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A Case Study of a Financial Crisis: USA and Russia

The problems that caused the recession began to accumulate in the global economics (and in the U.S. economics in particular) since the early 1980's. Problems were amassing as a clod, sophistication and ingenuity of economists and development of economic thought allowed to delay and put the peak of the problems off further - on the back burner. But for the time being ...

The global financial recession that began in 2007 and covered almost every country, could be prognosticated. If its consequences and growth were predicted, its negative and destructive influence on the world and national economics could be partly neutralized. As any crisis, the financial recession of 2007 had its own preconditions and indicators, showing disproportions in the global economics and the U.S. financial system's condition, that the world's rating agencies and leading economic analysts were not paying attention or were believing in U.S. indestructibility and firmness. Still, the recession occurred, maybe a little earlier or later than it should, it's an occasion for dispute. Any mistake, trouble, in our case the recession is a lesson. The lesson that allows to avoid further mistakes, that brings a new level to its participants. Thereto we must pass through it and understand. That's what we'll do in the article.

Lesson 1. Causes of the global financial recession.

A lot of authors called a knot tying starting point that led to the current recession, the U.S. refusal to exchange dollars for gold in 1971 (Nixon Shock).

A small excursus into history:

15/08/1971 Richard Nixon has refused to France in exchanging dollars for gold, i.e., unilateral denunciation of its obligations by the U.S came over, it was the beginning of the collapse of the Bretton Woods monetary system. Jamaica system that appeared later, and is now serving, provides a complete abandonment of the gold standard. The most reliable reserve currency status, rising of purchasing power in the United States and around the world ensured the maintenance of a stable dollar exchange rate and allowed to emit dollars for reimbursement of costs and other necessary purposes, such as war.

It was **undoubtedly** a dangerous precedent, but it allowed increasing manyfold the volume of international trade, improving the integration and globalization of countries. And at that moment - it was better decision. If it was not for one «BUT», which will be discussed below.

So, the main causes of the global financial recession:

1. problems with selected by the U.S. model of economic advancement;
2. extensive development of derivative financial instruments;
3. prices at commodity exchanges;
4. inefficient investments risk assessment system, investing in risky assets - the crisis in subprime;

We specifically identified the first item by the generic term - the United States economy problem, because U.S. have really a lot of problems and all of them are interrelated, and their combined effect brought other recession causes to strengthening.

Why exactly U.S.? The answer is very simple: U.S. withdrew the Second World War the most

powerful, its economics was not war-torn, the ambitions of a superpower, the world's largest gold reserve. With these arguments other countries were guided by, choosing a reserve currency. Since then, America only strengthened its world leader position. As a result, USA is still the center of the world economics and financial system of the world.

Historical reference:

Nominal GDP of America in 2006 amounted to \$ 15,160 billion, the U.S. takes 1 place in the world in terms of GDP, 9 place in terms of GDP per capita.

Reason 1. Problems of the United States economy.

a) Problem 1. The uncontrolled emission of dollars. Trade balance deficit. Growth of U.S. public debt.

So we aimed to the «BUT», as it's noted above - lack of control of emission of dollars.

The world's reserve currency status demanded from the U.S. supporting by dollar the growing volume of international trade, banks and governments dollar demands. Until 1970 there was a dollar peg to gold, and it was limiting the amount of currency produced by the U.S. After gold binding abolition the situation has radically changed. The United States actually had no more obstacles to finance public expenditure and the growing consumption by using «the printing press» and spreading «green papers» around the world.

The situation can be explained very simply: the U.S. emitting dollars and buys on them everything that necessary (Figures 1,2).

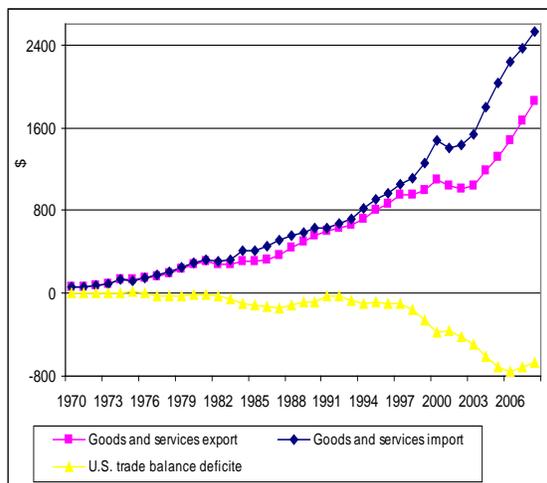


Fig. 1 U.S. trade balance performances

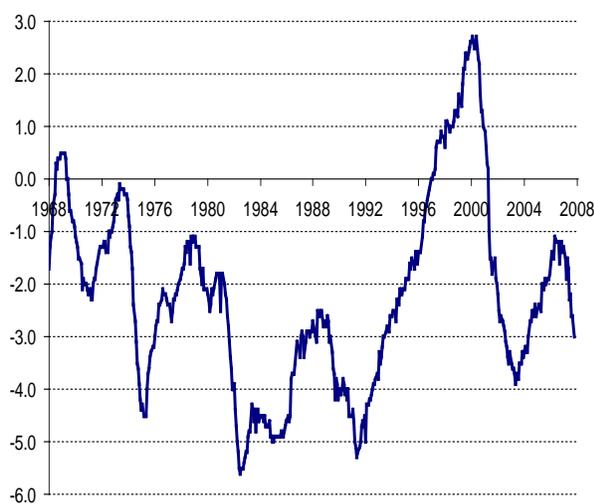


Fig. 2 The primary imbalance state of U.S. budget as % of GDP

In fact, the international community had no influence on how much and when the U.S. Federal Reserve System issued dollars. For any other currencies that would, in most cases, mean an automatic inflation within the country, deterioration of national exporters' positions and eventually national currency rate fall. But we should not forget what status gave the Jamaica system to dollar. The dollar was bought, accumulated, reserved by the other countries. Thus, maintaining its stability.

But on the other hand the development of the United States, their rampant consumption and

spending allowed to develop for a lot of other countries such as China (the U.S. - the major consumer of goods manufactured in China), the Arab countries, Russia (the United States - one of the largest consumers of raw materials (oil, gas, metals), Japan (U.S. - an important market of Japanese car brands and high tech products sales). So, on the one hand - the excessive emission is «evil», on the other - «a source of development».

Historical reference: oil consumption in the U.S.

North America's largest energy consumer in the world - more than 3.8 billion tons of standard fuel. The use of oil is about 1 billion tons per year, which mainly occur in the United States. In 2004 the U.S. consumed 913 million tons, with net imports of oil and oil products amounted to 603 million tons (569.5 million tons - raw materials, 33.5 million tons – oil products).

