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# Economics in Brief

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## Russia's "Dutch disease"

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The Russian economy is not utilizing its full potential and is increasingly dependent on its petroleum and natural gas exports. The proportion of fuel exports in Russia's export of goods climbed from around 51 % in 2000 to 70 % in 2012 (source: World Bank). Fuel exports also rose faster than the price of oil. In contrast, in 2000 the manufacturing industry accounted for 24 % of goods exports, while the 2012 figure was just 14 %. The manufacturing industry has also not yet been able to compensate for the slump in exports in 2009.

Employment figures likewise show a decline in the significance of the manufacturing industry. While 18 % of all employees worked in these sectors in 2005, the current figure stands at just 15 % (source: Rosstat). Mining, on the other hand, saw a rise in its share of employment from 1.8 % to 2.2 %.

### The "Dutch disease"

In 1977 *The Economist* coined the term "Dutch disease" to describe the manufacturing industry's declining significance through the extraction of commodity resources. The Dutch economy had experienced this type of development after a major natural gas resource was discovered in 1959.

In Russia's case, the Dutch disease is shaping up as follows: rising petroleum prices and the growing income that this entails for petroleum exporters are leading to a rise in petroleum exports. The higher demand for the rouble that this has brought about – either because consumers are paying in roubles or exporters are converting their income into the currency – is resulting in lasting appreciation, thus making other exports more expensive for buyers from abroad. The domestic manufacturing industry in particular as a producer of tradable goods is becoming less competitive and therefore negatively impacted.

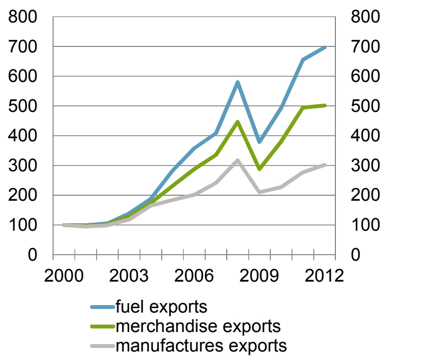
### Extraction and processing of petroleum and natural gas becoming more important

The price of crude oil climbed substantially between 2000 and 2008. The strong slump during the economic crisis in 2009 was also quickly recovered in the two years that followed. This development is by all means believed to have been an incentive for the extraction and export of crude oil and petroleum products in Russia. At the same time, the real effective exchange rate has seen a rising trend, and the ability to compete internationally has deteriorated accordingly.

In terms of fuels, not only crude oil and natural gas, but also products from the processing of petroleum and coking are exported. The real gross value added in these economic sectors has increased significantly faster than in the manufacturing industry on the whole. The slump in 2009 was also far milder in these segments. Interestingly, the value added in the extraction of petroleum and natural gas rose at a more subdued rate despite higher production volumes and has even seen declines at times.

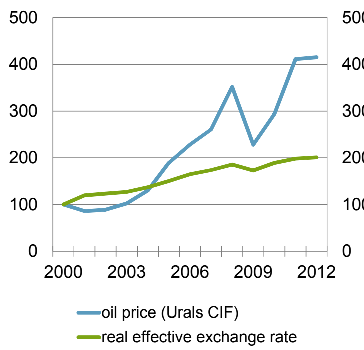
Given the one-sided focus of its exports on fuels, the Russian economy would suffer from a weak oil price or a slump in demand for petroleum and natural gas. A halt in demand for fuels as a result of potential sanctions due to an escalation of the crisis in Ukraine would also have negative consequences. Russia also brings in nearly a third of its national revenue (and even half at a federal level) from petroleum and natural gas. ■

**Figure 1: Nominal merchandise exports**
[indices 2000=100]



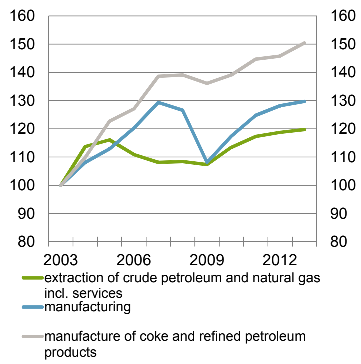

Source: World Bank, own calculations.

**Figure 2: Oil price and exchange rate**
[indices 2000=100]




Source: World Bank, own calculations.

**Figure 3: Real gross value added**
[indices 2003=100]




Source: Rosstat, own calculations.