

Moscow Black Markets and Official Markets for Foreign Exchange: How Much Flexibility in Flexible Rates?

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Abstract

Flexible exchange-rate systems often are not recommended for countries undergoing economic transition. In late 1989, the former Soviet Union instituted exchange-rate flexibility on the limited share of enterprise international transactions channelled through the auction and, later, interbank markets for foreign-currency trade. This paper details the regulatory evolution of this system and analyses the impact of announced and implemented policy initiatives on two sets of flexible exchange rates observed in Moscow: i) the exchange-rates instituted through foreign-currency auctions and interbank markets; and ii) black-market exchange rates on dollar-ruble trade. We ask whether the flexible-rate system, as implemented, was associated with the negative or positive features of flexible exchange-rate systems.

Initially the auction and interbank currency structure was used as a mechanism for a steady real depreciation of the ruble. Thereafter, the ruble was pegged in real terms at a level initially equal to the black-market exchange rate. This peg persisted until the end of 1991, when government central-bank foreign-exchange reserves were depleted and the crawling peg appears to have been abandoned. Throughout the sample, patterns in black-market exchange rates contrasted sharply with those of the auction rates. Black-market rates exhibited greater real variability and exhibited sharp speculative swings.

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