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Manual Rouble Correction

The phenomenon of a strong rouble is the new normal of 2025. It is largely a replay of the situation three years ago, when the exchange rate of the Russian currency over the period from May to December had steadily maintained the range of ₽60-65 per dollar. At the time it had seemed that nothing could move it towards weaker “equilibrium” values everyone got used to. Today observers ask the very same question as back in 2022: when will the trend finally reverse, this cannot go on for too long?

Approximately at the start of March, when the dollar was at ₽88,2, experts went on forecasting weakening rouble “any day now”. However, it has not happened, and today they are restrained to the maximum in their short-term forecasts. In June-July the trend for moderate but still continuous strengthening of the rouble continued. This was supported by transactions of major exporters on the currency market and rather low demand for foreign currency by private persons.

According to estimates of the Bank of Russia, in June the net foreign currency sales by exporter companies grew by 3% month-on-month, up to $7,5 billion. Retail customers spent ₽77,9 billion on foreign currency, following purchases for ₽111 billion in May, which was two times lower than over the same period of 2024.

A similar situation is observed for legal entities: their purchase volumes remain half as much as the last year values. There are several reasons for this, but there are only two key ones. First, high key rate of the CBR makes rouble-denominated assets

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(primarily bank deposits) more attractive, containing FX demand. Second, over the latest months such drivers as lower activity of importers and recovery of export flows in the traditional economy sectors have been contributing to a stronger rouble. Along with this, one should keep in mind the existing global risks, including commodity, geopolitical and sanctions risks. The dollar rate could skyrocket above □80, if a systemic external shock occurs. For example, oil prices could crash down to $40 per barrel, though this scenario seems almost unbelievable.

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Equilibrium Rate Dispute

What should “fair”, or more precisely, “equilibrium” exchange rate of the ruble be? This is not an idle or hypothetical question, but a very specific and applied one – both for the state (which needs to finance fiscal shortfalls), and for citizens (which hold a lion’s share of their savings in rouble bank deposits). A conceptual discussion of the topic was featured at the Saint-Petersburg International Economic Forum (SPIEF) in June.

There German Gref, head of Sberbank, stated at a business breakfast with business elites and top government officials that the current rate was too low, that it did not reflect prevailing economic conditions, and that its equilibrium value had to be at the level of ₽100+. “Today we have the exchange rate at the level of ₽78-79 per dollar. This has a very strong impact on all our export industries and primarily on the federal budget”, - said the state bank top manager.

Andrei Gangan, CBR Director of Monetary Policy Department, another SPIEF participant, made an offline objection to the statement by Gref, and Gangan’s position aligns with the position of those analysts and officials, who do not see anything unnatural in the ongoing events and essentially are “above the fray”.

“The equilibrium rouble rate is a result of demand and supply balance on the currency exchange market, - says Gangan. – The rate we are currently observing is an equilibrium one: it reflects the objective situation in the economy, even if this fails to align with expert opinions and wishes… The rate will be at the level which aligns with low inflation, because low inflation is beneficial for everyone, both for citizens and businesses”. Gref’s opponent did not challenge the thesis that weak rouble benefitted domestic exporters, enabling them to keep their profits in the event of deteriorating external conditions. But, according to him, this did not mean that this rate is optimal for the overall economy.

Let’s not forget, that the Russian currency has a floating exchange rate and its value is determined not by the state, but by the market. Advocates of a weaker rouble, which are quite numerous (both in the government and in the business community), do not provide any arguments as to why the dollar should be at the level of ₽100, and not ₽102 or ₽98. They are also silent about which factors – objective and subjective, external and internal – could change the situation in the “necessary” direction. Could it be sliding oil prices, accelerating inflation, lower key rate, FX interventions by the CBR and the Ministry of Finance, or could it be something else? It appears that all such statements should be considered only as personal views; these have very little connection with the practice, with real life.

Each economic entity would have its own understanding of “equilibrium” or “fair” exchange rate: the cheaper the rouble, the

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more “balanced” and “fair” it would be for exporters and commodity corporations (because it brings in higher rouble revenues), and the population and the business, working for the domestic market, would mostly be happy about a stronger rouble. Overall, considering a high share of fiscal revenues from oil and gas exports, the economy would benefit from a higher exchange rate than the current one. That’s a fact, however, the existing economic realities should also be acknowledged. There is nothing one could do about it, just like, let’s say, with solar plasma emissions, magnetic storms, cyclones and anticyclones, and other cosmogenic and natural phenomena. “Manual rouble correction” is impossible by definition: even if the FX rate goes back to ₽90-100 per dollar values, then it would happen without any outside help, for reasons, absolutely independent from the will and decisions of the government.

Inflation Slowing Down

There is yet another important point: any attempts to weaken the rouble by human intervention, in manual mode (for example, by currency interventions) could undermine inflation dynamics. Even if these measures get the exchange rate moving, it would not be much. The Bank of Russia understands this all too well, furthermore, its goal is, while maintaining the market-based exchange rate, to at least keep inflation under control, and at most to reduce it down to 4%.

As noted in June by Elvira Nabilullina, CBR Head, the rouble getting stronger in 2025 “is primarily a manifestation of high rouble rates under the monetary policy”. According to her, now the regulator is more confident in stable dynamics of the FX rate, than it had been in April.

“The most obvious positive effect of a stronger rouble is slower annual inflation, - pointed out Igor Nikolayev, Chief Researcher, Institute of Economics, Russian Academy of Sciences. – Other consequences would likely be negative: such an FX rate would make it very hard to meet fiscal commitments for the current year, to finance the deficit, raised by the Ministry of Finance from 0,5% GDP (₽1,2 trillion) to 1,7% GDP (₽3,8 trillion). Moreover, our Sovereign Wealth Fund is nearing depletion: only during the period from October to June its liquid part has gone down by ₽3 trillion– from ₽5,8 trillion down to ₽2,8 trillion. The paradox is that with the current low price of Brent oil at $69 per barrel, the rouble should be devalued towards the ₽90-95 range. But this is not happening”.

Possibly, Nikolayev says, the rouble strengthening potential has not yet played out to its full extent due to the geopolitical factor: hopes of market players for a thaw in the Russian-American relations have been surprisingly persistent, contrary to the

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actual course of events. This thought is shared by Vladimir Chernov, analyst at Freedom Finance Global, who reminds that the rouble had changed to growth after Donald Trump's accession to the White House in January, who made a lot of promises, drastically changing the mood in the Russian business circles. Today the expectations are not that high, but there are still some. According to Chernov, the stable trade balance surplus has a far greater effect on the situation: the FX supply (including dollars and euros) by exporters exceeds the demand from importers.

The majority of analysts believe that the rouble will inevitably get weaker by the year's end. How far down will it go and will it happen at all is yet an open question. It cannot be ruled out that the Russian currency will disprove any forecasts, as it has done many a time. There is no sense in trying to guess when the dollar will resume its sustainable growth.

Alexander Larin.

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