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Ruble Expected to Stand its Ground, for Now

By Anatoly Medetsky

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Everyone is watching as analysts predict exchange rates of 34 to 37 rubles per dollar by the end of this year. **Igor Tabakov**

In a country like Russia, where a fair share of consumer goods come from abroad, the government's efforts to move to a more flexible exchange rate for the domestic currency could rattle retailers and restaurants big time.

Real estate brokers and others dealing in big-ticket items are also concerned.

But the ruble appears unlikely to degenerate in a way that would prompt these businesses to issue new menus and price tags with the infamous conditional units, known as "y.e." in Cyrillic and pronounced "oo-yeh," which were originally a euphemism for the U.S. dollar during the period of the ruble's instability in the 1990s.

Foreign-traded mobile phone providers, such as VimpelCom and MTS, were some of the last companies to abandon the practice in 2006.

But the y.e. reemerged during the 2008 to 2009 economic crisis, to represent values ranging from the dollar to the euro to a ratio between the two, as high inflation again made the ruble unworthy of denoting prices.

"To my mind, we will not see conditional units again," said Philip Halperin, an independent risk advisor and former chief risk officer at Alfa Bank. "The ruble is not as chronically, steadily weakening as it was in the late 1990s and early 2000s."

The currency's exchange rate could hit a low of 37 rubles per dollar at the end of the year, he said, which would be at 10-percent decline from the level the Central Bank set for Tuesday. However, the issue is not the level, but the speed of the decline, he added.

A 10-percent drop would simply replicate the currency's retreat last year. The Central Bank set the rate at 33.6 rubles to the dollar for Tuesday.

The regulator last week brought an end to daily currency trade interventions, signaling it was on track to float the ruble on Jan. 1 next year. Coupled with a downward trend for the ruble last quarter, the move could set the stage for a faster decline going forward.

Sergei Vlasenko, president of real estate company Megapolis-Servis, dismissed the likelihood of linking housing prices to a foreign currency, unless the ruble depreciated at a rate of 10 percent for at least three months in a row.

The ruble tumbled by about 15 percent over May 2012, but real estate value did not match the surge, he said. Residential prices went up about 4 percent as people sought to invest the lighter ruble, he said.

"Short-term jumps do not affect anything," he said.

Maria Litinetskaya, chief of real estate broker Metrium Group, also said residential construction companies would consider a transition to pricing in conditional units if the ruble fell sharply for several months on end.

Vadim Lamin, managing partner at real estate company Spencer Estate, recalled a recent incident when a woman selling her apartment got "hysterical" in the middle of the long process. She realized the rubles that she would eventually get, which were locked in a safe deposit box, would be worth much less than she had expected at the start of the deal.

"Fortunately, the ruble climbed back somewhat a couple of days later, and everything went all right," he said.

"Next time, when she sells another apartment, rest assured that she will definitely set the price in conditional units," Lamin said.

Ikea appears to be one of the more steadfast adherents to the ruble in Russia, saying its prices in the national currency — indicated in the furniture retailer's catalog — remain unchanged throughout the year. In a bid to mitigate the danger of exchange rate fluctuations on the company's profit, Ikea seeks long-term agreements with suppliers and has increased the share of locally produced goods in Russia to 40 percent, according to spokeswoman Maria Tikhonova. Using the local currency for prices is the standard practice for the company in all countries of presence, she said.

Giorgio Gorelli, chief executive of Chrysler in Russia, said only that the company would "follow the evolution of the currency like any other factor that may have an impact on prices."

In an effort to build the ruble's reputation, the Central Bank last month selected a new symbol for the national currency, to stand with pride next to the $ and the ц. The у.е never had an official symbol.

Stress tests conducted by the Central Bank show that Russian lenders would have no problems if the ruble depreciated by 30 percent, the regulator's deputy head Kseniya Yudayeva told the Wall Street Journal.

Yudayeva reiterated the Central Bank's intention to allow the ruble to float freely by 2015, adding that these plans would not be affected by exchange rate fluctuations on the currency market.

"From the standpoint of financial stability, we are looking at the balance sheets of banks and financial institutions and the amount of volatility that they are able to weather without complications," Yudayeva said, Interfax reported. "We conducted stress test, and found that ruble devaluation could reach 25 to 30 percent," she said, adding that the Central Bank does not expect that magnitude of fluctuation.

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