Russia moving to devalue the ruble

Clara Weiss
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The Russian central bank last month initiated a policy of allowing the ruble to sink in value, intensifying a long-standing discussion on a possible major devaluation of the currency in the next two years. According to the news agency Finmarket, the central bank is preparing “a Russian variant of careful quantitative easing.” Finmarket reports that Russian financial markets expect a devaluation of the ruble of up to 50 percent.

Press reports predict the central bank will allow the ruble to go into free fall beginning in 2015. The Russian currency has already lost 8 percent of its value against the US dollar since the beginning of the year. Without the intervention of the central bank, the ruble would have devalued even more sharply.

Since the onset of the international economic crisis in 2008, the bank has spent several hundred billion dollars to strengthen the currency.

Devaluation of the ruble is expected to lead to a boost in exports, particularly of raw materials. The Russian economy is more dependent on exports today than it was during the crisis of 2008-2009.

On the other hand, imports, and thus the cost of living for the working population, will increase dramatically. In particular, the price of food, which Russia mostly imports, will increase enormously. The regime of President Vladimir Putin is resorting to currency devaluation in an attempt to counteract a looming recession at the expense of the working class.

Industrial production has declined throughout the year. The auto market, long an important growth factor for the overall economy, has shrunk significantly since 2012. Autostat agency head Sergei Tselikov warned in an interview with *Gazeta.ru* that the car market could collapse if a significant reduction in revenue from oil exports occurred. Approximately one million jobs are dependent on car production in Russia.

Last week, the European Bank for Reconstruction and Development corrected its growth forecast for the Russian economy in 2013, downgrading it yet again to 1.3 percent. This amounts to about a third of the Russian economy’s average growth rate over the past five years.

At the same time, warnings are mounting of the bursting of a gigantic credit bubble, which has built up since 2009. Russian consumer debt has reached its highest level since the collapse of the Soviet Union. In September, consumer debt expenditure relative to available annual income was at 23 percent, which is 4 percent higher than the previous month. Moody’s credit rating agency said the figure could soon rise to 25 percent.

According to the Russian central bank, the pace of unsecured lending to households increased last year by 53 percent. For business and banks the increases were 13 percent and 19 percent, respectively.

The number of people taking out at least four consumer loans almost doubled in the first nine months of this year. These loans relate primarily to credit cards and are thus completely unsecured in the event of the loss of a job or income.

Elvira Nabiullina, director of the Russian central bank, recently warned that the high rate of household debt could be “a threat to the financial stability” of the country. Herman Gref, a close confidant of Putin and head of Russia’s largest bank, Sberbank, said in an interview with the *Financial Times* that his bank expected the credit bubble to burst next year.

The credit bubble has been growing at a breathtaking rate since the stock market crash of 2008-2009. Because of its heavy dependence on basic commodity exports and the close linkage between Russian and American financial institutions, the Russian economy was severely affected by the collapse of the US bank Lehman Brothers.

Between 2000 and 2008 a huge financial bubble had formed on the basis of high oil prices and rapidly increasing foreign direct investment. Between 2000 and 2006, the value of the Russian stock market boomed from US$75 billion to US$1 trillion. Total lending rose by 39 percent between 2000 and 2008, much faster than in Turkey or Eastern Europe. However, the gross value of industrial output remained at the same level as at the time of the destruction of Soviet industry in the 1990s.

In late 2008, the financial crisis on Wall Street plunged Russia into a deep economic crisis. Stock market shares rapidly lost 80 percent of their value. In 2009, industrial production collapsed by 19 percent and gross domestic product (GDP) by 8 percent. Between August 2008 and January 2009, the ruble lost 35 percent of its value.

The Russian government pumped huge amounts of money into the banks and corporations to save them from financial ruin. In the autumn of 2008 alone, the Russian government threw about US$222 billion, or 13.9 percent of the country’s GDP, into bailing out the oligarchs. Since then, the government has been clawing back this money by reducing social expenditure at the expense of the working class.

While industrial production stagnated following the 2009-2012 slump, the so-called “miraculous accumulation of money” swelled the banking sector by 16 percent. At the heart of this policy was a deliberate redistribution of social wealth from the impoverished majority of the population to the criminal financial elite that emerged from the restoration of capitalism.

According to a report from the Swiss-based Credit Suisse bank, the richest 110 billionaires in the country (0.00008 percent of the population) possessed 35 percent of the country’s total wealth in 2013. This was 5 percent higher than in 2012. Inequality in Russia is thus greater than in any other major capitalist country in the world.

According to *Forbes* magazine, the combined salaries of Russia’s richest 25 executives increased by a third, to US$325 million, in 2013 alone. By contrast, the average wealth of a Russian adult dropped from US$14,000 in 2007 to US$11,900 in 2012.

Russia’s ruling elites have always used currency devaluation and inflation to launch broad attacks on the working class. In the early 1990s, they exploited hyperinflation to sell off Soviet state-owned enterprises with the help of Western banks and hedge funds and enrich themselves with the proceeds. Banks made record profits by speculating on the inflation that drove tens of millions of people into ruin.

The Kremlin also devalued the ruble during the crisis of 1998. At the time, the country’s already low pensions were not indexed to inflation, so their purchasing power was halved in just one year.

Government expenditure as a share of GDP was reduced from 48 percent in 1997 to 34 percent in 2000.The onset of the 1999 economic boom was driven almost as much by the weak ruble, which made Russian industry more competitive internationally and boosted commodity exports, as it was by the dramatic rise in oil prices, which revitalised the banking sector and the state budget.

Devaluing the ruble also helps the Kremlin to implement its programme of “new industrialization.” The economic collapse of 2008-2009 has led the ruling elites to conclude that the country’s heavy dependence on oil and gas exports will not provide a sufficient basis for their continuing self-enrichment. Instead, they intend to create a larger industrial sector that will subject workers to conditions of brutal exploitation like those in China and other Asian countries.