

What Real Appreciation of the Ruble? A Postscript: Is Real Depreciation Setting in?

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On July 15, 2002, we posted to this site an article entitled “What Real Appreciation of the Ruble?” That article cited data published by the Central Bank of Russia which showed that the real effective exchange rate (the real trade-weighted exchange rate) of the ruble had only modestly increased 4.9% during the first half (H1) of 2002 compared with H1 of 2001 and a smaller 1.2% compared with H2 of 2001. This modest rise in the ruble’s real effective exchange rate, we maintained, is not sufficient to explain Russia’s slowing growth, from 5.0% in 2001 to the current estimated 3-4% this year.

On August 7, 2002, the Central Bank released updated statistics on five different “Analytical Rouble Exchange Rate Indicators, which extend through the end of July 2002.”(See http://www.cbr.ru/eng/statistics/credit_statistics/print.asp?file=ex_rate_ind_e.htm). The Bank reported that the real effective exchange rate (the real trade-weighted exchange rate) of the ruble declined 4.3% in July 2002 compared with July 2001. A decline denotes depreciation of the ruble against foreign currencies.

The data are suggestive of a possible shift in direction, from real appreciation of the ruble to real depreciation of the ruble. The second quarter (Q2) and H1 of 2002 show real appreciation against both Q1 of 2002 and the end of 2001, and also against both Q2 of 2001 and H1 of 2001. In contrast, both June and July 2002 show real depreciation over June and July 2001. The data reveal that a slowdown of real appreciation began in the first few months of 2002. Could a trend from real appreciation to real depreciation, starting in Spring 2002, be setting in? A few months are insufficient to establish a firm trend. It’s possible, for example, that the change in direction is due to seasonal factors or subject to some short-term changes in foreign trade.

However, if this trend continues throughout the remainder of 2002, and if Russian growth continues to slow, it would not shock us to learn that international and Russian economic advisers and observers blame real ruble depreciation as the culprit.