

The Russian Financial Crisis : An Empirical Analysis

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The Russian financial crisis in August 1998 took many observers completely by surprise. In the year 1998 Russia underwent one of the most spectacular crises among the preceding national currency collapses in different parts of the world. On August 17 the government was forced to devalue the rouble, declare default on its internal debt and a moratorium on debt payments to foreign creditors.

The severity of the collapse and the great impact it had on the financial markets of emerging economies worldwide prompted the domestic and foreign researchers to inquire into the causes and mechanisms of the Russian malady. Yet, there is no unanimity in the existing explanations of the Russian crisis case; they vary considerably in regard to what was the nature of the crisis and deterioration in which of the three dimensions – currency, debt or banking – had the highest impact on the crisis incidence. There is even less consensus as to whether the origin of the crisis was primarily domestic or external.

The goal of this study is to conduct an empirical analysis of the Russian crisis along the lines of those undertaken to explain the European, Latin American and Asian cases to assess the relative contribution of the different factors to the incidence of the crisis.

The results of Probit estimations, which allow for simultaneous evaluation of numerous variables from the economic areas suggested to be responsible for the crisis eruption, imply that the highest share in the increased crisis probability is to be attributed to the indicators associated with the financial sector weakness. The other powerful crisis predictors were the external capital flows and measures of international liquidity. The government finance problems and exchange rate misalignments contributed to the episode of the sharp devaluation to a lesser extent than banking sector fragility and external capital movements.