

What Real Appreciation of the Ruble?

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Russian government officials and economic experts argue that ongoing real appreciation of the ruble is one of the factors causing a slowdown in growth, from 9.0% in 2000, to 5.0% in 2001, to somewhere in the range of 3-4% this year. Their argument is that Russian products are losing competitiveness in both domestic and overseas markets, which results in lower output and slower growth. We have previously commented on this argument. (See “Can More Liberal Subsidies Spur Growth and Reduce Inflation?” “The Dutch Disease: Peter the Great’s Real Legacy?” “Appreciating Ruble Appreciation,” “Too Many Dollars?”)

Is the argument valid?

On July 11, 2002, the Central Bank of Russia posted a table, “Analytical ruble exchange rate indicators, January-June 2002.” It compares the percentage change of the real effective exchange rate of the ruble (the real trade-weighted exchange rate) for the first half year (H1) of 2002 against both H1 of 2001, the corresponding period of 2001, and H2 of 2001, the previous period. (See http://www.cbr.ru/eng/statistics/credit_statistics/print.asp?file=ex_rate_%20ind_e.htm)

The real effective exchange rate of the ruble increased 4.9% in H1 of 2002 compared with H1 of 2001. But compared with H2 of 2001, it only increased 1.2%.

Even if a rise in the real effective exchange rate diminishes internal and external competitiveness, to attribute a slowdown of growth, from 5.0% to 3-4%, to this very modest rise (and the slightly higher rise of 4.9% when comparing corresponding periods) is a stretch. The correlation is something of the opposite: a slowdown in the rise of the real effective exchange rate appears to go hand-in-hand with an overall economic slowdown.

Admittedly, there are leads and lags in the impact of changes in prices on growth. Even if there is such a thing as real appreciation of the ruble and if it takes some time for the real appreciation of the ruble to percolate through the economy, the magnitude of the changes over the past year does not warrant the conclusion that a major culprit in Russia’s slowing growth is real ruble appreciation.