problems emerged more rapidly than the authorities could settle them, as a result the world's market drew near panic. The crisis emerged in many countries such as Great Britain, Hong Kong, Denmark, Ireland, Iceland, Italy, Canada, Latvia, Netherlands, Russia, Taiwan, Ukraine, France, Switzerland, Sweden, Estonia, South Korea, and Japan.

The economic growth went down, the unemployment extended, the number of corporate bankruptcy increased. The property sale abruptly dropped, the fixed property's prices eased, the mortgage lending's market also reduced. The car sales abruptly reduced, housebuilding is at the point of stop now. So we can say that the situation is rather serious. The leaders of the 15 states, making up European Union, agreed to introduce the system of state guarantees for the credits, carrying out by banks, and to provide budget support to financial establishments. Such decision was appreciated by the observers as the recognition of the global nature of the crisis, demanding coordinated actions from the direction of the leading economic systems.

Our country hasn't escaped the crisis. Its impact on the Russian economy can be both positive and negative. Due to liberalization Russia became the part of the world's system, a lot of Russian companies are involved into international division of labour. Russian large-

scale enterprises entered into trading relations with foreign companies. As a rule, in such situations only a few large-scale contracts between limited number of countries are made. In this situation the main financial rule not to “put all the eggs into one basket” was broken.

According to the analysts' opinions, the Russian managers never minded the risks, considering the situation in foreign banks to be safe. They absolutely forgot that the prime costs of goods and services is made up of the costs of natural resources, raw materials, fuel, energy, basic assets, labour sources and some other types of expenses for their production and sale. The Russian businessmen have never tried to reduce production costs. The production expenses were not controlled; the prices, having been fixed arbitrarily, were often unreasonable. Unfortunately, in reality the prime costs of goods and services haven't become one of the most important activities necessary for managing a business. At the same time in Russia risk credits also appeared, and the consumers' market started to develop on trust and in instalments. The development was based on credit sources without thinking of any risks. So the economy of this country will be influenced by the global crisis and even with the existence of the general state anti-crisis program there will be difficulties in the economic life of the country.

Karelia autonomy is a part of Russian Federation. And its economy is a part of the Russian economic system, which is made up of a number of subsystems, carrying out different economical activities. The management of the autonomy's economy has its own aims, functions, principles, methods, machinery of governing. So, crisis events will show up in the autonomy's economy. Partly this influence is reduced by the anti-crisis measures, proposed by the Russia's and the Karelia's governments. The autonomy's economy keeps the production rate taken in 2007. But it doesn't mean that we can calm down. All the types of economic activity will be influenced by the global crisis.

Some enterprises working for the foreign market, such as “Pegas International”, “AEK”, “Segezhs CPK”, “Kondopoga”, “Karelsky okatysh”, “Nadvoitsky Aluminium Factory”, “Petrozavodskmash” have already suffered from the crisis. They have to stop production or to reduce yield because the foreign market has reduced. For instance, the leaders of “Segezhs CPK” used a very hard variant, they stopped the production and discharged 600 persons. The leaders of “Kostomukshsky GOK” and “Nadvoitsky Aluminium Factory” chose more gentle variant and just reduced the volume of output, the wage-fund and introduced underemployment, without dismissal. But in general about 2,5 thousand people can be discharged on the territory of the autonomy, mainly those ones whose professional level doesn't meet the market's requirements.

The global financial crisis negatively influenced the autonomy's forestry. For studying this situation at the enterprises the working group has been formed; and it was headed by the Prime-Minister of the Karelia Autonomy's Government A. Kolesov.

During the first six months of 2008 the production level at the forestry complex remained at the level of 2007, except the carving wood production. Because of the considerable growth of the carving wood prime costs and the landslide of prices for the exported carving wood its production became unprofitable. In such situation wood-working enterprises try to direct the production distribution to the home market, but such processes need time. For instance, a wood-working enterprise “Pegas International” couldn't pay wages to its workers because of the crisis at the USA housing market, when there wasn't any demand for edged boards.

