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Officials Play Down Ruble's Slide to 4-year Lows

By The Moscow Times

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Senior policy makers played down the weakness of the ruble on Thursday, arguing that its weakness was natural and the result of external factors rather than the result of any deeper economic malaise.

The currency steadied in morning trade after hitting a four-year low to the dollar a day earlier, underperforming other emerging market currencies that have been hurt by anticipation of a reduction in monetary stimulus by the U.S. Federal Reserve.

The agreement by OPEC member Iran with world powers to put its nuclear program on hold has increased downside risks to the price of oil, the country's main export. Energy taxes account for half of federal budget revenues.

In contrast to previous ruble slides, however, this time the falls may be as much about a broadly darker economic outlook that reflects declining levels of confidence among investors in a country that has failed to push through serious modernization in many areas.

At current prices, oil revenues still keep Russia's current account in positive territory so it is also difficult to blame oil prices for the drop generally.

"According to the Central Bank's estimates [the weakening] is the result of external factors," Ksenia Yudayeva, first deputy governor of the Central Bank, told journalists.

"In the last three days, I have not seen any serious, exotic things happening," she added.

The Central Bank has set a goal of shifting to an unfettered ruble free float in 2015, but still conducts automatic interventions to curb volatility. It has lowered its 7-ruble target band for the ruble against a basket of dollars and euros in six small steps this month.

During the 2008 financial crisis, the Central Bank spent $200 billion — or a third of its reserves — in an ultimately futile defense of the ruble that averted financial collapse but deepened the ensuing economic slump.

Officials now show little sign of wanting to repeat that mistake. According to their thinking, a weaker ruble would help restore Russia's export competitiveness and offer some support to a slowing economy.

On Thursday at 7:30 p.m., the ruble was trading at 33.14 to the dollar, 45.08 against the euro and 38.51 against the dollar-euro currency basket.

Seasonal Impact

Analysts have also attributed the ruble's weakness in recent days to large foreign debt repayments that will fall due in December, as well as seasonally high imports ahead of New Year holidays.

However, some have also speculated that a tightening of banking regulation, signaled last week by the closure of mid-sized Master Bank, has encouraged more capital outflows. Banking circles have been rife with talk of financial institution blacklists being put together by the Central Bank.

Economic Development Minister Alexei Ulyukayev also played down the ruble's weakness on Thursday. "This is entirely natural," he said.

He said the weaker ruble was connected with a downward revision of the country's current account surplus and was consistent with the Central Bank's policy shift towards targeting inflation rather than the exchange rate.

A further weakening of the ruble was possible after the end of the monthly tax period. "There is such a possibility, a small one, but it exists," he said.

Exporters pay major taxes at the end of each month, requiring conversion of foreign currency into rubles. Such liquidity flows are closely watched by traders as they can move the exchange rate.

Finance minister Anton Siluanov also weighed in on the issue. “It is impossible to call this a fluctuation. I would call it ... a ripple,” he said.

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