THE INFLUENCE OF REAL EXHANGE RATE ON RUSSIAN ECONOMICS

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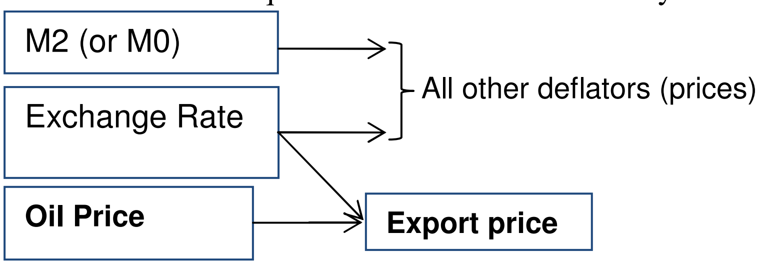
In several steps we come to influence estimation of exchange rate on GDP and employment. We consider several facts about influence of exchange rate, M2 or M0, and oil price on deflators. Than we build a model of Russian Economics considering at least four different sectors with import and export. Some equations is easier to calculate in nominal (money) values, some in real units. So in fact we need booth equations in real and nominal variables and we definitely need deflator model to come from one presentation to other.

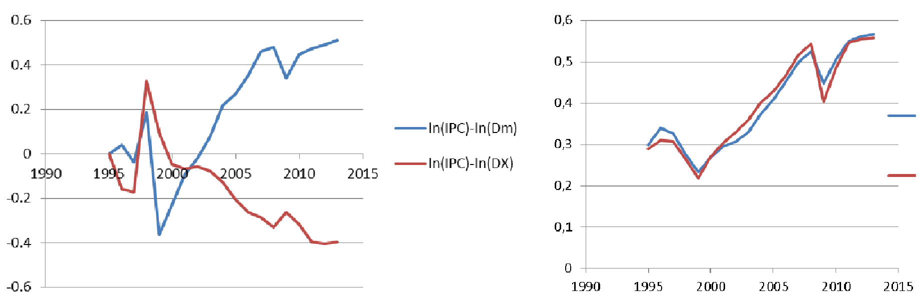
As a starting point we use Antipov's model, developed for several years by number of authors in 40th laboratory of IPC RAS with balance equations and insert calibrated by real data dependencies, to model the influence of central bank policy on Russian economics.



We use a key regression connecting one kind of import to consumption ratio and ratio of two key deflators one of which is import deflator with deterministic regression quality(pic.2). And since they both depends from real exchange rate (&M0) we get the model of most important way of influence of exchange rate and M0 (or M2) growth on GDP.

We argue that current central bank policy with inflation targeting is destroying Russian economics. We show that inflation targeting was achieved exceptionally by weakening dollar, that was in contradiction with countercyclical goals of curremnt regulation of more responsible regulators and moreover in contradiction with long term stimulation of economy.

We demonstrate that in Russian economics internal deflator dynamics is dramatically distinct with import deflator one & for about one and a half of a decade internal product prices grew about three times compared with import prices.



Ln CPI minus Ln of internal prices and Ln CPI minus Ln of Import at left and Import to consumption on the right (real and predicted values).