

Russia: no dollars for citizens

Iwona Wiśniewska

On 1 August, the Central Bank of Russia (CBR) decided to extend restrictions on the purchase of Western currencies in cash for a further six months (until 9 March 2023). Russian citizens can only withdraw up to \$10,000 worth of funds from their foreign currency accounts or deposits established before 9 March 2022 (this may be in dollars or euros, regardless of the currency of an account or deposit). Once this limit is exhausted, the remaining funds can be withdrawn in roubles (at the exchange rate of the day). The CBR reported that accounts holding \$10,000 or less constitute 90% of all foreign currency accounts but did not communicate what amount is deposited in the remaining 10% of accounts. In addition, banks are only allowed to sell to citizens the euros and US dollars received by banks' cash offices after 9 April 2022. Restrictions have also been extended against legal entities ('Russian residents', i.e. companies registered in Russia). They can withdraw up to \$5,000 in cash – in dollars, euros, pounds or yen – to cover business trip expenses.

At the same time, in recent weeks the CBR has lifted most of the restrictions imposed at the end of February this year on the electronic trading of Western currencies. Since the end of June, citizens have been allowed to transfer abroad up to \$1 million per month (or the equivalent in another Western currency) from their accounts in Russian banks. In addition, the obligation to convert export revenue into roubles has been removed from Russian companies (previously they had to convert up to 80% of this revenue on the internal market). Exporters (outside the raw materials sector) are also no longer obliged to repatriate funds earned abroad and can hold them in foreign accounts.

Restrictions imposed on non-residents still apply. Among other things, they cannot transfer their income, profits or dividends earned in Russia abroad or sell Russian securities. There is also a ban on purchasing Western currencies in cash.

On 1 August, the United Kingdom eased sanctions. The UK has allowed the provision of insurance and reinsurance services relating to vessels, aircraft and their component parts moving between a third country and Russia. UK-based Lloyd's is the largest insurance company in the world.

The Russian government estimated that there was a 20% drop in metal industry production in the second quarter of this year. For individual companies, the situation is much worse, with the Magnitogorsk Iron and Steel Works's production down 38% and Severstal's down 28%. The trend is due to a reduction in demand both abroad (due to sanctions) and on the domestic market. In addition, the Kremlin, in support of the construction market, introduced price regulation for metals and metal products in March this year, which further reduced the

profitability of metallurgical production. Russia's largest aluminium company Rusal also reported a 55% drop in revenue (to around \$1.2 billion) in the first half of 2022. In the case of this entity, Western restrictions were imposed primarily on its main owner Oleg Deripaska. In addition, Australia has decided to suspend the supply of bauxite to this company (a raw material for aluminium production).

Table. Key indicators of the Moscow stock exchange and the dollar exchange rate in roubles from 25 July to 1 August (at the close of the session)

	25 July	26 July	27 July	28 July	29 July	1 August
INDEX rouble index (points)	2,129	2,192	2,196	2,189	2,214	2,180
RTSI dollar index (points)	1,155	1,136	1,154	1,138	1,129	1,139
USD/RUB US dollar exchange rate in roubles	58.1	55.5	59.9	60.8	61.6	60.2

Commentary

- As part of the measures to counteract the negative consequences of the financial sanctions imposed by the West, the Russian authorities have introduced numerous currency restrictions. This policy allowed the CBR to contain panic among bank customers and also to strengthen the rouble, but the drawback of this was the loss of convertibility of Russian money. Rouble settlements are now only possible with interested countries. In addition, several rouble exchange rates operate in parallel within Russia. Indeed, the CBR recommended that banks sell Western currencies to Russian importers and those paying off foreign currency liabilities at a rate close to the Moscow exchange rate. The dollar price for other customers should be at least 10 roubles higher. In addition, banks selling Western currencies in cash offer them at a rate as much as 20-30 roubles higher than the exchange rate. Bureaux de change are now only buying Western currencies. There are still private offers to sell them on social networks – in such cases, the price is set by negotiation.
- The currency restrictions introduced succeeded in suppressing demand for foreign currencies in Russia in the first weeks of their implementation and ensured a steady supply of them on the market. However, with the increase in export revenues due to the high prices of energy raw materials on world markets and in the face of a decrease in imports (even by half) due to the sanctions, the exchange rate of the Russian currency began to strengthen dynamically and its value in recent weeks was up to 30% higher than before the invasion of Ukraine (as much as approx. 52 roubles per dollar). The strong currency has become a serious problem for exporters and the state budget as their income in Russian currency terms has shrunk. Despite the authorities' efforts – including a successive withdrawal of currency restrictions – the rouble has managed to weaken marginally. As a result, the government announced the introduction of a new budget rule in 2023, which is to buy (this will presumably include in yuan) surplus currency on the market. This is how the Kremlin has built up its reserves over the past eight years.

- Restrictions on the trading of Western currencies in cash were introduced by the CBR on 9 March 2022. This was a direct response to the ban adopted by the US and the European Union on the export of dollars and euros to Russia. As a result, despite the inflow of huge foreign e-money revenues from energy exports, Russia is suffering from a shortage of dollars and euros in cash. According to CBR estimates, Russian residents hold around \$85 billion in cash. At the end of February, there was approximately \$90 billion in foreign currency accounts or deposits held by natural persons and, by the time restrictions were imposed, approximately \$18 billion of this amount had been withdrawn. What is not known, however, is the amount taken in the last five months.
- Due to the risk of banking operations being blocked as a result of sanctions and the difficulty of using Western currencies, they have de facto become toxic for Russia. As a result, banks have started to charge high fees for foreign currency accounts in recent weeks and will soon be given the option of applying negative interest rates. In addition, the cost of foreign currency transfers is increasing (around 3% of the value of the transaction, but no less than \$200, euros or pounds), and banks are setting a minimum value for these transactions. In this way, they are trying to encourage citizens to exchange their deposits into roubles or possibly into the currencies of countries friendly to Russia.