Currency Crises

How a peg breaks, and the pattern that recurs.

Economics

The recurring sequence.

1. **A peg is maintained**
   Often alongside a widening current account deficit.
2. **Doubts emerge**
   Reserves fall, or fundamentals deteriorate visibly.
3. **Speculative pressure builds**
   Positions taken against the currency.
4. **Reserves are spent defending it**
   Interest rates raised, damaging the domestic economy.
5. **The peg breaks**
   Sharp devaluation, often overshooting fundamentals.

Educational reference. Foreign-currency debt turns a devaluation into a solvency crisis, which is what makes these episodes severe.