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# Continuation of Monetary Crisis of 2014 in Russia is Inevitable

**ABSTRACT**

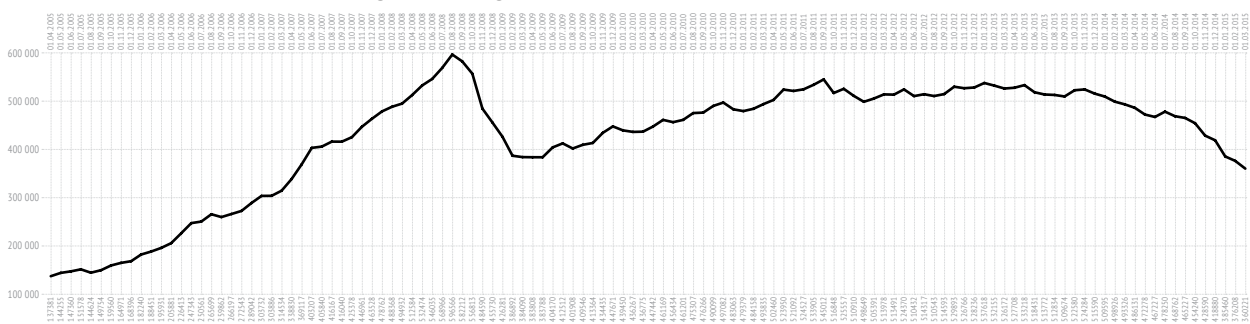
The article is reproducing analysis of relation of foreign currency reserves of the Central Bank of the Russian Federation and the quantity of minted money (M2) for the last 10 years. A well-founded conclusion is drawing: from after 2010 the quantity of money minted by the government of Russia was far of excess of the quantity the metallic reserve storing allowed. The maximum gap between real quantity of Rubles and currency holdings fall within the end of 2014. Unrestrained emission of Rubles allocated for defense resulted in the first correction in value of the Ruble; the point at issue is December 14, 2014- the day when the Rouble depreciated on 7 % against western currencies – the US dollar and the Euro. Taken as a whole, within a year the exchange rate of the Rouble to the dollar fall on more than 55 %, so, on pace of depreciation, the Rouble turned the one of weakest currencies in the world. However, in the author’s opinion, this correction did not affect the activities of the Russian authorities and this can result in further external imbalance in the country and in further crash of the Russian ruble.

**Key words:** Ruble, currency crisis, Russia, depreciation of the Rouble, currency, the Central Bank of Russia.

Depreciation of the Russian Ruble, which took place on Monday, December 1, 2014, was maximal for the last 16 years. In the course of stock trading the Russian currency depreciated on 7% against other foreign currencies: 1US dollar went for 54 Rubles, 1 Euro – for more than 67 Rubles. The more sharp depreciation in the exchange rate took place only in August, 1998 – at that time exchange rate of the Rouble every day dropped on 10-30 %. There was no situation of this kind during the crisis of 2008 when fall in exchange, as a rule, did not exceed 2 % a day. Taken as whole, within a year the exchange rate of the Rouble to the dollar fall on more than 55 %, so, on pace of depreciation, the Rouble turned the one of weakest currencies in the world. Rates of falling in the exchange were greater only in Ukraine - 80 % since the start of 2014.

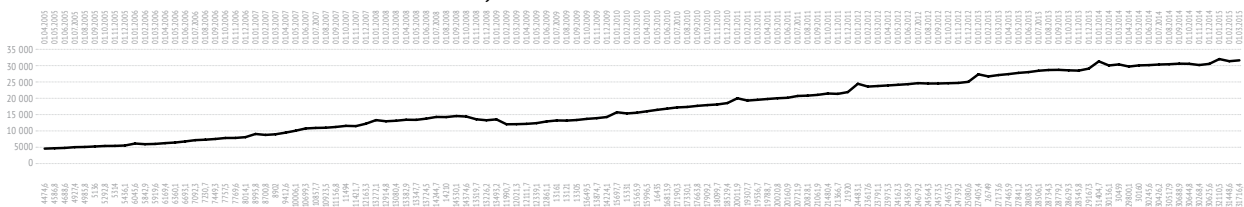
We believe that such correction took place not because of oil prices downturn or sanctions imposed by the West; they acted only as a catalyst of the processes which were already discernible. Below is given our analysis of data relating to gold-and-exchange holdings of the Central Bank of the Russian Federation; based upon these data it may be concluded that since December, 2009 the government of Russia starts to intervene in activities of this Bank and its independence comes to an end.