In August and September 2008 the negative tendencies showed up in the pulp and paper industry. In general the index of the industrial production was 100,9% for 9 months, from them 99,7% belong to the pulp and paper branch and 84,5% belong to the wood-working industry. In logging industry the production levels on the wood storage and export are still

the same. But the financial situation at some logging enterprises is growing worse. Such situation became possible because of the sales slowdown from the direction of the pulp and paper enterprises and because of the possibility of buying the cheaper raw materials from the neighbor regions, and in its turn it causes the payment delay. Though the situation within this industry is rather hard, “Kondopoga” and “Pulp Plant Pitkyaranta” handle their task.

A difficult situation can be observed at “Investlesprom”. During the period from January to September 2008 this holding company produced 104% of paper, 83 % of cardboard, 90% of sacks in comparison with the results of the previous year. In the market the recession in demand for these products is being observed, so the enterprise had to reduce the volume of output. Within this branch the crisis became the serious obstacle for the realization of the investment project on the retrofit installation at this industrial complex. In the crisis’ situation “Segezhpap” went out into stoppage in 2008 and remained in that state in January 2009.

In general the industrial output went down as a result of recession in demand for Karelia enterprises’ production. Both Russian and foreign partners diminished the customs of timber and iron ore. The assembly production has almost stopped. The period contracts are broken, and in this case delivered goods and rendered services are not paid for. The producers stopped goods delivery, and the products are kept in stocks. Cargo transportation by rail also suffers damage because it has reduced almost twice.

The banking sector raised the rates and reduced financing, working with the patrons only. The deposit outflow from the autonomy’s banks increased.

The number of the sources supplying the customer demands started to reduce. In view of the inflation people are losing their purchasing capacity. At the end of 2008 the autonomy’s budget hasn’t got 500 million rubles.

All the mentioned events give warning of the coming crisis in Karelia. Both the Russia’s government and the Karelia’s government try to stabilize the economic situation and to find the opportunities to support the inhabitants.

In November 2008 at the Legislative Assembly’s sitting the deputies expressed their anxiety about the global crisis’ influence on the autonomy’s economy. In particular the crisis can influence the wage payments in the social sphere’s establishments. In such situation Karelia’s government planned to reduce the expenses on the support of the State machinery. Besides, some investment programs will be postponed. The autonomy’s budgeted deficit is 9,9%.

It’s hard to manage the economy at the crisis times because the leader has to make decisions in the circumstances of ambiguity.

For managing the autonomy’s economy one has to use invariant decisions of the emerging problems. All the decisions must be prepared and analyzed by specialists, and those decisions must be approved by competent officials. The principal aim of this program is not only to survive the crisis, but also to raise Karelian products’ competitive ability by means of improving its quality and lowering its prime cost, of diversifying the autonomy’s economic structure, of rupturing from the single-territorial arrangement (when the town’s economy depended on the activity of the only one enterprise). The realization of this program will allow paying wages promptly, keeping the necessary number of vacancies, and supporting the Karelian products’ competitive ability.

One of the bases in the anti-crisis program will be systems analysis, and the main procedure will be the constructing of the generalized model, reflecting all the factors and the interactions of the real situation.

Those who were discharged are protected by the Russian legislative norms. First for six month such people must get the average wages and then they must get the doles. The auto-

my's placement services should train them in new professions called for in the labour market, and then to provide employment assistance. It's necessary to create jobs in the sphere of housing and communal services. 4 billion rubles will be spent on social support of the inhabitants in 2009. 110 thousand autonomy's inhabitants will get support. The Government takes steps to prevent mass discharging and re-consideration of the collective agreements.

The autonomy's authorities provide support to the Karelia's enterprises by including them into investment programs. In 2009 it is supposed to find 300 million rubles for the enhancement and reconstruction of the housing and communal services' objects and to use 100 million rubles for getting ready for winter. To reduce the crisis impact the autonomy's authorities introduced the lower rent for the usage of the state belonging, and the lower profits tax concerning the credits, having been taken for the realization of the investment projects. Also it is considered to keep the rates at the autonomy's level and to limit the prices' growth for the natural monopolies' services.