Problem 2. The development of derivative financial instruments

The quantity of circulating money is regulated by central banks of countries, in the United States 12 reserve banks Federal Reserve System entrusted this function. Due to the development of economic thought, by the mid 89-ies countries learned to regulate the level of economic activity by monetary means. In the United States were actively used two methods: money emission on the one hand and the reduction of the Fed Reserve rates (affecting the loans availability and the borrowed funds value). Beginning in the late 80-ies, the rate decreased (Figure 4), indicating a rapid increase in money supply.

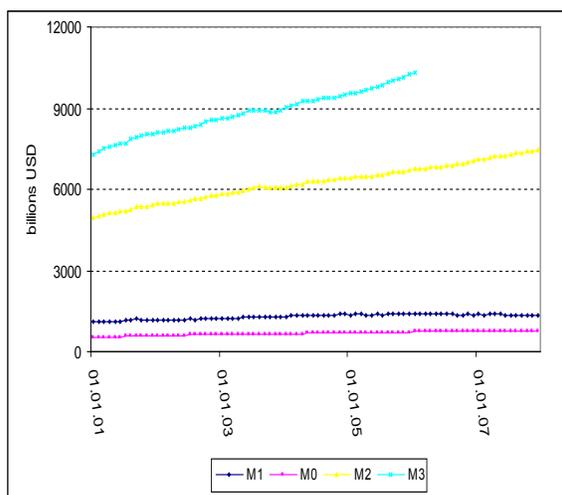


Fig. 3 The monetary aggregates M0, M1, M2, M3 in the U.S.A.



Fig. 4 U.S. Federal Reserve rate evolution

The development of IT and economic thought urged the development of near-money. Thus, since the 80's, virtual money (plastic cards, e-money) and financial derivatives (options, futures contracts, etc.) began actively being applied.

The main principles on which demand and supply were regulated in such «expanded» money-market became the « State non-interference» and «market formation of the equilibrium price». Absolute virtual democracy - you can say so.

In spite of all this a number of «dangerous» features of the new world economic order arose with the appearance of near-money (quasi-money) should be noted:

- Lack of regulatory and restrictive authority and political will on both international, and the national level;
 - The speculative nature of most transactions and insecurity by the real money;
 - Impossibility of adequate risks accession;
 - Management of news, unpredictability;
 - Increase of the markets and individual companies' volatility;
 - Increase the number of participants - globalization, the formation of a common information field, the integration of countries, companies, corporations.
- The risks, described above lead to loss of control over the global economy, lack of control over the situation in the world.

Problem 3. Unjustified increase in commodity exchanges

Outbid wares and raw materials on world markets is closely linked to the Problem 2. The development of electronic trading systems and increase of the money supply has led to an increasing in the number of players on the exchange, volume of trade rising manifolds.

Considering the prices in the pre-recession period in world commodity exchanges, we can note almost non-stop growth. «Bullish» speculative moods in the markets, using of financial instruments - futures contracts, options, all these things lifted the prices of goods and raw materials on the exchanges upwards. How serious was the fall we can seen from the graphs 5,6,7,8,9.



Fig. 5 «Brent» oil marker's prices dynamics on NYMEX

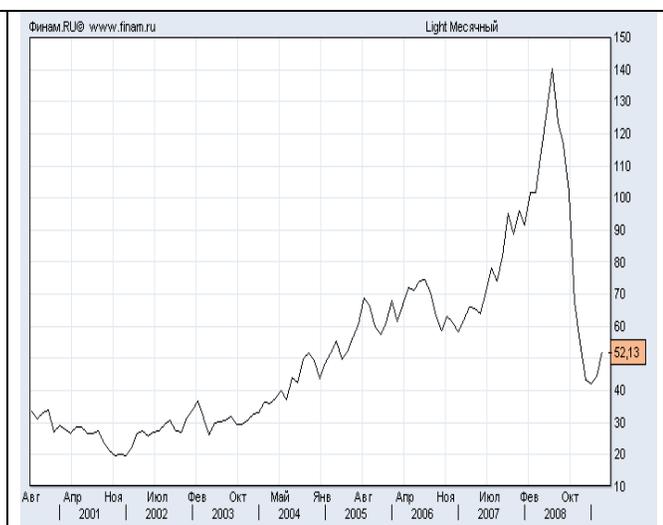


Fig. 6 «Light» oil marker's prices dynamics on NYMEX

Consumption growing in the United States is urging the prices of goods, raw materials. Speculators increase growth tendency. Raw produce's prices growth pushing up prices of goods and so down the chain. In conditions of limited opportunities for the raw materials extraction, goods and services production, management of news about the growing needs of the earth leads to the so-called «demand-pull inflation». One of the negative effects of blowing a «bubble» up was the increasing consumption redistribution in developed and rich developing countries favor.

Now commodity prices fell, the price level is close to equilibrium (Figures 6,7). Prices for gold, as a means of preserving the values increase.

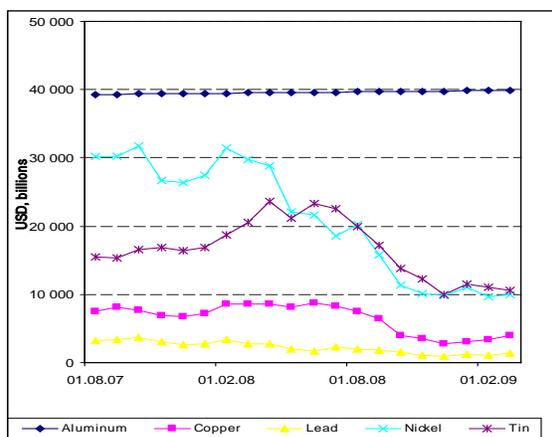


Fig. 7 Metal prices dynamics on LME

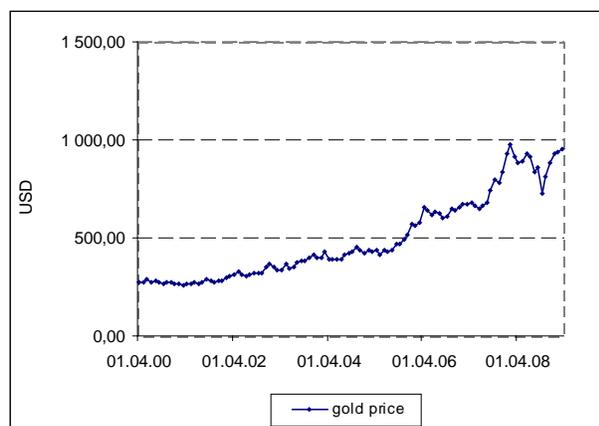


Fig. 8 Gold prices dynamics on COMEX

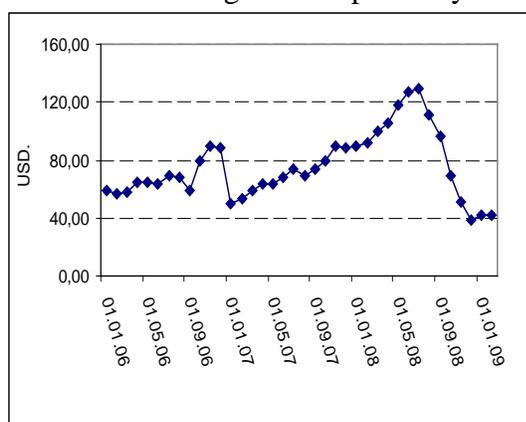


Fig. 9 The «Urals» oil maker's price dynamics

Quasi-money, issuance of dollars inflated «bubble». What became to the «bubble»? It burst. There is the reason and it is described below.

