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## Economics Briefs

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### Bank of Russia Lowers Rates Again, Cites Drop in Inflation

The Bank of Russia's Board of Directors cut its discount rate to 11% from 14% at its meeting May 26. The Bank had raised the key rate from 8% to 20% on Feb. 28 in reaction to the monster sanctions imposed by NATO countries to "crush" the Russian economy. It has lowered it in three steps during March, April and May. The May 26 press release of the Bank said that its latest data show inflationary pressure easing slightly "on the back of ruble exchange rate dynamics as well as the noticeable decline in inflation expectations of households and businesses." In April annual inflation reached 17.8%, it said, and in May it was 17.5% as of May 20. The Bank's press service also quoted the Directors' report that "Funds continue to flow into fixed-term ruble deposits while lending activity remains weak. This limits pro-inflationary risks and makes it necessary to ease monetary conditions." With the NATO nations' monetary authorities now forcing a Russian sovereign debt default unless bondholders accept ruble payment, the strengthened ruble may circulate outside Russia for the first time since the Feb. 28 sanctions.

According to *Izvestia* on May 18, the Russian Ministry of Economic Development issued a forecast for the Russian economy, which depends on levels of credit and investment to stimulate the substitution or "parallel import" of goods now unavailable due

to sanctions. The Ministry forecast Russian GDP will drop by 7.8%, and inflation will be 17.5% for the year. The Bank of Russia has also said (May 22) that "pro-inflationary impact was chiefly generated by higher producer costs" because producers have lost access to imports and their chains of production have thereby been disrupted. Countering this depends on national credit policy—which has been weak thus far—and on cooperation with companies in Eurasia to arrange what are essentially indirect imports.

Unemployment, said the Economic Development Ministry, will amount to 6.7%, and the population's real income will fall by 6.8%, similar to (but actually less of a drop than) the United States' real total household income over the past year. The yearly average exchange rate of the national currency is expected to be 76.7 rubles to the dollar. The ruble has reached a much higher level as of now, but that is while it continues to circulate almost exclusively within Russia.

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### Lagarde and Biden Agree: War Makes for 'Transition' to Green New Deal

In a long statement posted on the European Central Bank's blog on May 23, ECB chief Christine Lagarde said the Ukraine war may cause geopolitics to become more important for the structure of global supply chains. This "could lead to supply chains becoming less efficient for a while and, during the transition, create more persistent cost pressures for the economy," Lagarde said. And further, "It is not only where

goods are being produced that looks set to change, but also how. The war is likely to speed up the green transition as a means of reducing dependence on unfriendly actors [i.e., Russia and China—ed.]. This could keep up pressure on the prices of fossil fuels as well as those of rare metals and minerals."

So "Green New Deal" decarbonization policies, connected to making war against a major fossil fuel and nuclear producer, Russia, are creating energy and materials price inflation, but are desirable for "green transition."

The same day that Lagarde dated her blog post, U.S. President Joe Biden, during his Tokyo press conference with Japanese Prime Minister Fumio Kishida, was asked about gasoline prices and whether recession was coming on. Biden, too, attributed the steep rises in fuel prices to a "transition" that is, in his view, *necessary*. "When it comes to the gas prices," Biden answered, "we're going through an *incredible* transition that is taking place that, God willing, when it's over, we'll be stronger. The world will be stronger and less reliant on fossil fuels when this is over."

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### Russia Also Dominates Nuclear Power Production Worldwide

A new [paper](#) published May 23 by Columbia University's Center on Global Energy Policy warns "the West"—that is, the NATO powers trying to destroy Russia—that that country is dominant in global supply chains of nuclear reactor technology, production and fuel.

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There were 439 nuclear reactors in operation around the globe in 2021, according to the report: 38 of them were in Russia; an additional 42 were made with Russian nuclear reactor technology; and 15 more under construction at the end of 2021 were being built with Russian technology.