The Russian Federation Government directed the financing to the road-building, and in this way it'll keep the demand for crushed stones.

In the circumstances of the crisis a special role belongs to the small-scale enterprises. In such situation the Russian Federation Government strengthens the support of the small-scale business. The problem of creating the fund to support the small-scale enterprises' development is being solved now.

First of all the crisis will strike those enterprises of the real economic sector, which depend on the credit resources. The real situation is that some enterprises will have to postpone their investment projects and they can be expected to start unjustified discharging, reduction of working hours etc.

Under the circumstances of crisis it's very important to use the possessed sources affectively. Each enterprise should control the prime costs of the products, services, raw materials, fuel, energy, basic assets, labour sources and some other types of expenses for the production and sale. The trade area will suffer the least. The inhabitants will continue to use this sphere actively, but the number of products, making up the basket of goods, will be reduced. In general in this area the economic situation is rather auspicious.

In such circumstances the government must support business initiatives. For this purpose on the territory of the autonomy it is necessary to organize anti-crisis authorities which jointly with the Federal Banks' branches will help to keep the business infrastructure. Such authority will be able to carry out the control over the realization of the anti-crisis measures locally.

Having taken these and the other steps, Autonomy Karelia's Government will be able to fulfill anti-crisis measures efficiently. According to the specialists' opinions, the crisis will be possibly overcome in 1,5 or 2 years. The spring of 2009 can be characterized as the time of the changes to the best. After the adaptation to the new conditions starting from 2010, all types of the economic activities will be stimulated to develop. The increasing demand will be satisfied by the enterprises using new technologies and new approach to the production. It's necessary to lower the expenses and to introduce the system of controlling the production costs, allowing the immediate return control, to increase the marketing expenses.

After overcoming the crisis the market will change. Large-scale enterprises will disappear, they will be replaced by the new and aggressive companies, starving for the development. These new companies will occupy the market niches due to their methods of marketing and to increasing the consumers' number; the new leaders will appear at the new market.

References

1. Unemployment hasn't reached the critical point // Courier of Karelia. – 2008. – №234. – December, 18.
2. Blinov, A. Economy dictate its will to policy / A. Blinov // Nezavisimaya Gazeta. – 2008. – October, 13.
3. Unemployment raised within 9 weeks // Courier of Karelia. – 2008. – №242. – December, 30.
4. Investors are helped in different ways // Courier of Karelia. – 2008. – № 232. – December, 16.
5. Karapetov, G. The crisis is not so bad as it is painted / G. Karapetov // Courier of Karelia. – 2008. – №234. – December, 18.
6. The crisis is recognized as worldwide phenomena // Kommersant. – 2008. – №183. – October, 9.
7. Makhrensky, B. Retail's new problems / B. Makhrensky // Courier of Karelia. – 2008. – №233. – December, 17.
8. Using more economical way // Economics and Life. – 2008. – №50. – December.
9. Summarizing... Republic of Karelia Head Sergey Katanandov's conversation // Karelia. – 2008. – №142. – December, 18.
10. Yurgens, I. Mass destruction Money / I. Yurgens // Rossiyskaya gazeta. – 2008. – №781. – October, 27.
11. Yurinov, M. Karelia's Economy keeps up last year's pace / M. Yurinov // Courier of Karelia. – 2008. – №233. – December, 17.
12. “Group of 20” financial markets and world economy summit's declaration [Electronic resource]. – Access mode: <http://www.kremlin.ru/events/articlec/2008/11/209291/209303.shtml> (Data on 19.12.2008).
13. Davis, H. Credit Crunch and Its Consequences: the LSE director lecture in HSE on November, 17 / H. Davis [Electronic resource]: – Access mode: http://www.echo.msk.ru/doc/555709_echo.html (Data on 18.12. 2008).
14. Zyryanov, I. World financial crisis of 2008, crisis forecast 2009 – 2010 / I. Zyryanov [Electronic resource]. – Access mode: http://www.abird.ru/articles/financial_crisis (data on 19.12.2008)