Problem 4. Budget gap. The debt crisis, the crisis of subprime.

Two factors indirectly intertwined here.

As the U.S. budget statistics noted, from 1949 financial year the budget growth occurs almost continuously. The deficit financing of USA public expenditure started since then.

Among the specific reasons of the deficits appearance and growth after 1960 it is accepted to attribute a number of reasons, including the frequently cited: - increases in military spending of the U.S. («Cold war» with the Soviet Union and the Vietnam War as a part of it, both in Afghanistan and Iraq and anti-terrorism war of George W. Bush), in so doing the U.S. has never «cut down expenses» to soldiers and weapons. Thus, as George W. Bush declared before sending troops to Iraq «he is ready to spend any money for the safety of soldiers»;

- Charges on social programs increase, taking part especially intensively in the 1970's.

These are the primary causes of the U.S. budget deficit appearance and growth, and there were attending causes that provoked abrupt growth of budgeted deficits in the 21 century. Among them:

- The U.S. economics economical growth impairment.

- Passing the peak of the upward phase and the normal business cycle and long-wave by Kondratiev-Schumpeter;

- Tax revenue reduction.

The U.S. government had covered budget deficit and trade balance red ink simply - by increasing the public debt.

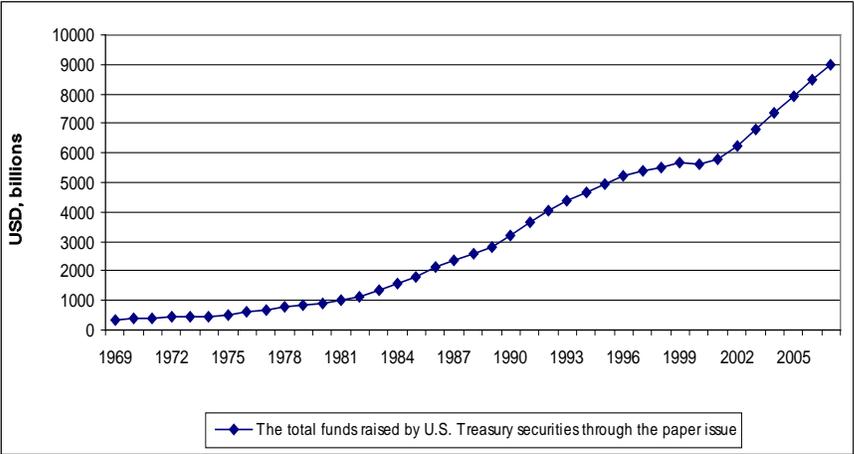


Figure 10 - The total funds raised by U.S. Treasury securities through the securities issue.

One of the U.S. features was very developed system of crediting and financial system.

Among all loans in America, one of the most important is mortgage. For the U.S., where consumption is largely due to credit (This is clearly seen from the figures below - good credit history). One of the most important credits, as mentioned, is a mortgage - not returning money on it or a bad credit history closes many ways to further lending. The credibility of the credit histories on mortgage was high.

Issuing mortgage loans, U.S. banks and mortgage agencies re-loaned by issuing collateralized derivatives, for example, mortgage obligations and attracted on their security financial resources both domestically and abroad (these are «building blocks»).

Thus, for example, only Fannie Mae and Freddie Mac by September 2008 had a debt of about \$8.7 trillion, of which \$5.2 trillion have been drawn under the mortgages and directly, \$2 trillion on derivatives.

The use of derivatives redistributes the risks throughout the economy, and ensures isolated non-payment cases. But in time of system recession impersonal financial products, secured by mortgage losing their credibility and value.

History of the mortgage crisis, that became «the ignition key of the global financial recession». The abundance of cheap money in the United States, widespread use of derivatives, the presence of consumer demand has led to situation, where the pace of housing construction since the 90-ies grew up in an arithmetic progression, increasing of new houses supply has caused «new house prices deflation», house prices began to fall since 2006 -2007. The cost of mortgage bonds began to fall. Holders of mortgage derivatives, who scheduled to earn on a rise of house prices have started to bear losses. Non-returns of credits have begun, banks could not execute their obligations because of growth of non-returns and delays under credits. Further development of the situation, was determined by the problem 4.

Problem 4. Inefficient system of risk assessment of investments, investments in risky assets - the subprime crisis

Due to the lack of information about what «packed» in derivatives, the lack of proper risk assessment, the amount of quasi-money began to decline sharply. A collapse was inevitable, first of all due to the fact that the loss of public confidence and lack of reliable information caused compression of interbank loans in the U.S. and in Europe, credit programs were folded up, rates were being adjusted.

As an immediate response to the recession major banks have tightened lending conditions and loans, increased interest rates. Companies that had figured on re-loan to pay interest on the bonds or warrants, or to settle recurring account in form of commodity loan, for replenishment found themselves in a state of liquidity crunch, the liquidity recession has begun, and it went over the world.

Reducing the volume of issued credits has hit the U.S. again. Consumer consumption was financed by crediting (see Figure 11.12) and its contraction has reduced the purchasing power in the United States. China has already declared its export to U.S. turnover.

