Russian central bank cuts interest rate amid growing economic chaos

By Nick Beams
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The surprise interest rate cut by Russia's central bank last week is both a response to the worsening global economic outlook and a product of repeated interventions by the United States to plunge the country's economy into crisis, with the aim of forcing Russian President Vladimir Putin to submit to Washington's dictates over Ukraine.

Commenting on the decision last Friday, White House press secretary Josh Earnest gloated that the rate cut of 2 percentage points showed the chaos in the Russian economy resulting from US actions.

"There are specific and clear economic costs associated with President Putin's expedition into eastern Ukraine," he said. "We're hopeful that as these costs mount it will prompt President Putin to re-evaluate his strategy."

If Putin does not, the US will step up the pressure in the hope that mounting economic problems will lead to regime-change.

The desperation move by the central bank underscores the bankruptcy of the Putin government, which is a creature of criminal oligarchs whose fortunes are derived from the theft of state property carried out through the Stalinist bureaucracy's dissolution of the Soviet Union in 1991 and restoration of capitalism.

The Putin regime has no independence from international finance capital. It has sought to whip up Russian chauvinism to counter the economic, diplomatic and military offensive of the imperialist powers, led by the United States, but now faces growing discontent and social opposition from the working class as the Russian economy, devastated by the collapse of oil prices and speculation against the rouble, descends into recession.

In the past eight months, the Russian economy has been hammered by the more than 50 percent fall in the price of oil and the impact of financial and economic sanctions imposed by the US and the European Union aimed at restricting access to global financial markets. The result has been a downward plunge in the value of the rouble, falling more than 50 percent against the US dollar over the past year, together with a sharp decline in economic growth.

In December, the Russian central bank sought to counter the run on the rouble by dramatically lifting overnight interest rates by 6.5 percentage points to 17 percent. It was the sixth interest rate increase in a year. Friday's decision saw the rate lowered to 15 percent in an indication that the central bank is responding to pressure from both the Putin government and Russian corporate and financial interests.

"The lobby of bankers and industrialists is growing, with clear, almost aggressive pressure on the central bank to cut," David Nangle, the head of research at Moscow-based Renaissance Capital commented in an email.

Pressure from the government was reflected in comments on January 15 by Putin's chief economic adviser Andrey Belousov, who said doing business was "impossible" with interest rates at 17 percent. His remarks were made a day after Dmitry Tulin, a long-time veteran of the central bank seen as more favourable to calls by bankers for lower interest rates, was put in charge of monetary policy.

Announcing the rate cut decision, the central bank said it was motivated by evidence of a "cooling economy." It claimed the risk of inflationary pressure would be contained by a "decrease in economic activity."

This Russian version of bankers' speak is aimed at covering over the rapidly worsening situation. The gross domestic product of Russia is expected to fall by more than 3 percent in the first half of this year, with signs that it could be even worse thereafter. Data released last week showed that real wages fell by 4.7 percent in the year to December, with real disposable income declining by 7.3 percent.

While there are specific factors at work in the Russian economic crisis, arising from the aggressive push against the Putin regime by the US, the economic turmoil is also an expression of developing global trends. The central bank decision to lower interest rates came in the wake of a series of moves by other countries, including Denmark, India, Singapore and Canada, to ease monetary policy in order to lower the value of their currencies in the face of intensifying deflationary pressures.

The strength of those pressures was underscored with the release of figures last week showing that prices in the euro zone fell by 0.6 percent in the year to January. This was equal to the low reached in July 2009 during the depths of the financial crisis. While falling oil prices were responsible for some of the decline, the so-called core measure of inflation, which strips out volatile items such as food and energy, slowed to a record low of just 0.6 percent.

Monetary easing and the consequent lowering of currency values has two objectives: to lessen deflationary pressure and to make export prices more competitive in international markets. However, as these measures become more widespread, what might have been seen as a way out for an individual country becomes transformed into a general currency war.

So far, this conflict has not fully developed because the value of the US dollar has risen in international markets. The greenback has absorbed the effect of other countries' devaluations. But at a certain point a strong dollar can have adverse impacts both on US exports and the bottom lines of major American corporations.

Last Friday's data on US gross domestic product showed some of those effects. Overall GDP growth in the fourth quarter fell to 2.6 percent, down from 5 percent in the third, with a major contributing factor being a fall in exports. That alone contributed 1 percentage point to the decline.

In a comment published February 1, *Financial Times* columnist David Luce drew attention to what he called "the perils of a strong dollar." Luce hastened to assure his readers that "we are not about to replay the 1930s" and that the world's major economies were not engaging in "beggar thy neighbour" policies and "Great Depression-style devaluations." However, he warned, there were significant "undertows."

"The Europeans and others are stepping up quantitative easing to revive growth, not to undercut the US. But the effect is the same," he wrote. The higher value of the dollar was having an "increasingly strong effect on the corporate bottom line because almost half of the revenues of S&P 500 companies came from overseas, and an even higher share of net profits." The effect of a stronger dollar is to lower these earnings.

At a certain point, the US may take measures to counter the wave of global devaluations, thereby intensifying economic conflicts.

Viewed in this context, US efforts to create economic and financial chaos in Russia, which ranks as the world's ninth largest economy, parallel its recklessness on the political and military front.