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# Economics in Brief

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## SWIFT System

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### Banker Kostin: Excluding Russia Threatens War

Jan. 23—Speaking today at the World Economic Forum, Andrey Kostin, CEO of Russia's VTB Group of banks, said that blocking Russian banks from the international payments system SWIFT (Society for Worldwide Interbank Financial Telecommunication), as some have threatened, would mean a rupture of U.S.-Russian relations. VTB is the third-largest banking company in Russia.

"We have already created our system which can replace SWIFT," he said. "We are also in talks with partners from China. But I want to note that if this [blocking from SWIFT] takes place, U.S.-Russian relations will deteriorate sharply. On the next day, the U.S. ambassador in Moscow and Russian ambassador in Washington may go away. This has already occurred, in the example of U.S.-Iranian relations. The halt to political dialogue and any other relations between the two countries, resulted from this.

"In fact, this is a situation on the verge of war or a Cold War ... not a matter of VTB or banking system." He added, "This is a very dangerous situation which no one is interested in."

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## Domestic Credit

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### Italian Government Moves To Smash Credit Unions

Jan. 22—Italian Prime Minister Matteo Renzi's government has prepared an executive order to smash Italy's credit unions, the only financial institutions that *increased* credit to customers in the period 2011-13.

The decree changes the governance

system of the largest ten credit unions from a per-capita vote to a shareholder system. Currently, each subscriber to a credit union has a vote, independent of how many shares he owns. The shareholder system will sweep away small subscribers and turn credit unions into public limited company institutions, whose policy will be dictated by shareholder value.

The business association CGIA has published data showing that during 2011-13, Italy's credit unions increased loans by 15.4%, whereas ordinary banks and cooperative banks reduced loans by 4.8 and 2.2%, respectively. Foreign banks reduced loans by 3.1%.

The Association of Credit Unions said in a statement that the decree is "full of negative consequences for national savings and for credit to families and small and medium enterprises."

The decree must be turned into law by Parliament within 60 days.

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## Oil & Gas

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### China Pledges Role in Arctic Development

Jan. 20—Sun Xiansheng, the director general of China National Petroleum Corporation, said yesterday that "China is prepared to assist" in the exploration of oil and gas in the Arctic. He spoke at the international Arctic Frontiers conference on climate and energy in Tromsø, Norway, adding, "China may consider the use of Arctic resources for the promotion and diversification of oil and gas imports," according to *Newsweek*.

Indicating its long-term interest in the region, China has a very large diplomatic presence in Iceland. The size of the staff of its embassy there is reportedly twice as large as the combination of all other foreign diplomatic missions in Iceland.

The U.S. State Department announced on Jan. 16 that U.S. Special Rep-

resentative for the Arctic, Adm. Robert Papp (ret.), was to pay a visit to Russia, Sweden, Norway, and Finland to discuss Arctic cooperation. Papp, a retired Coast Guard commandant, had considerable experience with the Arctic during his Coast Guard career before he was selected for his State Department post. The United States assumes the chairmanship of the Arctic Council this April.

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## World Economic Forum

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### Zuma: BRICS Will Have 'Our Own Resources'

Jan. 23—South African President Jacob Zuma, participating in the World Economic Forum this week in Davos, Switzerland, stressed the strength and commitment of the BRICS, in an interview yesterday. "BRICS plans are not in jeopardy," he told *Business Report*, an affiliate of Independent Online (South Africa).

Zuma said that the BRICS group is a "very important factor in the global economy," and that the group's commitments were not at risk. "BRICS is here to stay."

"We would have our own resources to finance ourselves and finance the developing countries," he said. "For the first time, the developing countries are beginning to say there is a bank that is going to be doing things differently and it is going to have a branch on the African continent."

Zuma said that in addition to the BRICS being strong countries, any discussion about what type of global financial framework was now needed had to be based on understanding the critical role the BRICS countries were going to be playing in reforming the existing global financial architecture.

"These countries are very strong and they are very independent-thinking countries, and they've got resources,

particularly if we talk China, Russia, and India,” he said. “It’s a grouping that’s developing a different frame of mind. It’s an important factor in the global economy.”