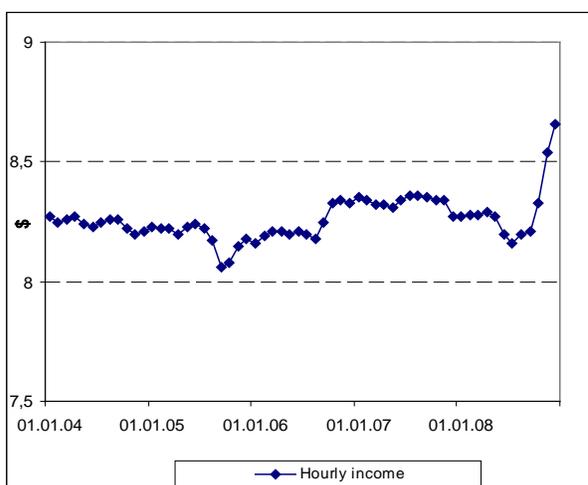


Fig. 11 Hourly income of industrial and office workers in constant (1982)

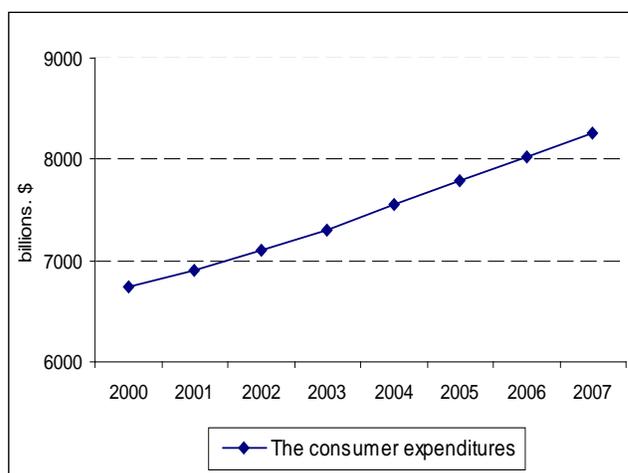


Fig. 12 The consumer expenditures dynamics in prices of 2000

All of these reasons, in many ways, interrelated and complementary caused a recession in one of the most prosperous and economically developed countries.

But why and how, and through what crisis came to us in Russia?

The crisis had to hurt Russia for a number of reasons. Externally crisis evinced itself in Russia in June 2008 – Russia's equity market has started to decline. In August, the ruble has began crawling down.

The main reason is trivial. Russia is a developing, very export-oriented country, hanging on the consumption of raw materials by others and on commodity prices. Facing well-being was conditional upon the money inflow from abroad as payment for raw materials. The flow has lowered and that's all - [deficit of balance of trade](#), central government budget deficit rising, international ratings downgrade.

It is important to note that the crisis has been exported to Russia from abroad. Changes in the world have a negative effect on Russia. So let's rephrase not the causes, but channels of «contamination». We'll consider the essentials.

Channel of influence #1: Russia economics' dependence from energy prices, «raw» orientation of

the country. World commodity exchanges prices drop.

It's cold news that Russia is one of the largest oil and gas suppliers, as well as the fact that the share of revenues from oil, gas and other natural resources and minerals in exports is high (Fig. 13). And it's natural, when prices in commodity markets fall, budget income of raw materials-exporter countries is falling, reducing their investment attractiveness, other negative economic consequences appearing. For example, energy prices sharp drop could not but affect revenue and the financial sustainability of export-oriented enterprises.

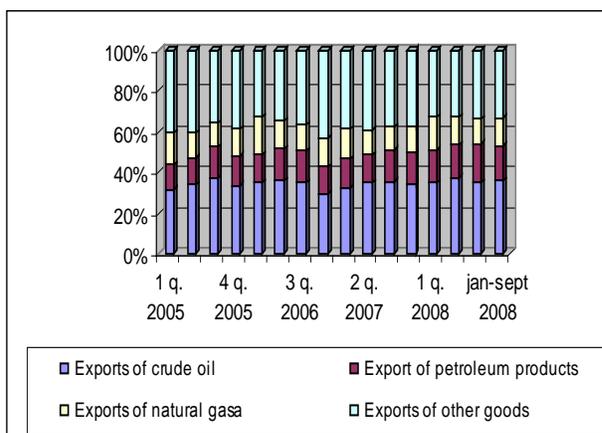


Fig. 13 Structure of Russian exports

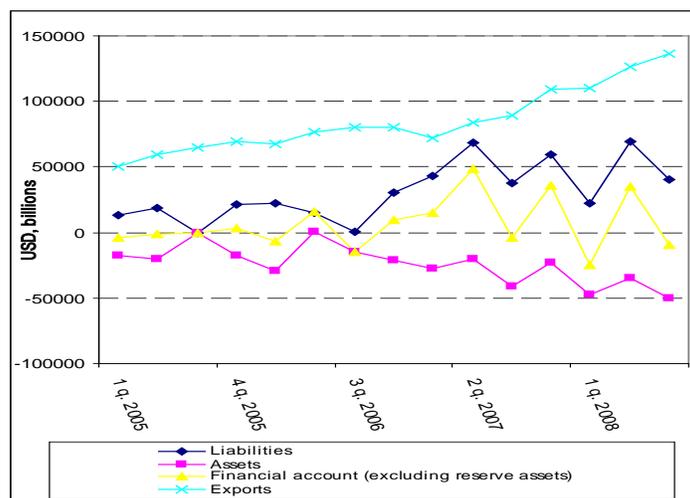


Fig. 14 Structure of the Russian balance of payments

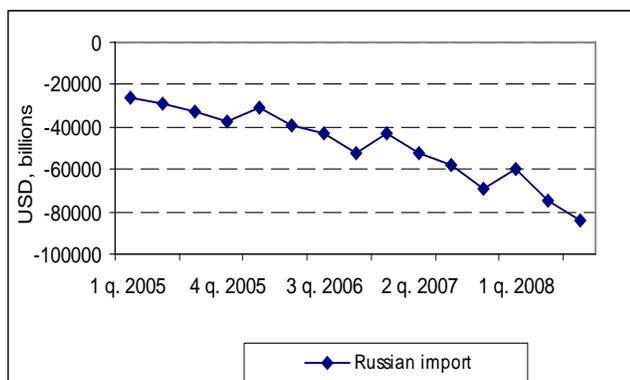


Fig. 15 Russian imports dynamics

Along with the orientation of domestic industries on the export of raw materials, domestic consumption is met through imports (Fig. 15). The unfavorable situation in the external financial markets hit the financial solvency of the importing companies. There are no domestic substitutes for many goods, and the level of consumer confidence is extremely low for others. That's why the current situation faces Russia with significant internal social problems associated with the trade deficit and inflation.

Channel of influence #2. A large amount of the corporate sector borrowings. The dependence of the Russian economics on portfolio and direct foreign investors.

Windfall of inflation bubble in commodity exchanges Russian government preferred to «freeze» in

the Stabilization Fund. Means of Stabilization Fund were being invested only in low-risk government securities (part of it, for example, was placed in U.S. assets), furthermore the government preferred not to spend money to stimulate the economy, development and supporting of domestic import-substituting production. These projects were being considered risky and leading in the short term, only to inflation.

A historical reference:

In early 2008, the Stabilization Fund of Russia was divided between two funds: the Reserve Fund of Russia and the National Prosperity Fund.

So, summarizing, money was stored by government on emergence (Fig. 16).

