

DEPOSIT DE-DOLLARIZATION IN THE POST 2000'S RUSSIA

Gurkan I. Akalin, Eastern Illinois University, School of Business, Charleston, U.S.A.

Denis Maximov, Eastern Illinois University, Charleston, U.S.A.

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ABSTRACT

In this study, we examine the relationship between the household-debt-to-GDP ratio and deposit de-dollarization in Russia in 2000s. We test if the decreased deposit dollarization (de-dollarization) can be explained by the increased household-debt-to-GDP (nominal) ratio in the post 2000s Russia. We analyze information on Russian economy over the period of 227 months using data from resources such as Russian Federal State Statistics Service, the Central Bank of Russia, and the World Bank etc. We find out that for the Russian emerging economy, increased household indebtedness is a significant factor that contributes to the levels of deposit de-dollarization.

Keywords: deposit de-dollarization, currency substitution, household-debt-to-GDP ratio

1. INTRODUCTION

Deposit dollarization is a common phenomenon in emerging and developing market economies (Ize and Yeyati, 2003; Edwards, 2011). This process entails using the U.S. dollars (USD) or other foreign currency within the domestic economy, and it can be full or partial (Mengesha and Holmes, 2013). The full dollarization occurs, when monetary authorities adopt a foreign currency as the exclusive legal tender, as it happened in Zimbabwe back in 2009 (Kabote et al., 2013). On the contrary, the reverse process is called de-dollarization. When it comes to de-dollarization, local currency regains its positions in its domestic market and starts playing a more significant role. During this stage, households and businesses increase their savings in their national currency and make majority of transactions using that currency (Broda and Yeyati, 2006).

Dollarization can be in the form of using other currencies such as Euro. However, USD is the most commonly held foreign currency in the world to store wealth (International Monetary Fund, 2018). This is also true for Russia (Srochnyi, 2019). In our study, we use the ratio of amount of foreign currency deposits to the total amount of deposits held by individuals in financial institutions as a proxy for the deposit dollarization. That is, if that percentage of deposits in foreign currencies increases we assume that deposit dollarization goes up. This approach is similar to earlier researches for estimating dollarization (Feige et al., 2002).

Russia has been receiving a lot of attention recently for multiple reasons including political and geopolitical reasons, and its economy (11th in terms of GDP) is on the spotlight as well (The World Bank, 2019). Particularly, recent interventions of Russia in Syria and Ukraine drew sanctions on the Russian economy. Changes in dollarization can signal change in countries' financial well-being. Typically, increased dollarization signals deterioration of the economy.

In general, Russian economy after the 1998 financial crisis has had a significant improvement compared to the 90s. GDP of the country grew tenfold from a low of 200 billion dollars in 1999 to a high of 2.3 trillion dollars in 2013 (The World Bank, 2019). Dollarization was the common theme for Russia in the 90s, but in the 2000s de-dollarization took place. We mainly focus on the period after 2000, where there has been less research.

There has been a long period of de-dollarization in the Russian economy since 2000 with brief periods of deposit dollarization (Harrison and Vymyatina, 2007; Central Bank of Russia (CBR), 2019). Many