Departures from the Ruble Zone: The Implications of Adopting Independent Currencies

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Abstract

In this paper, we analyze the consequences for countries of the former Soviet Union (FSU) of departing from the ruble zone. Traditional arguments for independent currencies -- in particular, the potential role of the exchange rate for output stabilization -- currently do not apply to countries of the FSU. This fact would seem to weaken the case for departures from the ruble zone. However, using arguments derived from the public-finance literature, we show that departures from the ruble zone have important implcations for the pace and direction of continued economic reforms across the FSU. Moreover, we argue that adopting an independent currency can be an important device for signalling radical economic reform. These public-finance and signalling arguments suggest that radical reformers should adopt independent currencies.

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