

11th International Strategic Management Conference 2015

## Currency crisis in Russia on the spun of 2014 and 2015: causes and consequences

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### Abstract

We propose an interpretation of the currency crisis and the stability of the national currency, project the consequences of the currency crisis for the Russian economy, and define perspective directions of stabilizing the Russian rouble. Events in the Russian currency market are defined as a currency crisis based on the statistical data on the dynamics of the US dollar against the Russian rouble in 2014 and the first quarter of 2015. The author's vision of the current currency crisis in Russia was formulated. The factors of internal and external instability of the Russian rouble were determined. Possible impacts of the current monetary crisis in Russia were evaluated in comparison with the consequences of the Russian rouble collapse and denomination in 1997-1998. The paper shows results of analyzing producers' prices elasticity by the real effective exchange rate of the rouble. We propose measures aimed at the improvement of Russia's monetary policy to ensure the stability of the Russian currency. The presently observed rapid strengthening of the Russian rouble, which is similar in its speed to the previous devaluation, sets targets for the further research of the causes of the volatility amplification in the Russian currency market, as well as studying the consequences of sudden and multidirectional exchange rate fluctuations so that they can be minimized.

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Peer-review under responsibility of the International Strategic Management Conference

*Keywords:* currency, currency crisis, currency policy, inflation, key rate.

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### 1. Interpretation of the currency crisis and the stability of the national currency

Currency crisis - a situation in the foreign exchange market when a speculative attack on the exchange rate leads either to the devaluation (or sharp depreciation) of the currency or force monetary authorities to spend a significant

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amount of international reserves or to a sharp raise of interest rates in order to protect the national currency. The so-called concept of speculative pressure, created in 1970s, is used in the empirical studies. According to the concept, the currency crisis, as well as the speculative attack, is defined as the period when the speculative pressure on the foreign exchange market reaches a critical value. The speculative attack connected with the currency crisis may result in success or failure. In the case of speculators' success, the situation is already called currency crash, i.e. there is a significant nominal depreciation or devaluation of the domestic currency. J.Frankel and E. Rose proposed to use 25% depreciation threshold for the currency collapse. (S.R. Moiseyev, 2006).

Referring to the dynamics of the official exchange rate of the US dollar against the Russian rouble set by the Central Bank of Russia in 2014 (Fig.1) and in the first quarter of 2015. (Fig.2), the following picture can be observed (Database of the Central Bank of Russia, 2015).

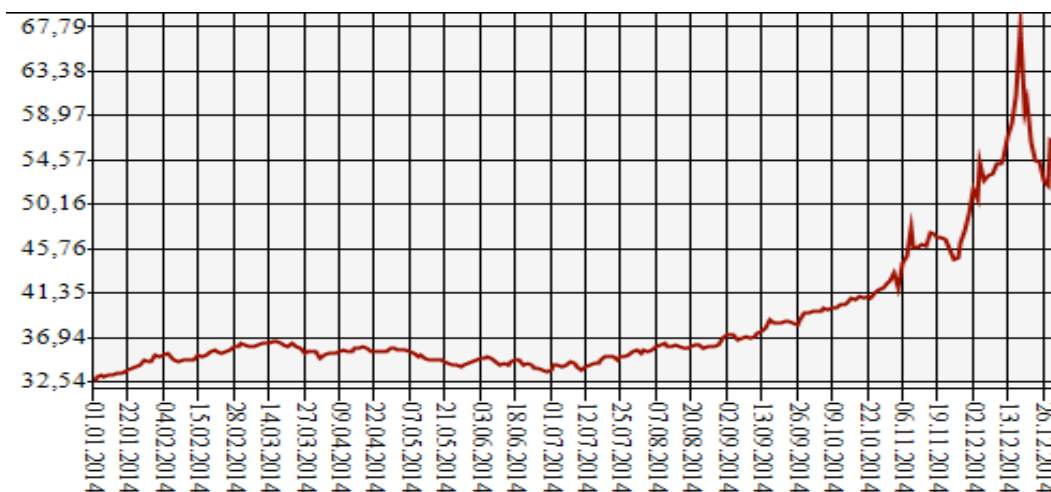


Fig.1 Dynamics of the official USD/RUB exchange rate in 2014.

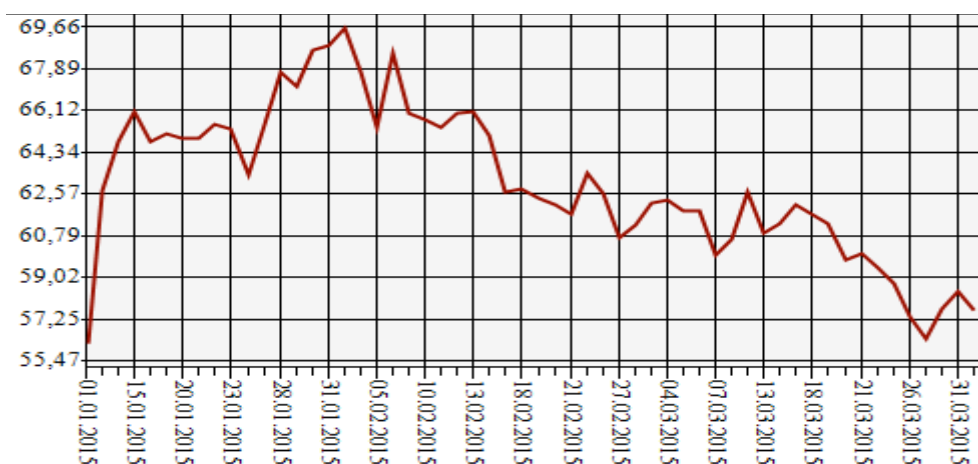


Fig. 2 Dynamics of the official USD/RUB exchange rate in the first quarter of 2015.

As of 01.01.2014, the official exchange rate of the USD against the RUB was set by the Bank of Russia at the level of 32.6587 RUB, on 31.12.2014 it reached 56.2584 RUB, increasing by 23.5997 RUB per 1 USD, or by 72.26%.

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