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Despite Ruble's Fall, Russians Trust Putin to Prevent the Worst

By The Moscow Times

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Many Russians believe that President Vladimir Putin, talking to construction workers, will safeguard the ruble.

With the ruble down 18 percent against the dollar this year and sanctions chipping away at economic ties with the West, ordinary Russians might be forgiven for rushing to put their money in a nice, "safe" foreign currency.

Yet so far there are none of the round-the-block queues at exchange booths to cash out of the ruble or panic-buying of durable goods to get rid of a worthless currency that marked Russia's financial crisis of 1998, still notorious for wiping out many people's savings.

So what has changed?

For one thing, many wealthier Russians have already taken advantage of years of relative financial freedom to put their nest eggs in more than one basket.

For another, a credit-driven consumer boom means Russians have fewer liquid assets to lose, and more debt, which would only benefit from a ruble devaluation.

And then there is Vladimir Putin. Few believe that the president who came to power in 1999 and made his name by rebuilding their wealth after the chaotic climax of the Yeltsin years, when the ruble fell 70 percent, will fail to protect it now.

"For the last few years, I've kept my relatively modest savings in a roughly equal mix of rubles, dollars and euros to minimize the currency risk, so I haven't suffered that much," said Sergei Elin, managing partner at an auditing and consulting firm in Moscow.

"There isn't much of a sense of panic, partly because people understand that the ruble is weakening due to geopolitical circumstances."

The Central Bank has spent over $40 billion defending the ruble since March, when Russia annexed the Crimean Peninsula from Ukraine, sparking the worst crisis in East-West relations since the Cold War.

Subsequent Western sanctions and Russian counter-measures have deterred foreign investment, exacerbated an economic slowdown, fueled inflation and starved Russian firms of the dollars and euros they need to service their overseas debts.

All-Time Low

On Friday the ruble hit a new all-time low of 40.46 to the dollar in trading on the Moscow Exchange, down some 8 percent since the start of September alone.

Yet the Russian retail banks Sberbank and VTB 24, a subsidiary of VTB Bank, said that while they had seen a slight uptick in retail demand for currency-changing services recently, demand was not comparable to the level seen in March. Gazprombank said demand for foreign currency was not out of the ordinary.

Central Bank data show that monthly retail demand for foreign currency spiked to about $14 billion in March, twice the level of a year earlier, but had fallen back to average levels by July, the latest period for which data was available.

"People have become much more used to greater flexibility in the exchange rate," said Dmitry Polevoy, chief economist for Russia and CIS at ING Bank in Moscow.

"People are also around twice as indebted compared to their income as they were even in 2008, meaning they have less cash to convert."

The global financial crisis of 2008-09 did prompt a 30 percent fall in the ruble's value — but the fact that it was so much less dramatic than 1998 gives Russians some comfort that not every devaluation is a crisis.

And, if the West sees Putin as a main cause of tensions with Russia over Ukraine, at home his approval ratings have soared to over 80 percent.

"I'm quite relaxed about the ruble weakening, I don't have much to lose. This is not 1998,"

said Tatyana Liberman, 52, a manager at a shopping centre in the Urals city of Yekaterinburg.

"Then we were scared, but we came through 2008 and, it seems, received immunity," she added. "Putin won't let us die of hunger."

Still, there are signs that that confidence may have its limits, and that one of the factors preventing people selling rubles is the fear that the government could penalize them.

"People don't have a clear vision of what to do, but they think the dollar may not be as safe as before, for instance if the government introduces restrictions prohibiting ordinary Russians from holding dollars," said Natalia Orlova, chief economist for Alfa Bank in Moscow.

Free Float

In a survey by the Public Opinion Fund published on Friday, 41 percent of Russians said they did not understand why the ruble has slumped this year, while 39 percent blamed the fallout from the Ukraine crisis. Eighty-seven percent of those surveyed said they kept their savings in rubles.

Ruble deposits changed little between January and Sept. 1, according to Central Bank data, although bank deposits in foreign currencies grew 13 percent, perhaps partly helped by wealthy Russians repatriating foreign-currency funds from abroad due to fears of sanctions.

The business newspaper Vedomosti reported that popular demand for dollars had increased in the past week or so, but had been mainly confined to small banks with currency-changing booths, where dollars are running low.

As things stand, Russia has a comfortable cushion of $450 billion of foreign currency and gold reserves that it can draw on to support the ruble.

But economists say that if a large proportion of the population did start converting savings into foreign currency, it would dramatically increase the strain on the ruble.

From next year, the bank plans to abandon a policy of intervening once the ruble breaches a trading band, and let the currency float freely.

That means ruble volatility is likely to increase, even though the Central Bank will reserve the right to step in to preserve financial stability. But with retail prices already rising sharply under the effect of Western sanctions and Russian counter-measures, there could be political consequences.

"From next year, the ruble will be more sensitive to oil price shocks and changes in the current account," Polevoy said.

"People could become more worried. We see rising inflation and a weakening exchange rate as two factors that could make the population distrust the current government."

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