*Business Report* noted that the BRICS nations—Brazil, Russia, India, China, and South Africa—account for 40% of the world’s population, and have a combined GDP of nearly \$16 trillion.

### **Ruble Crisis**

## **Economist Glazyev Calls Central Bank ‘a Cult’**

Jan. 24—The Russian Central Bank, which raised its key interest rate to 17% last month to try to stop the fall of the ruble, “is acting like a real cult,” wrote Russian economist Sergei Glazyev in the daily *Komsomolskaya Pravda* yesterday. Glazyev is an advisor to President Putin and the leading spokesman for a credit system to finance the physical economy, along the lines discussed by Lyndon LaRouche. (See, e.g., *EIR*, May 2, 2014.)

The Central Bank (CB), Glazyev wrote, is following three destructive dogmas of the “Washington Consensus”: 1) there must be no regulation of cross-border capital flows; 2) rejection of state ownership of property; and 3) rejection of the issue of credit for the development of production. Following these dogmas has doomed Russia to dependency on foreign capital, which easily swallows up privatized assets and establishes control over the national economy.

If the CB does not find a way to substitute domestic credit for foreign credit, a sharp contraction of the monetary base will paralyze the economy, as occurred in the 1990s, the economist warned. In fact, this is already occurring, as business activity, investments, and production are falling. This could be prevented, provided Russia rejects the three dog-

mas and issues long-term credit for development. It should impose currency controls and criminal prosecution of speculators who are manipulating the markets.

There are several reasons for the confidence of the financial authorities in the correctness of their policy, Glazyev wrote. “First of all, *they are acting like a real cult*: All discussions are held among a circle of people who think alike.”

Glazyev cited approvingly the measures used by Prime Minister Yevgeny Primakov [1998-99] and CB chief Victor Geraschenko, when the ruble collapsed during the 1998 GKO bond crisis. They never raised the interest rate, Glazyev wrote, but cut off credit to the banks for speculation against the ruble. The increase of credit otherwise allowed industry to quickly revive; in six months, production rose more than 20%, and it was possible to curb inflation. The same type of thing should be done today.

Commercial banks that receive credit from the CB have to be held responsible for the use of this money exclusively for the working capital of productive companies and real investments, Glazyev declared; and considering that the bulk of the refinancing goes to banks controlled by the state, this is not difficult to do. Nor is it difficult to put a stop to dubious banking operations.

“It would also be possible to have differentiated rates, depending on the purpose of the loan, and credit for long-term investments in the development of infrastructure by refinancing development institutions. And then we would be able to pull the economy out of the crisis situation onto a trajectory of rapid growth, within a couple of months, by raising the price competitiveness of domestic products.”

But as it is now, the interest rate rise and the shrinking money supply will cause a fall of investment and production, he wrote.

## *Briefly*

● **GAZPROM**, the Russian gas company, was issued a EU350 million loan by the Italian bank Intesa SanPaolo on Jan. 22. In a press release, Gazprom said that its “cooperation with one of the largest banking groups in the Eurozone has great significance for the development of partnership relations with the credit organizations of Italy and all of Europe.” Gazprom has not been targeted by EU sanctions.

● **EGYPTIAN** Prime Minister Ibrahim Mahlab announced at a press conference on Jan. 17 that Egypt would be holding a summit meeting March 13-15 in Sharm el-Sheikh, to attract foreign investment to the country. Egypt has finished proposals for 28 projects that it wants to build, and is working on proposals for 14 more.

● **CHINA** could become the world leader in nuclear fuel exports, said David von Hippel, of the Nautilus Institute for Security and Sustainability, as reported in *Global Times*. He said it would take at least another five years for China to start to export nuclear fuel, since it is not completely meeting its domestic needs.

● **JAPANESE** Prime Minister Shinzo Abe visited Cairo Jan. 16-17, to discuss expansion of cooperation on all levels, including boosting trade. Abe was accompanied by a delegation of more than 100 government officials and business leaders.

● **AN ITALY-ALBANIA** bridge was proposed at a meeting in January of the Association of Mediterranean Engineers. The bridge would cross the Strait of Otranto, which joins the Adriatic Sea to the Ionian Sea, and would link the Balkans, through the proposed Messina Bridge and a Sicily-Tunisia connection, to Southern Italy and North Africa.