

# Standard and Poor's downgrades Russia's credit rating to junk

Clara Weiss  
29 January 2015

Credit rating agency Standard and Poor's downgraded Russia's sovereign debt rating to BB+, or junk status, on Monday. Russia's debt has not been ranked below investment grade in over a decade.

The downgrade is part of a campaign by the United States, Germany, and their allies to step up economic pressure on Russia in order to force geopolitical concessions from the Putin regime or bring about its collapse. Due to western sanctions, and the fall in the oil price to below \$50 per barrel, the Russian economy has moved deeper into recession over recent weeks.

Standard and Poor's justified its decision by pointing to falling oil prices and the drop in the value of the ruble. In a desperate attempt to strengthen the ruble, the Russian central bank increased interest rates to 17 percent in December. Analysts now expect the Russian economy to contract this year by as much as five percent.

The S&P decision further weakened the ruble. The exchange rate with the dollar rose shortly afterwards from 66.5 to 69.2 rubles. The euro rose from 74.9 to 77.9 rubles. The decline in the rating will produce a further drop in foreign investment in Russia. The ruble already fell by 17.5 percent against the dollar in the first two weeks of the year. The main reason for this was the fall of the price of oil below \$50 per barrel. Oil is the most important export for Russia and makes up a large proportion of state income.

According to finance minister Anton Siluanov, the lower oil price will mean that approximately 20 percent of anticipated state finances for this year, i.e. \$45 billion, will not materialize, because the state budget had been calculated with an oil price of \$100 per barrel.

In response to the economic collapse, the Russian government presented an emergency program on Tuesday that contains spending cuts, above all in social

spending.

Leading Russian politicians, including finance minister Siluanov, are now warning of a much deeper crisis than 2008-09. At that time, Russian industrial production fell by 19 percent and GDP fell by 7.5 percent.

Capital outflow reached a new record of \$151 billion last year, much higher than during the 2008-09 financial crisis. In comparison to the previous year, the outflow of capital was two-and-a-half times higher. Much of this was withdrawn by oligarchs who wanted to store their wealth safely abroad in the face of the sanctions.

German Gref, head of Russia's largest bank, Sberbank, warned of a huge crisis in the banking sector. According to calculations from Interfax, around 15 percent of Russian banks will go bankrupt during this year and the next. Such a rate of bankruptcy has not been seen since the 1990s, when the Russian economy sank into chaos after the restoration of capitalism and was ravaged by a financial crisis.

Less than six months after the commencing of the trade war with Russia by the United States and European Union, the sanctions and the collapse of the ruble has resulted in a significant deterioration in the living standards of broad sections of the population.

According to figures from the newspaper gazeta.ru, prices for the most commonly used foodstuffs rose sharply: cabbage by 25 percent, potatoes and sugar by 10 percent, carrots by 13 percent and onions by 14 percent. Bread rose by two percent. According to government statistics, the price for milk products will rise by a further 10-15 percent in the first quarter.

The extent of the deepening of social tensions due to the economic crisis is shown by the example of the industrial region Sverdlovsk in the Urals. The prices of

foodstuffs there have risen by 25 percent compared to the prices in January 2014.

Parliamentary deputy Ilya Gaffner from the governing United Russia party cynically told regional television this month that the price rises were really “not that bad.” “We are all Russians and have survived cold and hunger. If there is allegedly not enough money, the people should think about their health and eat a bit less.”

He went on to say, “New Year eating is over, and people have filled their stomachs. Now it is time to think about sporting activities.” A woman in a grocery store subsequently declared, “I have a disabled son and he always asks for sugar. I can’t give it to him, because there is simply no money.”

Gaffner’s arrogant remarks have produced a storm of criticism on the internet. Almost a million people watched the YouTube video containing his statements. In response to his advice to eat less, one commenter retorted that less should be stolen. Gaffner, who is himself responsible for local agricultural policy and owns at least three apartments, is alleged to be jointly responsible for the bankruptcy of several companies and agricultural sites.

With his arrogance and insolence, Gaffner speaks on behalf of a criminal oligarchy that is demanding that the working class, which has been ruthlessly exploited since the dissolution of the Soviet Union, “make sacrifices.”

Finance minister Siluanov, himself one of Russia’s richest men, also declared that in the face of the crisis “Russians” would just have to “eat less, use less electricity.”

The economic crisis and the massive impoverishment of the Russian population are the results of the policies of the western imperialist powers aimed at forcing the Kremlin to make concessions over Ukraine, push forward with social attacks on the Russian working class and, if necessary, bring about the collapse of the Putin regime.

The United States and the EU have raised the possibility of strengthening the sanctions. Responding to the escalation of violence in the Ukrainian civil war, US President Obama threatened to cut Russia off from the SWIFT agreement. The entire Russian market would thereby be isolated from the world financial system. The SWIFT (Society of Worldwide Interbank

Financial Telecommunications) system includes over 10,500 banks in more than 200 countries.

Iran was the last country to be removed from SWIFT in 2012, which significantly reduced foreign trade with the country. The head of Russia’s second largest bank VTB, Andrei Kostin, stated that the removal of Russia from SWIFT would signify the ending of all ties between Russia and the United States.

EU ministers were in discussions this week whether further sanctions should be imposed and if Russia should be removed from SWIFT. Removing Russia from the SWIFT system, which is controlled by the United States, has been discussed for months as a potential last resort to bring the Putin regime into line.

However, the bourgeoisie in the EU and the US are divided over their policy towards Russia. France and Italy, and important sections of the German bourgeoisie, have warned against a further escalation of sanctions. One consideration is that Putin, who is desperately seeking a deal with Washington and Berlin, could continue to be of use to imperialism.

As the political scientist Dr. Klaus Segbers from Berlin’s Free University, who advises the government, stated at the start of December in front of a student audience, “We know exactly how we can force concessions from this regime.” It was necessary merely to cancel SWIFT, resulting in the cutting off of the entire population from financing so as to produce a regime change. “The problem is, we don’t know what will emerge after that.”



To contact the WSWS and the Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**