Economic growth, favorable external environment, growth in consumer demand within the country, growth of investment attractiveness and openness of Russian companies has led to increasing investment of business.

And now it is important to note several features of monetary and exchange policy of Russia:

- CBR refinancing rate for more than 8-year period since 2000 was relatively high, the lowering rate was slow and did not fall below 10%. Bandwidth rates throughout the period from 2000 to 2008 did not meet the needs of the economy. High interest rates were reflected in high interest rates on debt capital markets in the country. Borrowing within the country was expensive and not profitable, compared with attractive terms for borrowing abroad (Fig. 17). The high refinancing rate was leading to high interbank loan market rate in the country and in consequently has made loans for enterprises from banks too expensive. Moreover, despite the availability of funds abroad, interest rates Russia's banks were growing. The reason for this increase was high-inflation in the country (Fig. 19);

- Exchange rate of the ruble against the dollar was growing, there was a gradual strengthening of the ruble against the major currencies. This tendency has made it potentially profitable to take loans in foreign currency (Fig. 18)

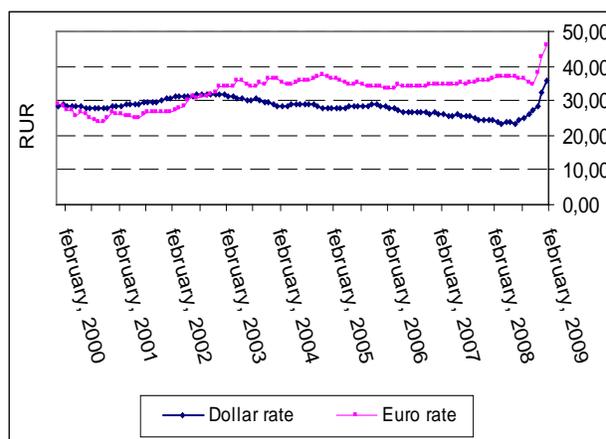
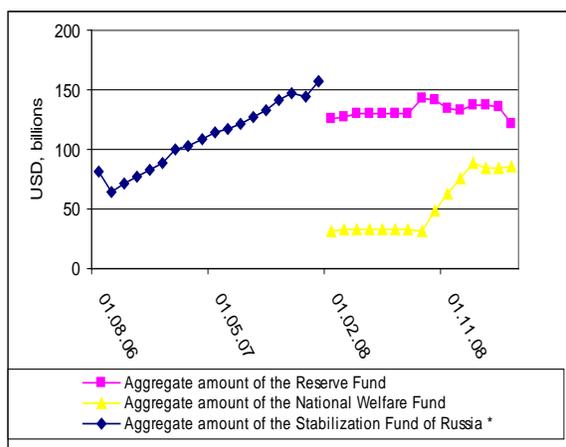


Fig. 16 Stabilization Fund of Russia's dynamics

Fig. 18 Ruble exchange rate

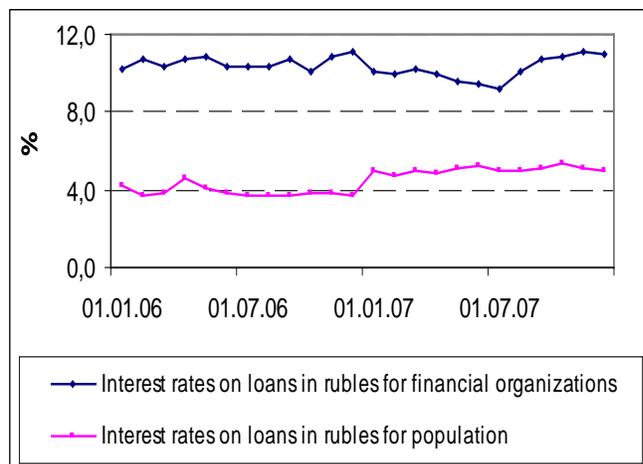


Fig. 17 CBR refinancing rate

Fig. 19 The average weighted rate of banks in Russia

This led to the fact that unmet need for borrowing has been implemented abroad. So-called «crowding-out effect» has manifested in Russia - the government does not spend the money and not give them a loan, the corporate sector and individuals were. As far as banks and enterprises were forced to resort to external borrowings, corporate sector external debt grew (Fig. 21,22,23).

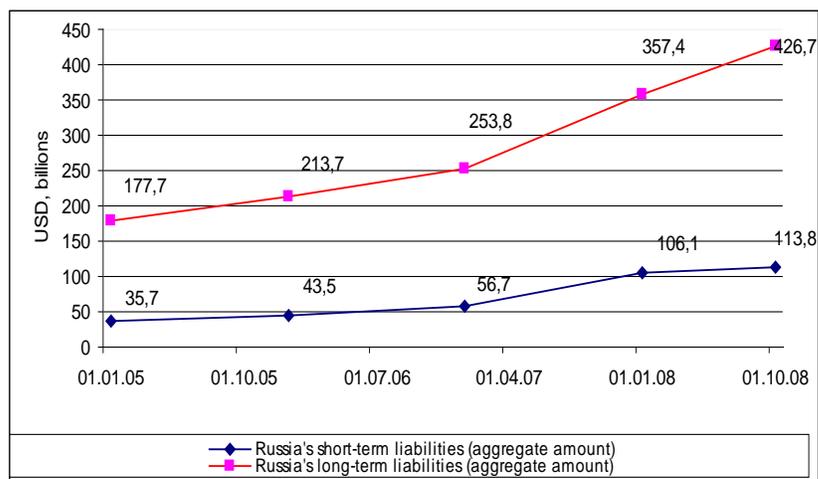


Fig. 20 Russia's foreign debt

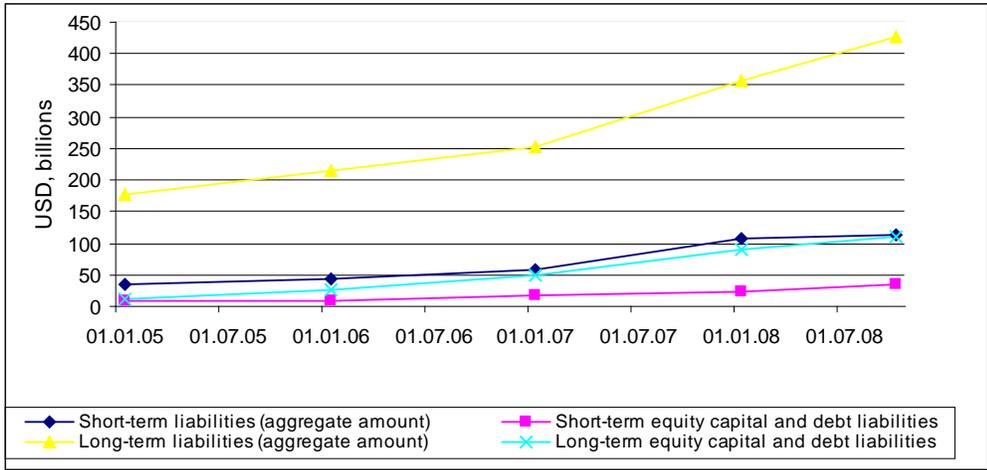


Fig. 21 External liabilities of banks (excluding equity capital and debt liabilities to direct investors)

