Plunging rouble raises spectre of fresh financial crisis for Russia

Kathrin Hille in Moscow, Roman Olearchyk in Kiev

Russia faces the risk of financial instability, the country's central bank warned, after dramatic gyrations in the currency amid renewed tension in Ukraine revived fears of a currency crisis.

The warning came after a day of huge swings in the rouble and capped a week when the currency fell 8 per cent, its biggest weekly drop in 11 years.

The rouble is a casualty of falling oil prices, which have plunged more than 25 per cent since mid-June, geopolitical tensions over Ukraine and sanctions that have shut some of the country's biggest companies out of western capital markets.

For many ordinary Russians, the currency's slide has evoked painful memories of the financial crises that rocked Russia in 2008-9 and 1998. Analysts said if the rouble's fall continued it could undermine President Vladimir Putin's popularity, which currently stands at record highs.

The Bank of Russia said the past few days had seen "extreme demand" for dollars, which could lead to the "creation of risks for financial stability".

The central bank said it stood ready to increase its foreign exchange interventions "at any moment", and use other tools in its arsenal, to support the rouble.

It also defended a decision to let the currency float freely, a move which was rigorously stress-tested on Friday when the rouble initially fell as much as 4 per cent to a record low against the dollar and breached the threshold of 60 to the euro for the first time.

The currency later pared its losses and swung up more than 2 per cent against the dollar on the day, after speculation that the central bank would take action to halt the crisis, before falling back again.

The Bank of Russia said Friday's volatility was part of an adjustment process following Wednesday's policy changes. “The sharp weakening of the rouble that started late Thursday was caused by a new round of the conflict in Ukraine, fears of new sanctions and the falling oil price,” said brokerage BCS Prime in a research note.
Plunging rouble raises spectre of fresh financial crisis for Russia. $68bn – The amount Russia’s central bank has spent defending the currency this year.

Kiev said on Friday that dozens of Russian tanks and fighters had recently entered the breakaway regions of eastern Ukraine. Fighting in the seven-month conflict which has claimed more than 4,000 lives had subsided after fierce August battles gave way to a September ceasefire agreement.

But the so-called Minsk accords started to unravel swiftly after separatists held an election on Sunday that was considered illegitimate by Kiev and the west.

The central bank said on Wednesday it would sell no more than $350m a day to support the rouble, arguing that from now on market forces would be key in determining the exchange rate.

The bank did, however, stick to its commitment to make unlimited one-off interventions if financial stability was at risk.

At Credit Europe Bank, a midsize lender in Moscow, customers were queueing at lunchtime to withdraw foreign currency or buy dollars, while the branch manager tried to persuade them to open rouble deposits instead. The lender, and many other smaller Russian banks, have started requiring customers who want to buy dollars to order them at least one day in advance.

The rouble’s slide has raised concerns over whether Russian companies and banks can service their external debt. Some $30bn is due for redemption before the end of the year by Russian corporates and about $10bn by Russian banks.

In total, Russia’s corporate sector has $422bn in foreign currency debt and the country’s banks have $192bn, the central bank said.

The corporate borrowers due to make big repayments by the end of the year are mostly state companies with a steady stream of foreign currency revenues from exports of oil and gas.

For that reason, analysts say the rouble volatility should not affect their ability to service their debt in the near term.

But an executive at a foreign investment bank in Moscow said: “The picture is more worrying for the banks.”

For Russia’s fiscal situation, the cheaper rouble against the dollar is less worrying as it helps mitigate the steady slide in the oil price, which has led to a fall in oil and gas-based revenues.

Moscow equities markets were also under heavy pressure. The dollar-denominated RTS stock index hit its lowest level since 2009, falling below 1,000 points.

Russia’s 10-year sovereign debt yields rose 15 basis points to 10.3 per cent, making its borrowing the most expensive since November 2009. The cost of insuring Russian debt against default returned to its highest level of the year. Credit default swaps for Russia were up 9 basis points to 286 basis points.

With additional reporting by Elaine Moore in London

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