

Why the Ruble Is Sinking

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Several months ago I predicted that the ruble would weaken in the near future, and that is exactly what we see happening under new Central Bank head Elvira Nabiullina.

Here are a few reasons why leaders have decided to weaken the ruble.

During a flight some time ago, I met a small businessman from Perm who had owned a hosiery factory. He ended up closing it down, renting it out as a warehouse and moving to Europe. He said that too many visits by government inspectors ready to fine him for any little infraction — real or imagined — had made running the business unprofitable.

More recently, I was shooting the breeze with a wealthy friend and major businessman who has a home on Rublyovka. He mentioned that he is closing his agricultural holding company in the Altai region. When asked why, he said the profit margins were small, and what little income remained was entirely consumed by avaricious officials and fines. The company employed several thousand people, all of whom will now be out of work.

I also recently visited a factory with a production facility that was built using the world's most advanced technology. As soon as construction was completed, Rostekhnadzor slapped it with 90 citations for noncompliance, including violations of regulations that were first adopted in the 1950s, along with their corresponding fines. Even state-controlled Gazpromneft has stated that the ridiculous and outdated Rostekhnadzor requirements make investments in Russian industry 30 percent more expensive than corresponding projects elsewhere. One Russian billionaire in the metallurgy business has explained that a plant costing \$100 million to build in Europe would cost him \$180 million in Russia.

The cancerous tumor of President Vladimir Putin's bureaucracy has made the Russian economy completely uncompetitive. As a result of Russia's all-encompassing corruption and inefficiency, it is far less expensive to import goods than to produce them domestically. If you import toothpaste, you only pay bribes once — to custom's officials as it crosses the border — but if you manufacture it in Russia, you must pay bribes at every step in the process.

The result is that Russia exports oil, gas, metals and timber — that is, everything it simply pulls from the Earth — and imports everything else.

The problem, however, is when people try to open businesses in sectors other than natural resources, few are able to survive. When they close, those people are thrown out on the street. And some experts believe this will reach a critical climax in only two or three years.

The only way out of this is to weaken the ruble in an attempt to delay widespread plant closings and massive unrest by a few more years.

I would put it even more simply: For several years, it has been impossible to actually earn money in Russia. Yes, you can steal it or receive it in return for obedience and loyalty to the authorities but, with few exceptions, producing something and earning a profit from the result is next to impossible. There are only two ways to make production profitable in Russia: institute rule of law and transparency in government, or weaken the ruble. As we watch the ruble sink, it is clear which of the two options the Kremlin picked.

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