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Russia's Ruble Collapse Strikes Ex-Soviet Currencies

By The Moscow Times

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Boards showing currency exchange rates are seen in Moscow, on Jan. 7, 2015.

LONDON — Falling energy prices and the plunge in the Russian ruble are hitting currencies across the former Soviet states, with Belarus and Turkmenistan having already devalued last week and markets betting that Kazakhstan will follow soon.

Countries of the former Soviet Union have had their own currencies for two decades, but many still depend on Russia, both for trade and for money sent home from workers living there.

Those with their own energy exports that are least dependent on Moscow, like Azerbaijan and Kazakhstan, are seeing revenues hit by the same falling oil prices that wrecked the ruble after the Ukraine crisis threw Russia's economy into reverse.

Financial markets are betting on a near 20 percent devaluation in the next three to six months in Kazakhstan's pegged tenge currency, which was already devalued by 19 percent last year.

Others that float more freely, like Armenia's dram and Georgia's lari, are also expected to tumble further, along with bond and stock markets in the region.

"Obviously this sharp fall in the ruble and oil is putting heavy pressure on all of these countries," said Piotr Matys, an emerging markets strategist at Rabobank.

A devaluation can be helpful in rebalancing an out-of-kilter economy, but it also creates problems by pushing up the value and interest costs of any debt borrowed in international currencies like the dollar, and hiking inflation.

As the second biggest of the ex-Soviet economies, it is Kazakhstan and its tenge that is being most closely watched.

The benefits of last year's devaluation have been more than wiped out by the ruble's recent slump, and though the Central Bank has said there will be no repeat, oil's 50 percent price drop now means it may have no choice.

"If you look across the universe of oil producers, those that haven't adjusted yet will, it's as simple as that," said Jan Dehn, at emerging market specialist fund manager at Ashmore.

"The ostrich solution of sticking your head in the sand and pretending it hasn't happened really doesn't work for very long," Dehn added.

Half of Kazakhstan's revenues last year came in one way or another from oil, so the state budget is likely to fall heavily into the red. And with the year-end cut off for many of the government's key performance metrics now passed, Kazakh watchers think a devaluation could come at any time.

"The NBK [Kazakh central bank] is trying to make a brave face of it and hold the line, but this line is really not credible," said Demetrios Efstathiou, head of CEEMEA strategy at Standard Bank. "We think they will eventually want to move. The only question is timing."

Oil Pressure

Azerbaijan, the other big former Soviet oil producer, has a more robust balance sheet, having been one of the fastest growing economies in the world over the last decade. But it is bound to be hurt as oil and gas projects get shelved.

The Azeri currency, the manat, may fare better than the tenge. It has fallen only fractionally in recent months and authorities have a decent arsenal of reserves. But the pressure remains.

"They haven't devalued before so the question is whether they will devalue now," said Efstathiou. "There is a small chance, but I think Kazakhstan is much more likely."

It is not just the oil producers that are in trouble. Former Soviet states without oil of their own to sell tend to be the ones that are still most dependent on trade and economic ties with Moscow: like Belarus, Armenia and Ukraine itself.

Armenia relies on Russia for 80 percent of the remittances sent home by workers living abroad, a vital source of capital to fund a balance of payments deficit of 10 percent of GDP.

Those workers are now earning devalued rubles.

Belarus sends Russia half its exports. Even distant Uzbekistan, with no Russian border, sends a quarter of its exports there.

No ex-Soviet country has seen its intimate economic relations with Russia more starkly exposed by the Ukraine crisis than Ukraine itself, which has been pushed to the brink of bankruptcy.

Its hryvna was one of the few currencies to fall more than the ruble last year, and is now hovering just off an all-time low, awaiting a decision from the IMF on a desperately needed bailout.

Ukraine's economy has been hurt not just by the direct impact of war with Russian-backed separatists that killed more than 4,000 people, but by the loss of cheap Russian gas imports and damage to its own Russia-bound exports.

Gas debt repayments to Russia and spending to support the hryvna have more than halved Ukraine's foreign currency reserves during 2014 to a 10-year low and left them under $10 billion, barely sufficient to cover two months of imports.

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