

Treasure Island? In 2003, Russia Discovered the Euro

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INTRODUCTION

After what we shall call a dress rehearsal of several years, the new currency called the *euro* became the official legal tender of twelve members of the European Union on January 1, 2002. Clearly, Russia is not one of those twelve nations, and the Kremlin government still clings to its traditional *ruble*. But in the paragraphs to follow, we shall attempt to see the various impacts this new currency has had on Russia.

SOME HISTORY OF A SINGLE CURRENCY

As the new currency came along, *BBC News* correspondent Mark Gregory explained that the idea of a monetary union was not new. Here's part of what he revealed:

The first recorded attempt at a common currency came in Greece two and a half thousand years ago. The city state of Athens introduced coins featuring a picture of an owl for its colonies and trading centres. They later became widely accepted in trade around the Mediterranean.... In Roman times, the silver denarius [or dinar] and the gold aureus were the principal coins for a vast empire extending over most of Europe for more than three hundred years (Gregory 2001).

It is recorded that around 30 A.D. Jesus was in conversation with several persons who were trying to trap him. From the Scriptures, Jesus speaks first and then is answered by others: Show me a dinar; whose image and inscription are on it? They answered: Caesar's (*Biblia. Novogo Zaveta* 1995). At its geographical peak, the Roman Empire stretched from Britain to Egypt, a distance of 3,000 miles and a single

currency served that vast territory. That makes today's euro zone seem tiny. But this new small zone of just twelve nations has had impact on neighbors to the East.

RUSSIA TAKES A FIRST WESTWARD STEP

In the January 9, 2003 issue of Russia's *Pravda*, Dmitri Slobodyanook wrote of the euro's impact in his country. Dmitri did it in the Russian edition. Maria Gousseva translated Dmitri's work for the English edition and she related:

When euro cash appeared at currency exchange offices in Russia, a euro boom broke out in the country. Russians go to Europe oftener than to the USA, indeed that is why they prefer the euro. And although official statistics report that the volume of euro bank accounts is still insignificant, the Russian population actively exchanges the dollar savings for euros (Gousseva 2003).

There is another side to the story which was well presented in early 2003 by a Russian equivalent of *The Wall Street Journal*. Avoiding the use of Russian **Cyrillic** letters, we can refer to the publication as *Russian Business Consulting*. In its analysis of the situation, that publication referred to the instability of the euro's exchange rate (Euro savings 2003). What? An instability of the euro's exchange rate? That's right! Wise and cautious Russians could quickly remind you that the euro was up around \$1.17 when it was first introduced in its **dress rehearsal** and around Christmas, 2003, it was flirting with a figure of \$1.23! They'll also tell you that the euro fell to around 834 American before its most recent spurt. Those wise and cautious Russians didn't want to ride on the roller-

coaster. Yes, they were cautious. Only time will fully reveal if they were also indeed wise.

But there is another aspect. Yes, just a few lines above the obvious was mentioned, Russians travel more frequently to Western Europe than to the U.S.A. In early 2003, Ahtyam Ahtyrov explored that westward traveling situation for *Pravda*:

The increasing euro rate will increase cost of traveling for those Russians who prefer to spend their vacations in countries of the euro zone.... Several of Russia's large travel agencies specializing in European tours have already announced considerable reduction or cessation of their programs.... potential clients are scared with high costs of European tours (Ahtyrov 2003).

THE RUSSIAN AFEDERAL RESERVE

The Russian equivalent of the U.S. Federal Reserve System is called the Tzsentrobahnk, which is about as close as you can get to the American sounds of Central Bank. Like any nation's central bank, Tzsentrobahnk maintains Areserves in currencies other than their own. In early 2003, *Russian Business Consulting* let us know some specifics on the reserves of the Tzsentrobahnk:

At the beginning of last year [2002], the currency part of the reserves consisted of US dollars and euros, the latter accounting for only 10 percent of the reserves. And by the end of the year, the share of euros more than doubled. The percentage of other currencies also increased. The share of US dollars in the reserves decreased from about 90 percent to below 75 percent in 2002 (Central 2003).

IRAQ, THE DOLLAR AND THE EURO

As 2003 rolled along, the Iraqi war made its way

into financial news. In January, 2003 (before Iraqi hostilities) Sergei Sibiryak wrote an article for Russia's *Gazeta.Ru* bearing the intriguing title AThe Dollar Needs War. Here is how Sibiryak explained it:

In the opinion of one of the world's top financiers, George Soros, the long-term perspective for the dollar reveals an unfavorable trend.... If the USA gains victory in a war with Iraq, this will begin a good stimulus for short-term growth of the American currency (Sibiryak 2003).

CONCLUSION

What more do we need? We have a prediction from George Soros! That may not be enough for the Russian Government and the Russian people. Just about two millennia ago, James, in his epistle, was speaking very seriously to the Russians about financial planning around the euro and the dollar: *Vous qui ne savez pas ce qui arrivera demain!* (Le Nouveau 1910, p. 500), meaning: You who do not know what is going to happen tomorrow! James, you were indeed correct; we'll just have to stand by and watch.

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