**Gold and Foreign Exchange Reserves of Bank of Russia, Billion US-Dollars**



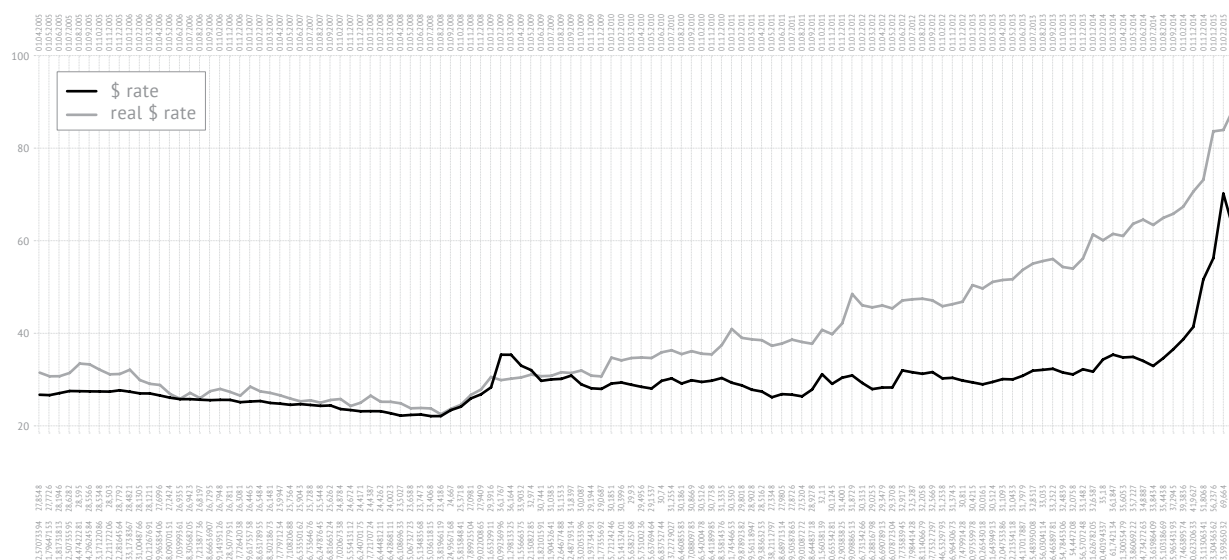
From this period, the Central Bank of Russia is ceasing exercise its function imposed on the Bank under the Federal law of the Russian Federation (No. 86-FZ dated 10.07.2002); in particular we are disputing the execution by the Bank of Russia provisions of Article 30 Chapter 6 Organization of circulation and Article 34.1 which says: “The main purpose of monetary policy of the Bank of Russia is to protect and ensure stability of the Ruble by preserving price stability including for the purposes of generating conditions for equilibrium and sustainable growth”. Article 30 states that the Bank is liable for currency issue to the extent of its gold and currency reserves. By implication of the law the Bank of Russia has no right to mint money more than its holdings of western currencies (the US dollar and the Euro) and gold. However, he during the last five years the Bank, straightforwardly and consistently, was just doing it. The giver below diagram is illustrating it.

**M2, Billions of Russian Rubles**



So, we counted the real value of the Russian Ruble in the US dollars proceeding from per-month relation of minted Russian Rubles and gold and foreign exchange reserves of the Bank of Russia by which they are secured. It is obvious that before the end of 2009 the Bank of Russia carried out an independent emission policy and the Rouble has a fixed rate as it has been secured by convertible currencies of the West and by gold. Our calculations demonstrate that correlation between volume of Rubles in circulation and foreign exchange reserves of the Bank of Russia in the period from 2005 till 2010 makes  $r=0,962073$ , and this can give evidence of significance of foreign exchange reserves for quoted rate of national Russian currency. Correlation between volume of rubles in circulation and foreign exchange reserves of the Bank of Russia in the period from 2010 till 2015 makes  $r = - 0,036151$ , and this can attest to the fact that when determining the price of the national currency, the Bank of Russia does not refer to availability of foreign currency and gold holdings in its reserves.

### Ratio of the Established Dollar Exchange Rate and Real (Settlement) of Dollar Exchange Rate to Russian Ruble



Such situation resulted in severe misrepresentation of the exchange-value of Russian Ruble declared by the Bank of Russia and in its real value. Oil prices downturn and economic sanctions imposed by the West against Russia demonstrated to traders that the Bank of Russia is unable to maintain a stable rate of national currency. A sharp reduction of western currency inflow to Russia forced the Central Bank to devalue Ruble. But in our opinion, the process is not completed. For to hold the Russian ruble from smashup on December 16, 2014 the monetary authorities of the country had to hike the refinancing rate up to 17 %; and to perform an urgent operation on recapitalization of the banking system as well. From 2,332 trillion Rubles which have been committed to crisis-fighting, 1 trillion Rubles has been allotted to Deposit Insurance Agency (DIA) for rendering capitalization support to banks (in 2014). Plus, in 2015 banks will receive as much as 550 billion Rubles (from the National Wellbeing Fund): 300 billion Rubles will go to Vnesheconombank and 250 billion Rubles – to other Russian banks. Total – 66,4 % of all allotted funds. The government of Russia points out to the fact banks and financial institutions, in turn, should use these assets for crediting priority sectors of economy, infrastructure projects and real sector of the economy. With the same purpose Russia is increasing the extent of government guarantees for credits or bonds for engaged companies from the real sector of economy, including for systemically important companies. Totally another 230 billion Rubles have been desired for these purposes.

Meanwhile, a tight credit policy of the Bank of Russia which almost paralyzed economic activity in the country is in conflict with the Bank reports, statistics and governmental actions. Stop lending to the real sector of economy and pay reduction are resonating with the fact that desired defense expenditures in Russia in 2015 make about 3,3 trillion Rubles, their increase in 2015 will make 32,8 %. De facto, the government of Russia started financing of arms industry and defense out of currency issue, keeping down the rate of exchange by the most server monetary policies. However, in Russia's GDP breakdown arms industry and defense are not the sectors producing economic goods. They are net expenditures. So, full soon the money injected in the defense industry will return to civil economy, but they will not be supported with produced goods and currency reserves. Under unchanged policies of the Russian government, the spiral can be closed in the period from autumn 2015 till spring 2016, in this period a new monetary and financial crisis is to be expected in Russia.

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