

Ruble Fall Stokes Russian Holidaymaker Woes

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The ruble rose to about 58.6 to the dollar in the early evening in Moscow, but analysts warned the show of strength was likely to be short lived.

Alexandra Khomenok booked a European holiday earlier this month, but her plans hit a stumbling block this week as the ruble took an abrupt plunge, scraping four-month lows.

While the 27-year-old PR manager has already bought tickets for herself and her husband to fly to Italy in September, they have not yet booked accommodation.

“With the hotel it’s a problem,” said Khomenok. “Of course it’s more expensive now.”

Middle-class Russians have been hit hard in recent months by an economic contraction that has been accompanied by declining real incomes, record levels of inflation and a depreciated currency. And a new run of ruble weakness that began last week has dealt an additional blow to those who can still afford to vacation abroad in the summer months of July and August.

On Tuesday evening, the ruble hit 60.9 against the U.S. dollar, recording a 6 percent dive in just four days and reaching its lowest level since March.

The plummet forced the Central Bank to step in Wednesday with an announcement that it was halting foreign currency purchases that have run since May in an effort to replenish depleted reserves. The ruble rose to about 58.6 to the dollar in the early evening in Moscow, but analysts warned the show of strength was likely to be short lived.

“The ruble will likely struggle. ... There is a very reasonable chance that the ruble reaches 65 versus the dollar by year-end,” said Tom Levinson, a currency strategist at Sberbank CIB in Moscow, in written comments.

The declines have largely been driven by oil prices, which have fallen on fears of oversupply generated by a slump in Chinese stock markets and unabated production. The price of Brent crude fell to under \$53 a barrel Wednesday, recording its lowest level since January.

“In these conditions, it’s hard to be an optimist,” Dmitry Polevoy, chief Russian economist at ING Bank, wrote in a note to investors Wednesday. A day earlier, he warned that traders had shifted from a “sense of growing worry to a sense of acute panic.”

Exchange rate fluctuations have a direct impact on the tourism market, according to Maya Lomidze, head of Russia’s Association of Tour Operators, who added that the recent ruble slump has already been felt.

“It impacts consumers instantaneously,” Lomidze said. “If the ruble fall continues, the amount of foreign trips could be reduced by 50 percent [compared to 2014] by the end of the summer season.”

Lomidze also warned that sharp ruble fluctuations would impact the domestic tourism industry, prompting would-be holidaymakers to cancel their trips in a bid to save money.

The numbers of Russian tourists taking trips abroad fell rapidly as the ruble lost almost 50 percent of its value in 2014. While traditional package holiday destinations — like Turkey and Egypt — have suffered, European countries have been hit harder, experiencing a precipitous drop in the numbers of Russian tourists.

About 40 percent fewer Russian vacationed abroad in the first three months of this year, accounting for about 1.3 million fewer trips overall, according to the latest data from the State Statistics Service. Spain lost 41 percent of its Russian tourists, Austria lost 50 percent and Italy lost 29 percent, according to the official data.

The summer season, traditionally a time when Russians enjoy longer breaks, has been predictably trying for Russian tour companies struggling to adapt to the new economic conditions. “Of course we have seen a fall in demand, but it was expected,” said Anna Podgornaya, head of the Pegas Touristik travel agency.

Meanwhile, Khomenok and her husband have not been so hard hit by the crisis as to begin canceling vacations. The two have traditionally taken one or two European holidays annually, and they plan to keep it up.

But as she plans her trip to Italy, she said the ruble's weakness will force her to get creative with finding ways to cut costs while on vacation — like she has done on previous breaks this year.

“We tried to economize,” Khomenok said of a trip to Milan in May. “We tried not to use the metro [which she said was quite expensive] and to get good deals on apartments.”

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