Moreover, Russia owned 40% of the total uranium conversion/processing infrastructure in the world in 2020, and 46% of the total uranium enrichment capacity in the world in 2018, according to the report. This, according to the authors of the report, was the most up-to-date data available for these nuclear production specialties around the world. But the advanced, or fourth-generation reactors under development in many countries require what is called high-assay, low-enriched uranium (HALEU) fuel containing 15-20% U<sub>235</sub> in the uranium mix. HALEU fuel is currently available on a commercial scale only from Russia, according to the report. The aim of the report is to “replace” Russia in nuclear power, but the authors admit this will require somehow banning Russian technologies, against developing sector resistance, for many years *after* the Ukraine war is settled.

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## Signals of a Coming Economic Fall, Fed Reversal

One of the Federal Reserve Bank’s public “signalers,” Atlanta Fed Bank President Rafael Bostic, said in a May 23 speech that he thinks that after two more half-point rate increases, the Fed will “pause” its tightening of monetary conditions in September. Bostic had recently been an interest rate “hawk,” so major bank and Wall Street pundits have run with his comment to proclaim that the Fed may be back to quantitative easing money-printing after the central banks’ annual meeting in late

August in Jackson Hole, Wyoming.

There is much more behind this than Bostic’s remarks. First, the huge Federal Reserve-Treasury joint money-printing wave which began in late 2019 culminated in February-March 2022 in record U.S. goods-trade deficits—more than \$200 billion in deficit in those two months—representing tremendous volumes of imported business and consumer goods while U.S. factory orders remained 10% below their 2019 level. This drove U.S. GDP growth negative in the first quarter; but more to the point, the money-printing wave has now ended as American households’ total real incomes in 2022 are more than 10% less than in 2021. Second, the raging inflation set off by the central banks’ money printing has been much stronger in producer goods than consumer goods, squeezing thousands of production firms and, at this point, causing them to halt wage increases and begin hiring freezes and layoffs. One consulting firm, Piper Sandler, forecasts a million layoffs over the Summer.

And third, the roaring U.S. residential real estate bubble has stopped expanding and has hit a wall of unaffordability of homes. U.S. existing home sales fell dramatically in April, down 16% over a year, and pending sales were down by 11.5%; while the median existing home sale price reached an extraordinary \$457,000, with the average price at \$550,000. The average mortgage payment in April was 35% higher than a year ago. This now looks like a mortgage bubble ready to break.

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## Sapir: Russia’s Economy Has Been Badly Misjudged

Since Barack Obama made it fashionable to belittle “regional power” Russia, Western political leaders have constantly described the Russian econ-

omy as “smaller than Italy’s,” “on a par with Portugal’s,” etc. From marveling in recent years at how much strategic prestige Russian President Putin could wring out of such an economy, those leaders shifted after Feb. 28 to triumphal pronouncements of how easy it would be to “crush” Russia economically, turn the “ruble into rubble,” and so on.

But the May 24 edition of the Israeli newspaper *Tablet* ran a very strong corrective based on an interview with Jacques Sapir, whom it accurately describes as “a renowned specialist of the Russian economy who teaches at the Moscow and Paris schools of economics” and who says that the Ukraine war “has made us realize that the Russian economy is considerably more important than we thought.”

Sapir has documented that if the Russian economy is judged not by simply converting ruble GDP into dollars, but by purchasing power parity—which takes account of economic productivity and domestic standards of living—it is just slightly smaller than the German economy, Europe’s biggest. Moreover, Sapir recommends reducing the weight of “services” and increasing that of industrial, commodity-production, and construction activity in assessing an economy. When he does that, “Sapir says that ‘Russia’s economy is vastly larger than that of Germany and represents probably 5% or 6% of the world economy,’ more like Japan than Spain.”

As *EIR* readers will know, The LaRouche Organization proved the same—obviously now crucial—point regarding the Russian economy, in combination with other economies of Eurasia, in *The LaRouche Plan for a New International Economic Architecture*, published on April 8.

The *Tablet* [article](#) about Sapir’s assessment was titled, “Is America the Real Victim of Anti-Russia Sanctions?”