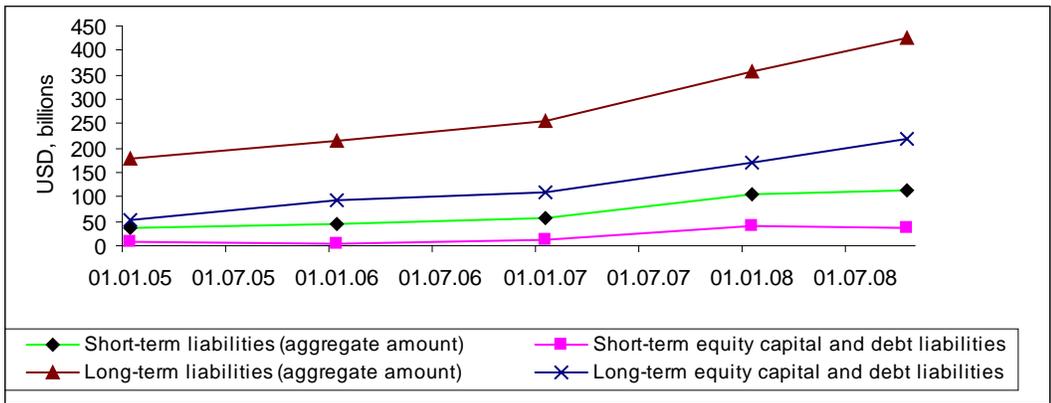


Figure 22 - Arrears of other sectors (excluding equity capital and debt liabilities to direct investors) in billions of dollars

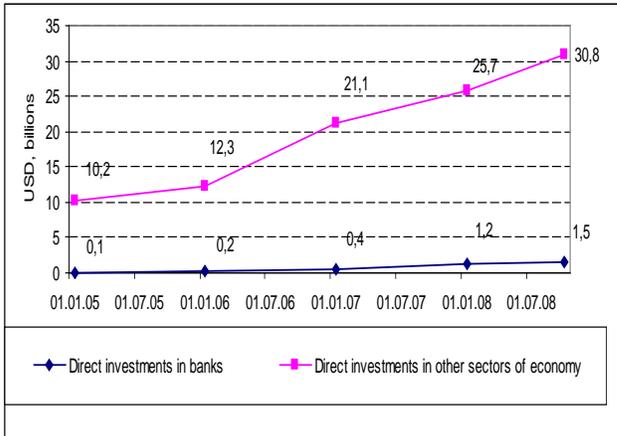


Figure 23 Dynamics of direct investments in banks and other sectors of the economy

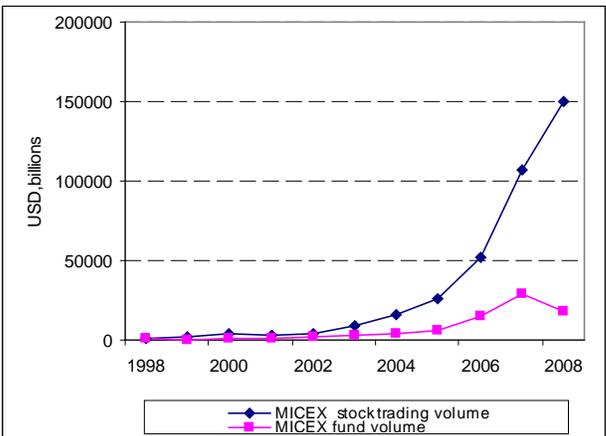


Figure 24 - MICEX trading volume

As seen from Figure 20 the total debt to Russia has grown annually, with approximately 20% of the debt in 2008 amounted to short-term obligations. The growth of short-and long-term commitment by all sectors of the economy graphically seen on the Figures 21,22,23.

In the 2000's amid increased openness and transparency of Russia's economy the volume of investments in financial instruments on Russia's stock exchanges grew. Since 2007 the volume of trading on the MICEX grew up incredible pace, RTS index has updated its historical highs against the backdrop of a favorable external environment of raw materials. Shares of most companies have been resold. With the beginning of the recession such dependence on external capital and external volatility of commodity exchanges played a cruel joke with Russia - trading volumes and stock prices collapsed. This can be seen in Figure 24.

Now, after a short excursus into the history of economic policy in Russia let's briefly outline the consequences thereof.

In August, when the phase of the crisis in Russia has become public, the state had to start spending forex/gold holdings.

Spending was due to the fact that oil revenues were decreased, it has suspended the increase in reserves, the following actions: support for a smooth «controlled» ruble devaluation and financial support to the stock market led to a forex/gold holdings sag. Also, support for strategic industries and enterprises in Russia is now considering. This all leads to spending substantial funds reserves.

In turn, the fall of assets means lower financial security of the country, its ability to pay. This has already led to a downgrade of the country to BBB +.

And so on. Reduced rate means a risk of investing in the country enterprises rising, which leads to additional difficulties in attracting funds from outside. It was difficult to re-loan, it became even more difficult. Reduced rate also leads to the offensive margin-calls on loans issued before (in some cases, the treaties provide for the conditions under which the bank has the right to withdraw the credit if Russia's companies rating lowered).

Russia's authorities had to take the problem of debt refinancing of some companies.

Reducing inventory reserves against the backdrop of recession in the global economy and falling demand will actually forced to reduce spending part of the budget. We will not tell what does this mean. There are many options. And all not very good.

This, if I may say so, one side of the coin - the state side, and other is the corporate sector.

There is much more negative here.

Enterprises and banks, faced with high lending rates in the domestic market, began to take loans and credits from abroad. These are more available and cheaper, and the ruble becomes more expensive all this makes credit conditions very attractive. And they took. And they took and more than they were able to pay hoping to re-loan in the future. But the crisis has come. Liquidity in the market disappeared. It's become impossible to get loans. The fall of the ruble led to a rise in the cost of debt servicing. With the relief falldown situation is critical.

External conditions forcing the companies to reduce costs, focus on import substitution, to reduce the volume of production and to request assistance from the government.

Hope to external demand is not justified – recession's everywhere, as a variant - the reorientation of the domestic market, and economic restructuring in the domestic market.

