

# The Almighty Ruble



Sergei Kivrin

A snake charmer greeting wealthy Russians this year at a party for the opening of a Jean Paul Gaultier store in Moscow.

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## Correction Appended

**MOSCOW, Aug. 6 — The ruble got no respect.**



During the cold war, it symbolized the backward Soviet economy. After the U.S.S.R. collapsed, it was an avatar of instability. Even plumbers in Moscow often preferred to be paid in bottles of vodka rather than rubles — the bottles did not lose their value.

No more. Lifted by high oil prices and a wave of foreign investment, the once humble ruble is showing its muscle, and fueling a consumer boom.

After gaining 25.5 percent in value against the dollar in the last few years, the ruble is even starting to displace the greenback as Russians' currency of choice for both saving and spending.

As the ruble increases in value — not just against the dollar, but against brawnier currencies, too, like the euro — imported goods are becoming cheaper for Russian consumers. Now ruble notes, once handed over by the fistful for a loaf of bread, are being used to purchase Mercedeses, flat-screen televisions and European beach vacations.

Of course, the party could be short-lived. [Russia](#) takes in roughly \$530 million a day from oil, its most lucrative export. If the price of oil declines, so will the ruble. And even if the price of oil does not fall, an oil-fueled boom brings dangers of its own. In many countries, an over-reliance on petrodollars has led to underinvestment in businesses outside oil and gas, and a subsequent withering of other domestic industries.

To deal with such downsides of the ruble's rise, Russia is salting away oil money in a rainy day fund, called the Stabilization Fund, which holds more than \$120 billion. In January, Moscow will split it into two funds: the Reserve Fund and the Fund of National Prosperity, the latter intended for state investments.

Together with the Central Bank of Russia's foreign reserves, Russian authorities have a currency reserve of \$413 billion, the largest per capita foreign currency

reserve of any major economy, including China's. In an oil downturn, authorities could spend that reserve to protect the ruble.

In the meantime, the reserve adds an aura of stability to the economy for investors.

"Excluding a couple of oil countries where the money belongs to the local ruling family, which is something different, Russia has surpassed all the newly industrializing Asian countries," in foreign currency reserves, Kenneth S. Rogoff, an economics professor at Harvard, said in a telephone interview.

Analysts say Russia's underlying fundamentals are good, too.

First, oil exports are not the sole source of the ruble's rise. That was the case before 2007, but now foreign investment has become a significant factor. Private capital flows into Russia increased roughly 360 percent in the first six months of this year, compared with the same period last year. Only about 30 percent is attributable to oil and other extractive industries, according to the State Statistics Committee.

Analysts also point to what they call Russia's sound macroeconomics. President [Vladimir V. Putin](#)'s government has managed inflation, though certainly not eliminated it. And through its tight control over politics and society, the regime has kept demands for social spending in check — a leadership approach reminiscent of the authoritarian "Asian model" of economic development.

But economists also say a long-term cycle of economic depression and recovery is bolstering the ruble, at least for now. Starting in 1991, the year the Soviet Union collapsed, Russia's economy contracted by as much as 40 percent. This year, for the first time since, Russia's gross domestic product returned to 1990 levels: factories, oil pipelines, roads, ports and other facilities that once were idled are operating near full capacity.

In the decade from January 1993 to Dec. 31, 2002, the ruble's lowest point, the dollar appreciated 7,664 percent against the ruble, rising to 31.96 rubles to the dollar. On Tuesday, one dollar bought 25.47 rubles, a 20 percent appreciation for the ruble.

Even more important, as measured by purchasing power parity, a gauge of a currency's value based on the goods it can buy, a dollar should buy roughly 15 rubles today, according to a report [Merrill Lynch](#) issued in July. By that measure, the ruble remains the world's second-most undervalued major currency, behind only the Chinese yuan, whose value has given policy makers in Washington headaches. Indeed, the ruble would be even more valuable today if not for the Russian central bank intervening to keep it from rising more.

### **Correction: August 10, 2007**

*An article in Business Day on Wednesday about the increasing strength of the Russian ruble misstated its appreciation against the American dollar in the last few years. It has appreciated by about 25.5 percent, not 20 percent. (The dollar has depreciated by 20 percent against the ruble.) The article also misstated the year the Soviet Union collapsed. It was 1991, not 1990.*

### **Correction Appended**

Through much of the 1990s, Russia suffered the opposite problem. Then the ruble, shunned by locals and tourists alike, was propped up by Western lending. It collapsed in 1998, on the heels of the Asian economic crisis. Russians' life savings evaporated and poverty became widespread.



Sergei Kivrin for The New York Times

In just one example, the theft of manhole covers became a major problem. Russians were stealing them to sell for scrap metal.

All that is different now. The current consumer boom has sparked renewed interest in Russia from companies like [Wal-Mart](#) and [Starbucks](#). Indeed, shares in grocery stores, electronic retailers and other consumer-sector companies are outperforming Russian oil companies on the Moscow stock exchange.

The increasing value of the ruble has made imported goods like electronics cheaper for Russian consumers.



Sergei Kivrin for The New York Times

A shopper, right, examining an Omega watch in Moscow.

Russian banks offer accounts in rubles, dollars or euros. Of the three, ruble accounts are attracting the most funds. Ruble-denominated personal savings accounts rose 6.8 percent in the first quarter of 2007, while foreign currency accounts were level, according to a report by [Goldman Sachs](#).

That has led to some, perhaps predictable, gloating. Recently, a pro- Kremlin youth group staged a mock panhandling to benefit the United States currency. They held out hats for passers-by to make donations — “raising money for the dollar’s ticket back home,” their signs read.

But there are limits as to how far a currency can carry a country. Real economic growth, economists say, will depend on continuing foreign investment. Without it, Russian consumption of imported goods will outpace earnings from oil by 2010, according to Russia’s finance minister, Aleksei L. Kudrin.

If that happens, Russia’s economy will depend on foreign investment to maintain the strong ruble and the rising living standards associated with it — much as the United States does, but without the same record of stability.

Last summer, authorities eliminated all restrictions on ruble trading, making the currency fully convertible and easing the way for the capital inflow needed to meet the demand. In the first six months of this year, net private capital inflow into Russia was \$67.1 billion — more than during the entire first decade after the collapse of the Soviet Union. In the same period last year, capital inflow was \$14.5 billion.

While threats of nationalization persist in the oil sector, investors have largely decided that they are acceptable considering the money to be made.

In another recent sign of the ruble's strength, a particularly Russian enterprise has just become more expensive.

Russia has raised the price for a tourist flight to the International Space Station aboard a Russian rocket. What cost Dennis A. Tito, the first space tourist, \$20 million in 2001, this year cost the former Microsoft executive Charles Simonyi \$25 million. Citing the strong ruble, Russian space agency officials say they will increase that fee to \$30 million.

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