

IS RUSSIA SICK WITH THE DUTCH DISEASE?

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NON-TECHNICAL SUMMARY

From 1999 until the 2008 financial crisis, the improvement of the economic situation in Russia was impressive. GDP growth averaged 7% per year in real terms, consumption increased and the unemployment rate steadily fell. This economic record was driven by rising resource prices that led to windfall gains of export revenues. There is, however, the fear that the Russian economy may become too dependent on the energy sector and not sufficiently diversified. This perceived risk influenced the monetary policy, which aimed at preventing the nominal appreciation of the rouble by accumulating foreign exchange reserves.

Many countries endowed with natural resources suffer from the Dutch disease. On the one hand, the increased profitability in the resource sector due to higher resource prices attracts labour and investments out of the manufacturing sector. Hence, the sectors linked to natural resources, as well as the services sector, for which the demand increases in response to higher income, become more attractive. On the other hand, the propagation of increases wage across all sectors as well as the increased demand for the domestic currency and the resulting appreciation of it make the manufactured goods more expensive and, hence, less competitive in the home and world markets. Both effects contribute to a de-industrialization process that makes the economy extremely dependent on the resource sector and may reduce the growth potential.

We study the economic performance of Russia between 1999 and 2007. Using Rosstat and CHELEM databases, we analyse the trends in production, wages and employment by sectors, as well as the trends in Russian exports and imports of manufactured products, and we put these data in perspective within the Russian context, which presents specificities that make the interpretation more difficult.

We find that Russia displayed some symptoms of the Dutch disease, in particular, the appreciation of the rouble in real terms from 1997 to 2007, the decrease in employment in manufacturing, and the rise in services sector. However, manufacturing production also

increased, which contradicts the theory of the Dutch disease. Furthermore, the symptoms present in Russia could also have been driven by other factors. For instance, the appreciation of the rouble in real terms came partly from the Balassa-Samuelson effect, the quick growth of the services sector was partly due to the fact that it was not very developed during the Soviet times, and the outflow of employees from the manufacturing did not result in the inflow to the resource sector, but rather to the services sector.

The strong growth in industrial production despite the presence of some symptoms of the Dutch disease can be explained by different factors. First, a natural catching-up process after the de-industrialisation in the 1990s can explain partly the very high productivity gains in the industries, and hence, that the production of the manufacturing industries increased despite a significant decrease in employment. Second, Russian products did not particularly suffer from a loss of competitiveness. Despite the real appreciation of the rouble, the share of Russian manufactured exports in world trade has increased from 2001 to 2007. In particular, new market opportunities were developed in the European Union where Russian products remained competitive, and in other CIS countries, which did not have the sufficient industrial capacity to fit their internal demand and which were historically linked to Russia. We also observe that the Chinese demand for some Russian products increased. On the domestic market, the booming internal demand, supported by rising terms of trade and increasing export revenues, contributed to support domestic production. The rise in imports of manufactured goods in Russia mainly comes from sectors that either were not present in Russia before or suffered from the competition with the growing Chinese production. Third, whereas investments in “strategic sectors” (in particular in the energy sector and in the bank/insurance area) were subject to restrictions, investments in most manufacturing industries were largely encouraged, and the investment environment in these sectors improved significantly. Hence, thanks to high skills and relatively low costs of production in the Russian labour market, many investments flowed to manufactured industries in Russia.

From 1999 to 2007, these factors outweighed the negative effects of the real appreciation of the rouble. However, even if one leaves aside the consequences of the international economic slowdown in 2008, there is still the risk that the situation may change in the longer term because of increasing international competition.

In terms of monetary policy, since high inflation is a growing concern and since the rouble was appreciating in real terms despite the policy of prevention of nominal appreciation, the Russian Central Bank is going to switch from exchange-rate targeting to inflation targeting in the medium run, allowing the exchange rate to float more freely. The change in monetary policy targets is going slowly though as the Russian monetary policy is confronted to different interacting effects, accompanied by a lot of uncertainties and difficulties in evaluating the situation in the longer term.

JEL classification: E23, E58, F43, P24.

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