So, summing all of the above:

- Russia's economy has open, export-oriented nature, in all sectors except mining and processing;
- Russia - natural resources and raw materials donor country, dependent on commodity prices on world markets. The protracted and sharp decline in hydrocarbon prices in world markets, such as the one, occurred in 2008, automatically reduces the incomes of the country and put the export-oriented industries in a difficult financial situation, as well as all the associated and dependent on it industries, for example petroleum engineering, exploration and etc., that's why the recession has significant implications in Russia;

- Russian economic development was accompanied by increased lending to enterprises with foreign banks, along with long-term and short-term loans grew, the quality of «portfolio» not improved;
 - The stock market in recent years has been inflated «financial bubble», trading volume has increased many times, indices and shares updated historical maxima, which from the beginning of the crisis broke;
 - Russian banks have actively operated on customer funds in the stock market, when the market fell, the banks formed in significant losses;
 - Russia had the funds deposited in U.S. government securities, the problems of the U.S. have automatically spread to America's creditors, such as Russia;
- Well, in general, channels of contagion in Russia are clear: these are commodity exchanges; enthusiasm of foreign funding, the actual lack of access to domestic borrowing, which was the consequence of monetary policy.
- So we have identified the reasons. Now it is important to understand what awaits us in the future. According to the classification of P. Krugman, the recession, happened in Russia could be considered a third type - the currency crisis caused by the growth of private external debt.

Historical reference:

A similar situation can be seen in Latin America on the eve of the crisis in 1982, in the countries of Southeast Asia during the crisis of 1997. There, as a result of massive capital inflows economy had weakened, the corporate sector borrowed abroad, expecting a favorable external environment, neglecting the indicator of financial stability and liquidity.

According to the interpretation Montes, currency crises in Asia were caused by excessive accumulation of private domestic (denominated in local currencies) and external (denominated in foreign currencies) of debt in the absence of capital controls and high convertibility of Asian countries on capital transactions.

The proposed scheme for the emergence and development of currency crises in Asia in brief is as follows: the boom of the external and domestic credit caused by a «double liberalization» - credit and financial system within the country and the movement of capital across borders, the weakening of the banking system and deteriorating financial condition of firms because of excessive debt accumulation, transfer of funds by investors in more hard currency (U.S. dollars) in anticipation of the inability of banks and firms to pay debts; speculative attacks on currency and devaluation.

The vulnerability of Asian economies, thus, was excessive private sector debt, especially short-term, often exceeding the amount of foreign exchange reserves. By the same weakness of credit and financial system added another short-sightedness and «herd behavior» of outside investors.

Mass «outcome» of investors from the Asian economies has led to a devaluation in the countries not only with weak credit and financial system, but also with sustainable financial sector, such as Singapore and Hong Kong. Other countries have also suffered from the Asian turmoil: the Latin American countries, Russia and other countries with economies in transition the cost of borrowing on world capital markets has increased.

Forecast for the crisis surmounting in our opinion is the following:

For the normalization of the global economy, we propose the following measures applicable to dealing in respect of all countries, including (as is true in particular Russia):

- Establishment of supervision and control over the financial stability of credit institutions, corporations and foundations by governments;

- The establishment of international rules to control export/import of capital to countries. Basic rules principles: securing the stability of the financial and credit system of the country, ensuring macroeconomic stability of the country.
- In the long term - entering restrictions on foreign short-term borrowings. As restrictions may appear – necessity to backup part of engaged money amount (differentiable depending on engaged money amount), necessity of economic justification of creditworthiness and ability to pay for large amounts involved. Establishing standards and indexes of recommendation from the ratio of long-term / short term / equity;
- Returning of investor confidence to the market and its subjects. Options possible:
 - a) Modernization of investment risks assessing. Inclusion in the price of credit possible unintended internationalist risks (default, exchange rates changing, inflation);
 - b) A system of insurance against the risk of bankruptcy of the issuer default implementation. The essence is in insurance for all issuers that are placed on the stock exchanges. Creating, as suggested by George Soros, «International Credit Insurance Corporation», which would guarantee the return of credits of each involved (the lenders), as well as repayment of the loan contingency cases and the inability to pay (borrower) member countries. The insurance premium would be determined on the basis of each country's ability to service its debt;
- And, last but not least: insurance of the full informational openness of economics.

Basic ways of overcoming the U.S. economy, as the locomotive of world economy from the crisis must include the following:

1. Introduction of budgetary and financial restrictions in the United States similar to the stipulated in the Stability Pact and the growth of the EU.

For this we propose to create over-governmental Commission, in which would be in addition to representatives of the United States included representatives of key U.S. partners, the largest creditors. The Commission is requested to give authority to:

- Propose recommendations on the prevention of growth of public deficits, to offer recommendations to address the excessive deficit;
- Provide policy advice on the ongoing fiscal policy;
- To assess compliance with the approved budget plan actually implemented.

Introduce procedures governing:

- Excessive deficit growth, as well as the its value limitations compared with the current value of GDP. Establishment of reference values of growth and significance of the deficit, the imposition of sanctions for its abuse, as well as the timeframe for its elimination.

The newly elected president Barack Obama, as one way out of recession, considering the significant financial investments in the economy, tax cuts, reforms in health, education, environmental protection. This will enlarge already existing budget deficit, to minimize the negative impact of these activities it is necessary to develop actions for the medium-and long-term reduction of budget deficit.

- Restriction of public debt and its structure. Evaluation of solvency and funds adequacy for meeting the current public debt. Assessment of the possibility and feasibility of future borrowing, risk assessment for investors. Formation of evaluation findings on each of the types of government securities recommendations to the creditor-countries, potential investors in government securities;
- Budgeting and fiscal policies on the principles of long-term sustainability and financial stability.

Concerning to the withdrawal of Russia's economy from the crisis, we offer:

- Straight injection of liquidity into the economy - directly. Fast and large-scale resumption of

funding companies to resume enterprises work and country economics.

One of the main tools out of the recession - a powerful program of development of the domestic market and production oriented to domestic market of co-state and private capital (example - RUSNANO).

Historical reference: The State Corporation «Rosnano»

The Russian Corporation of Nanotechnologies (RUSNANO) was established in 2007 by the Federal law № 139-FZ to enable Government policy in the field of Nanotechnology.

To accomplish this task, RUSNANO co-invests in nanotechnology industry projects that have high commercial potential or social benefit. Early-stage investment by RUSNANO lowers the risk of its investment partners from the private sector.

RUSNANO participates in building nanotechnology infrastructure, which includes the nanotechnology centers of excellence, business incubators and early stage investment funds. RUSNANO provides scientific and educational programs that are required for its investment projects to succeed, and also supports the popularization of nanoscience and nanotechnology. RUSNANO selects promising spheres for investment based on longer-term foresight created by the leading Russian and world experts.

