Please allow me to read my prepared text which I made for simultaneous translators.

As introduced by Mr. Babkin, I was in charge of financial crisis in Japan for last 15 years, during which we were under attack of market, heavily criticized by Japanese public, subject to investigation of public prosecutors. I lost several staff of mine in the crisis; some were arrested while other committed suicide.

1. Traditional theory says that trade balance and domestic inflation rate are the two main factors for exchange rate. In case of oil-exporting country, price of oil is also often counted as a main factor, because of its link with the country’s trade balance.
2. Since the scale of capital flows exceeded trade flows in 1990s, traditional theory stopped deciding the currency value. It just forms the background for speculators. The foreign exchange market now is the virtual battlefield where authorities must fight against speculators.
3. At the fight, if audiences are bearish, it affects the fight. I am afraid that Russian people tend to be bearish. The role of opinion leaders and mass media is important.

Let me take two examples.

1. Please consider that depreciation JPY since December 2012, two years ago, is larger than the depreciation of Russian Ruble. But depreciation of JPY is not considered to be the most worrisome problem.
2. After the Lehman shock, Western mass media stopped reporting anything damaging for Wall Street and the City of London. They have been incredibly cooperative with financial establishment.

(3) There are lots of economic strength of Russia, compared with other troubled countries; large level of foreign reserve, positive net international investment position, low public debt, small general government deficit.

1. Of course it is important to keep in mind factors which traditional theory believes to be important; the level of foreign reserve, inflation, budget deficits, trade balance and geopolitical tensions. I endorse the recent move by the CBR to flexible exchange rate because this would stop reducing foreign reserve through intervention. However, it should be noted that, in essence, actions based upon traditional theory does not solve the problem. Sometimes, excessive reliance on traditional measures would create intolerable side effects. In 1997, in order to stop depreciation of Thai Baht, IMF wrongly advised to increase official interest rate to 25%. It continued for 18 months and during this period all manufacturing sector of Thailand was destroyed.

This gives us a clear contrast with the Japanese policy after the financial crisis in 1997, which has kept official rate almost 0 percent (0.5%) for 15 years; manufacturing friendly policy.

1. Now let me give you specific case of successful oral intervention I did.
2. In 2001, speculators in Tokyo market sold stocks of Mizuho Bank, after they created bad rumor about the bank. I obtained information about who were engaged in selling, and proposed to our Finance Minister the following; dealers who were engaged in speculation are not loyal to our country, nor to their company. It is useless to sanction companies. Instead it is vital to arrest those dealers and put them in jail. The Finance Minister, right after the meeting, on his departure to G7 meeting, the minister said before TV that he would not tolerate people who has converted Tokyo market into a gambling place. A few days later, a major magazine reported our meeting and stock price jumped by 5% in one day. I was approached by many journalists who wanted get the list of dealers to be sent to jail. Dealers were in complete panic.
3. When Japanese yen was attacked in late November, I called up several journalist individually and informed that an argument was going on in the Ministry of Finance whether we should make a large scale intervention into the market on Xmas Eve. As this news were leaked to the public, the attack completely stopped. For hard working dealers, it is extraordinary important to take care of their family when they can take a vacation. To cancel the vacation with family for intervention was last thing they wanted to happen.
4. It is important to note that, even under the flexible exchange rate system, authorities should intervene if the market suffers from excessive volatility caused by speculators. Please again keep in mind that this is a battle against speculators. As such, when interventions would be made, the objective is to kill financially speculators.

Here are some principles of intervention.

1. Authorities should make large scale intervention on a day when usually the volume of trade is very low. Frequent intervention of small scale for making an alibi of by people in charge at the CBR is not only counterproductive but harmful.

Ex. Intervention made at the time of summer vacation by Mr. Sakakibara in late 1990s was very effective.

1. A coordinated intervention with major countries is better than isolated intervention.
2. “Surprise” policy announcement for dealers in timing and the direction of market trend is very effective.

Ex. Two incidents of BOJ announcements by Governor Kuroda of large scale of Quantitative Easing are good examples.

1. Target is individual dealers. It is effective to hint a possible intervention at a time when dealers hate to work. Consider the feeling of dealers which may have to sacrifice their family life for work.

(5)Authorities should put heavy pressure on dealers by suggesting heavy sanctions on individual dealers, not on companies.

EX. Possible arrest of dealers

(6) Authorities should never make any specific commitment in regard to its strategy of intervention. The more unpredictable actions of authorities, the more likely intervention will succeed.

So this is like a football game. As the head coach of a football l team, assisted by players---that is general public, keep in mind basic traditional theory, but disturb opponents with unpredictable surprise strategy, the team will win. I hope this will happen in Russia, my loving country. Maya lyubimaya strana!