

Russian ruble collapses amidst mounting social and political tensions

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The Russian ruble hit historic lows relative to the dollar and the euro early this week. In what analysts and government representatives are describing as the worst crisis since either 2008-2009 or the Russian default of 1998, the national currency was trading for as little as 80 rubles to the dollar and 100 to the euro on Tuesday, having undergone a 10 percent decline in just a single day.

Efforts by the Central Bank yesterday to stem the collapse failed. After it hiked interest rates from 10.5 to 17 percent, the ruble briefly recovered some of its value, but then resumed its downward spiral. Some experts say the central bank's dramatic moves only worsened the situation by spreading a sense of panic.

On Tuesday, the US moved to deepen the ruble crisis with the announcement from the White House that President Obama would sign a bill by the end of the week authorizing him to impose harsher economic sanctions on Moscow and send lethal military aid to Ukraine.

Last month, the Central Bank allowed the ruble to float freely on international currency markets in the hope that this might stabilize the situation.

Russia's economy is being hit by the simultaneous impact of Western sanctions resulting from the conflict over Ukraine and a collapse in the global price of oil, which is the anchor of the country's economy. While the Russian government developed its budget based on an oil price of no less than \$90 a barrel, crude is currently trading at less than \$60 a barrel.

Investors are pulling out of Russia at a fast clip. In the fourth quarter of this year, capital flight hit \$49 billion, according to the Central Bank. It is expected to total \$134 billion for 2014 as a whole, more than double last year's amount.

"The situation is critical," said Sergei Shvetsov, first

deputy governor of the Bank of Russia at a roundtable on financial markets in Moscow on Tuesday. "Believe me, the choice made by the central bank's directors was a choice between the very bad and the very, very bad." He indicated that further actions to stabilize the country's monetary situation would be forthcoming.

The depreciation of the ruble comes alongside a sharp increase in inflation, with prices having risen by 8.9 percent since the start of the year, according to Rosstat, the state statistical agency. The head of Moscow's Department of Trade and Services told the news agency *Interfax* that in Moscow, one of the most expensive cities in the world, the consumer basket of basic goods had risen by 10 percent compared to last year.

Food prices, in particular, are skyrocketing, having climbed by 20 to 25 percent since the start of 2014. News agencies are predicting a further 15 percent jump after the New Year holiday.

Domestic as well as foreign-made foodstuffs are climbing in cost, as Russian producers often rely on overseas inputs purchased with dollars and euros to make their products. The All-Russian Public Organization of Small and Medium Enterprises (OPORA) has appealed to the Ministry of Economic Development to legalize the use of euro-denominated prices in stores and government contracts, insisting that businesses would suffer huge losses without such a change.

Real wages are being hit hard by inflation, said Vice-Premier Olga Golodets in an interview with *ITAR-TASS*, and poverty is on the rise. "We are ending the year with 15.7 million poor. But under conditions of inflation, these numbers will inevitably grow, especially among families with children," said Golodets, noting that households with children between the ages of 18 months and 3 years were at greatest risk.

“Everyone is in a tizzy, understanding that the depreciation of the ruble is affecting the population and threatens a social explosion,” said one government bureaucrat in an interview with *Forbes*.

Predictions for Russia's economic outlook for next year continue to worsen. After reporting growth of just 0.7 percent in the third quarter of this year, the government is predicting a contraction of 0.8 percent in the first quarter of 2015. The online Russian press outlet RBK reports that, according to the Bank of Russia, if oil prices stay at \$60 a barrel over the course of 2015, Russian gross domestic product will fall by 4.5 percent to 4.8 percent. On December 15, the United Arab Emirates Energy Minister said oil prices could fall to \$40 a barrel.

On Tuesday, Russian Prime Minister Dmitri Medvedev called a meeting of the ministries of Economic Development and Finance, as well as the central bank, to work out a series of “anti-crisis measures.” Details have yet to be released.

Two Ministry of Finance officials indicated to *Forbes* that so far there is no clear understanding of what the government is preparing to do. Finance Minister Anton Siluanov said that his ministry was not considering the implementation of currency controls.

There is speculation that the Kremlin is preparing to carry out ? bailout akin to what it implemented in 2008-2009, when it rescued the financial sector and other segments of big business with massive injections of funds. According to *Forbes*, one official said the government has \$160 billion rubles set aside in the 2015 budget for state intervention in the economy as well as the ability to borrow funds from various government financial institutions.

In a sign of frictions building up within the government, Minister of Economic Development Aleksei Ulyukaev said that, in hindsight, the central bank should have raised rates sooner. He added, “It is very important to ensure unity of action between the Bank of Russia and the government.”

Rosneft, the Russian oil giant run by Igor Sechin, a Kremlin insider with close ties to President Vladimir Putin, has been blamed for playing a role in the crisis. Last week, the company issued 625 billion rubles worth of bonds, flooding the market. Sechin denounced accusations that Rosneft was undermining the Russian economy as “a provocation.”

Even as the Russian ruling elite scrambles to find a way out of the immediate situation, there is a growing recognition that the economic disaster gripping the country is the result of the escalating geopolitical confrontation with the West, and, in particular, the United States. The director of the analytical department of the investment company REGION told RIA Novosti that the depreciation of the ruble is fundamentally bound up with speculative attacks against the currency being carried out by “non-residents,” making the central bank's use of interest rates to stem the crisis ineffective.

Speaking to *Forbes*, one government insider described the situation in the government as one of near-panic and implied that the unraveling of the Russian economy was bound up with efforts on the part of the West to force regime-change in Russia. “Everyone understands that the current economic crisis is the consequence of the political crisis that emerged due to Putin's return to the Kremlin. That is, no financial or economic anti-crisis plans will fundamentally change the situation,” he said.



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