On the Corporation activities there are allocated 130 billion rubles by the RF Government, which were made in the charter capital RUSNANO in November 2007. In June 2008, temporarily free funds were placed in the accounts of 8 commercial banks in accordance with the recommendations of the Ministry of Finance.

The management bodies are the Supervisory Board, the board and CEO. In September 2008, the General Director of Russia Nanotechnology Corporation appointed Anatoly B. Chubais.

State Corporation «Russia Corporation of Nanotechnologies» provides funding for promising projects in the field of nanotechnology. Priority is given to projects that are at the stage, as close as possible to enter the market.

- As it has many times been said and written in a variety of sources - simplification of procedures for the establishment and registration of new businesses;

- Promoting the expansion, modernization, upgrading of enterprises. Thus, the purchase of new equipment and construction of new enterprises during the crisis is possible at reduced prices, the modernization of equipment of enterprises could be carried out with financial support and tax incentives for the state;

- Tax incentives, provision of delays in the payment of taxes, the provision of so-called tax credit for companies caught in a difficult situation due to the crisis.

- Support for farmers, food producers.

Support for production must be paired with measures to stimulate domestic demand and consumption. Requires analysis of reasonableness and adequacy of the price increase of natural monopolies of their investment and production needs.

Literature:

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2. Mundell, Robert A. (1971), The Dollar and the Policy Mix:1971. "Essays in International Finance Section, Princeton University
3. C. Monticelli and M.O. Strauss-Kahn "European integration and the demand of broad money", december 1991.

4. Allen, Mark, Christov B. Rosenberg , Christian Keller, Brad Setser and Nouriel Rubini, 2002 “A balance Sheet approach to financial crisis”, IMF Working Paper, 02/210

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Citizenship: Russian Federation
 Date of Birth: October 5, 1975

Education

Bashkir State University, M.A. in Economics, July 1997

Bashkir State University, Ph.D. in Economics, May 1999

Ph.D. Dissertation

The Development of the Regional Stock Market (Republic of Bashkortostan Case)

Scientific Interests

Actuarial Science, Corporate Finance, Asset Pricing, Monetary Economics, Portfolio and Risk Management, Retirement, Private Pensions, Financial Regulation, International Economics.

Grants

2002/2003 Faculty & Institute of Actuaries (UK, London) Research Grant for «The estimation of risks of investment of company’s pension fund in it’s own securities» (co-researcher Professor S. Spivak)

Work Experience

January 2009 – present

Aurion Asset Management, Director General

Location: Ufa/Republic of Bashkortostan/Russia

Further details: Creating and managing of Closed-End Real Estate Investment Funds

February 2007 – January 2009

InvestCapital Asset Management, Managing Director, Head of Closed-End Investment Funds Department

Location: Ufa/Republic of Bashkortostan/Russia

Further details: Creating and managing of Closed-End Real Estate Investment Funds, structuring of the new Closed-End Real Estate Investment Funds investing in the regional retailers, sale and lease-back deals, development and realization of the strategy of Closed-End Real Estate Investment Funds creation in the most developed Russian regions.

July 1997 – February 2007

Bashkortostan Securities Commission, Head of Research and Corporation Finance

Location: Ufa/Republic of Bashkortostan/Russia

Further details: Conceptual and Scientific Maintenance of Financial Regulation, Stock Market and Fundamental Analysis, Corporate Debt Ratings, Analysis of Financial Companies, Asset Pricing, Investment Projects Valuation, Development of Local Capital Market, Development a Software for Estimation of Corporations Credit Ratings and Risk Management.

October 1995 - July 1996

Savings Bank of Russian Federation (Sberbank), Bashkir branch Economist of Securities Division.

Location: Ufa/Republic of Bashkortostan/Russia

Further details: Government Debt Market (GKO-OFZ) Analysis, Asset Management

Academic Experience

Senior Lecturer of Securities Market, Bashkir State University, Ufa, September 2003 – June 2006.

Lecturer of Securities Market, All-Russian Correspondence Financial and Economic Institute, Ufa branch, September 2001 – June 2003.

Lecturer of Corporate Finance, Bashkir State University, Ufa, September 2000 – June 2001.

Hobby

Playing hockey; collecting films; hard and heavy, country music; reading books.

More than 40 publications includes

1. «The influence of the financial status of the pension plan sponsor to the solvency of the pension fund» with Semyen Spivak. *Great Controversy: Current Pension Actuarial Practice In Light Of Financial Economics Symposium Society of Actuaries Seminar 123 June 24– 25, 2003 Vancouver, British Columbia, Canada.* Speaker.
2. «Modelling of Investment Strategy in the Eurobond Market in Conditions of Financial Instability» with Semyen Spivak and Andrew Klimin *32nd Meeting of the European Working Group on Financial Modelling, London 24th-26th April 2003.*

Konstantin A. Chernyatyev, post-graduate student

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 Date of Birth: August 4, 1985

Education

Ufa State Petroleum Technological University, M.A. in Finance and Credit, July 2007

Bashkir State University, M.A. in Law, July 2009

Bashkir State University, post-graduate student of the Mathematical Modeling Chair, September 2008 – present

Ph.D. Dissertation (in progress)

The Optimization of Investment Projects' Financing Schemes

Scientific Interests

Actuarial Science, Corporate Finance, Portfolio and Risk Management, Financial Regulation, International Economics, Enterprise Economics, Theory of Oil and Gas Exploration, Technology of Oil and Gas Refining

Work Experience

July 2009 – present

«System-Invest», Open joint-stock company, Senior Economist

Location: Ufa/Republic of Bashkortostan/Russia

Further details: planning, budgeting, cost-centre accounting and the control of processing of petroleum raw materials

August 2007 – June 2009

«Ufaneftekhim», Open joint-stock company, Economist

Location: Ufa/Republic of Bashkortostan/Russia

Further details: planning, cost-centre accounting and the control of processing of petroleum raw materials

September 2006 – July 2007

«The Bashkir Investments» LLC, «Audit-2000», Leading Expert, Financial Analyst

Location: Ufa/Republic of Bashkortostan/Russia

Further details: Creation and introduction of system of controlling, the organizational-economic and financial analysis, estimation of costs, marketing researches.

May 2006 - August 2006

The Financial Corporation «Uralsib», the Expert of the Department of Introduction of Technologies of Consolidation, the Law Centre

Location: Ufa/Republic of Bashkortostan/Russia

Further details: Support of processes of reorganization of the Financial Corporation «Uralsib»

Hobby

Playing billiards; swimming; watching TV; reading books.

More than 10 publications in the leading Russian scientific editions: «The Review of the Actuarial and the Industrial Mathematics», «Oil and Gas Business», «The Securities Market»