



The ruble crashes

Russia's currency was the world's best performer last year. Now the ruble is plummeting. Why? And what does that mean for the Ukraine war?

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Shortly after the start of the Russian offensive in February 2022, the ruble crashed, only to recover very quickly and finish 2022 significantly stronger than it had started it.

2023 has been - so far - a very bad year for the ruble. The depreciation of the Russian ruble in recent weeks has made it one of the three worst performing emerging market currencies, along with the Turkish lira and the Argentine peso.

On August 15, Russia's central bank raised its key interest rate from 8.5 percent to 12 percent - an increase of 3.5 percentage points. During the day, the ruble recovered noticeably.

The Bank of Russia decided not to buy foreign currencies on the domestic market from August 10 to December 31, 2023. This could be a factor in the ruble's weakness.

The Russian economy is doing well. The IMF projects that the economy will grow by 0.7 percent in 2023, and the Russian Central Bank projects GDP growth of 1.3 percent.

Still, the ruble's weakness this year is counter-intuitive. Never before has this currency been used so intensively in international trade, which should actually lead to the ruble's strengthening.

Currently, inflation in Russia is 7.6 percent, so the key interest rate is 5 percentage points above inflation - so the Russian central bank is effectively fighting inflation. This is in stark contrast to Western central banks, whose key interest rates are below inflation.

Thus, it is difficult to say what is currently causing the weakening of the ruble. The weakening will not have an impact on the financing of the war, since the Russians build their own weapons systems and finance them with rubles.

However, important in this context is the Brics summit in South Africa on August 22. A lot will happen in South Africa. The global South is standing together. There is talk of a new community currency or a ruble backed by gold. Much speculation, but we will have to be patient - and then the ruble will certainly move.

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