Russian Central Bank floats ruble

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On Monday, Moscow announced it was floating the exchange rate of the ruble. Russian Central Bank chairwoman Elvira Nabiullina said that the bank would respond whenever necessary to financial conditions “to a sufficient extent” by intervening in foreign exchange markets.

Her words were echoed by Russian president Vladimir Putin, who said at the start of the Asia-Pacific Economic Cooperation (APEC) summit in Beijing that the Central Bank would react robustly to exchange rate fluctuations. As a further measure to bolster the Russian currency, the Central Bank temporarily limited the ability of commercial banks to stock up on newly issued rubles.

As a result of these actions, the Russian currency rose Monday as much as 3.7 percent. Compared to last Friday, only 45 rubles instead of 48.5 were needed to buy one US dollar. The value of the ruble increased against the euro by about 3.0 percent. In the medium term, however, the decision to float the ruble threatens to plunge the Russian currency and the entire economy further into crisis.

Repercussions of the Ukraine conflict have led the Russian Central Bank to expect a more significant flight of capital than previously envisaged. It corrected its forecast for capital flight in 2014 upwards from $90 billion to $128 billion (€100 billion). It expects a capital outflow of as much as $99 billion next year and $60 billion in 2016.

The economic outlook is also bleak because the economy is set to stagnate in 2015. At the same time, economists estimate that the government’s inflation target of 4 percent will not be reached until 2017. The current inflation rate is 6.5 percent.

In recent weeks, the ruble has gone into an unprecedented tailspin, plunging day after day to new historic lows against the US dollar and euro. On Friday, it was at 60 rubles to the euro and 48 to the US dollar.

As the Ukraine crisis has progressed, the Russian currency has continued to fall and has now lost more than a third of its value against the dollar. At the beginning of the year, the exchange rate had stood at 32 rubles per US dollar. In October, the ruble depreciated particularly rapidly, dropping from 39.4 to 43.4 rubles per US dollar. Following the elections in eastern Ukraine in early November, it dropped by another 11 percent.

There are several factors behind the enormous devaluation of the ruble. The main causes are the sanctions imposed by the West in connection with the events in Ukraine, the falling price of oil, and speculative attacks on the ruble, which have escalated since the Ukrainian elections. The attacks on the ruble are part of an economic war waged by the US and the European Union (EU) against Russia in order to force the Putin regime to its knees and effect a change of government.

Evidence suggests that the devaluation of the Russian currency is substantially the result of deliberate attacks on the Russian economy, designed to drive the country into recession.

Due to the US-EU sanctions, many major Russian corporations no longer have access to foreign capital and have had to shelve lucrative projects. Mass layoffs have already begun in the industrial sector, and real income officially declined in October for the first time since 2008. Due to the currency devaluation, inflation will reach at least 8 percent this year. Newspaper reports suggest that, in view of the economic impact of Western sanctions, the Kremlin fears a rapid depletion of foreign reserves to the extent of some $450 billion.

Another important factor is the price of oil, which provides the revenue for a large part of the Russian state budget. Since summer, oil prices have fallen from $100 to $80 a barrel. The budget for 2014 and 2015 is predicated on an oil price of $97 or $96 a barrel.

Reasons for the fall in oil prices are not entirely clear. Putin blames persistent financial speculation and political manipulation for both the oil price drop and the decline of the Russian currency.

Forbes magazine recently published a bellicose opinion column interpreting the ruble devaluation as part of a war between financial market speculators and the Russian Central Bank, and concluding with the words: "Mind you, the CBR (Russian Central Bank) could still be defeated by the combination of falling oil prices and rising inflation. The possibility of domestic economic collapse is real, and there is little the CBR can do about it: if it raises rates to choke off inflation, it weakens the economy further, but if it cuts rates to stimulate growth it risks an inflationary spiral."

A *Zeit Online* report on Washington's financial war against Russia suggests that the collapse of the ruble and declines on Russian equities markets are at least in part attributable to targeted attacks by the US government. The article focuses on Daniel L. Glaser, a representative of the US Treasury's "anti-terrorist operations" unit. Since 2001, Glaser has played a leading role in developing economic warfare measures against Iran and several other countries. Commenting on the ruble devaluation and decline of stock prices in Russia, he told *Zei t Online*: "So far, we have never done anything on this scale. But we are learning how to do so with each measure we take."

Zeit Online goes on to describe the methods used by the US Treasury: "Glaser had carefully considered how to use his weapon on Russia. The Russian economy had to be weakened but not ruined. The powerful oligarchs in particular were to be targeted in the hope that they would distance themselves from Putin. Accounts were frozen and access of Russian companies to the international capital market was obstructed, but Russian banks continue to operate within the international SWIFT banking system. Glaser has not yet taken the final inflammatory step—maybe because there are signs that the sanctions could be forcing Russia to capitulate."

SWIFT (Society for Worldwide Interbank Financial Telecommunication) is an international system that facilitates the financial transactions of banks. It is controlled by the US Treasury and connects approximately 10,500 banks in over 200 countries. Deprived of access to SWIFT, the financial markets of entire countries can be ruined.

Many Western commentators compare the present situation with crisis of 1998, during which the Russian economy almost completely collapsed. Late last month, the *Moscow Times* wrote: "Not since the financial crisis of August 1998 has Russia faced the very real possibility of a currency crisis that could seriously threaten the fundamental stability of the country's economic and political system." But unlike 16 years ago, Russia today also faces a direct military threat. In the wake of the coup d'état in Ukraine orchestrated by Germany and the US, NATO has systematically built up its forces in eastern Europe and surrounded Russia.

The Putin regime is incapable of opposing the West's aggression in any progressive manner. Emerging from the Stalinist bureaucracy's dissolution of the Soviet Union and restoration of capitalism, it reacts to the worsening crisis by mounting increasing attacks on the working class. The next budget is said to include far more comprehensive welfare cuts than previously planned. The Russian Central Bank's latest measures conform to the interests of international finance capital.

Focus news magazine, a mouthpiece of German imperialism, on Monday welcomed the prospect that: "If the central bank succeeds in lowering the ruble to a certain level and keeping it stable there, the country would again become attractive to foreign investors. It might then be worthwhile to build factories in Russia and take advantage of the Tsarist empire, which would effectively be a low-wage country. If that were the case, the floating of the ruble would have proved a smart move."