



Bank of Russia



RUSSIA'S BALANCE OF PAYMENTS

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Information and analytical commentary

15 October 2020

RUSSIA'S BALANCE OF PAYMENTS (2020 Q3)¹

- In 2020 Q3, foreign trade was reviving amid the recovery of the Russian and world economies after most restrictions were cancelled.
- As the epidemiological situation improved and authorities lifted restrictions, the world economy and global prices for a whole range of commodities partially bounced back. This slowed down the decline in the value of exports. Concurrently, oil production cuts by Russia in line with the OPEC+ agreement and weak demand for fuel continued to limit export growth.
- The year-on-year decrease in imports also decelerated amid the recovery of domestic demand after the end of the lockdown. Nonetheless, service imports remained low due to the minor number of foreign travels amid the suspension of passenger transportation to the majority of foreign countries.
- As goods and service imports and the deficit of the investment income balance shrank, this partially offset the contraction of exports. As a result, the current account balance remained positive, while declining substantially compared to 2019 Q3.
- Investors demonstrated lower interest in emerging market economies' assets due to the pandemic and rising geopolitical risks. In these conditions, non-residents' purchases of Russian government bonds in the secondary market reversed in 2020 Q3 giving way to small net sales, while the private sector's foreign liabilities declined more significantly than in 2019 Q3.
- As before, the net sales of foreign currency by the Bank of Russia contributed to the stabilisation in the domestic foreign exchange market. However, their amount contracted against 2020 Q2 due to the rise in the oil price. Overall, Russia's international reserves expanded in 2020 Q3: the decrease in the reserves through transactions recognised in the balance of payments was more than offset by their expansion owing to the revaluation resulting from the growth of world gold prices and the weakening of the US dollar, as well as other changes.

Current account

As exports declined faster than imports, the current account surplus shrank by USD 8 billion, to USD 2.5 billion (hereinafter, year-on-year, unless indicated otherwise). Concurrently, as the dynamics of global prices for a whole range of commodities improved, the decline in the trade surplus slowed down. Its contraction was partially offset by the decrease in the deficit of the balance of services and investment income.

Goods and service exports

The decline in the value of goods and service exports decelerated to 27% in 2020 Q3 (vs -32% in 2020 Q2). The annual decrease in global energy commodity and aluminium prices slowed down. Iron ore and copper prices bounced back, even exceeding last year's

readings.² Moreover, external demand also revived amid the recovery of the world economy boosted by the cancellation of restrictions and support measures. However, export quantities were changing unevenly, decreasing in the oil industry and expanding in LNG.

Goods exports

Oil. The value of oil and petroleum product exports decreased by 50% in 2020 Q3 (vs -52% in 2020 Q2). The decline in the Urals crude price slowed down from 57% to 30% as global demand rebounded and oil supply shrank, as required by the OPEC+ deal. According to up-to-date figures from the FCS,³ oil and petroleum product export quantities contracted by 24% in July–August. This was associated with the faster reduction in oil production in Russia, specifically by 13% in 2020 Q3 compared with 10% in Q2

¹ The commentary on the balance of payments includes a preliminary estimate of its indicators in 2020 Q3 and actual data on the international reserves.

² According to the World Bank.

³ The Federal Customs Service.

(according to Russia's Ministry of Energy). In August–September, the average daily output remained considerably lower than in April (before the launch of the new deal), although it increased compared to May–July following the easing of output cuts under the agreement.

Natural gas. The decline in the value of exports of natural gas in the gaseous state decelerated to 42% (vs -55% in 2020 Q2) owing to the dynamics of both prices and quantities. The annual decrease in the gas price in the European market (which is the main one for Russia) slowed down to 25% (vs -58% in 2020 Q2) owing to the contraction of LNG exports from the USA. The quantities of Russian exports of gas in the gaseous state shrank by 8% in July–August (vs -14% in 2020 Q2). The trend in LNG exports from Russia reversed, with the value of LNG exports increasing by 19% in Q3 and export quantities expanding nearly 1.5 times (according to the FCS).

Non-oil and gas exports. The value of non-oil and gas exports remained almost the same in Q3 (2020 Q2: 6% decrease). Goods were showing uneven dynamics. According to up-to-date information from the FCS, ferrous metal and coal exports contracted in July–August due to low external demand. Contrastingly, the exports of copper, gold and other commodities expanded amid growing world prices.

Service exports

Service exports shrank by 37% (vs -38% in 2020 Q2), predominantly due to the situation in the travel and transportation industries. The exports of services in the 'Travels' item stayed close to zero amid the remaining restrictions to enter Russia from the majority of countries. In these conditions, the exports of transport services decreased by 35%, primarily due to the decline in passenger transportation. The exports of other services demonstrated better dynamics, with the decrease slowing down to 12%.

Goods and service imports

Goods and service imports declined by 22% on 2020 Q3 (vs -24% in 2020 Q2) due to the downturn in the Russian economy, the weakening of the ruble, and the suspension of travels to a large number of countries.

Goods imports

The decrease in the value of goods imports decelerated to 8% in 2020 Q3 (vs -13% in 2020 Q2) as domestic demand bounced back gradually following the termination of the lockdown. In September, goods imports from non-CIS countries⁴ even expanded (by 0.3%), for the first time since winter. As economic activity revived, the imports of a number of investment goods increased. According to up-to-date figures from the FCS, engineering imports from non-CIS countries were up by 0.2% in September, after the fastest decline of over 20% in April. Mechanical equipment imports expanded by 0.4%. Judging by the dynamics in the main subcategories of consumer imports, consumer activity was reviving as the situation in retail improved. September recorded an increase in the imports of food products, including vegetables (+8%) and meat and meat by-products (+4%).

Service imports

The value of service imports decreased by 52% in 2020 Q3 (vs -51% in 2020 Q2). This was primarily explained by an 89% reduction in imports in the 'Travels' item, rebounding quite slowly due to the decline in international tourism caused by the effective restrictions for foreign travels. Firstly, the resumption of air traffic in August and September was limited.⁵ Secondly, travels even to open popular destinations decreased substantially due to the pandemic and a weaker ruble. As reported by Turkey's Ministry of Culture and Tourism, 440,000 Russians travelled to Turkey in August 2020, which is nearly 60% less than in August 2019, with the reduction in July–August 2020 totalling almost 80% year-on-year. Quarantine restrictions, mandatory tests, and the absence of direct flights to a number of resort cities (e.g., Hurghada and Sharm El Sheikh in Egypt) continue to pose additional constraints.

⁴ According to the FCS, non-CIS countries accounted for 89% of goods imports to Russia in 2019.

⁵ Air traffic was reopened in August to the UK, Turkey, Tanzania and Switzerland, and in September to Egypt, the UAE, the Republic of Maldives, Belarus, Kazakhstan, Kyrgyzstan and South Korea.

Financial account

General government⁶ and the central bank

In 2020 Q3, net borrowings by general government and the central bank from the rest of the world totalled USD 3 billion. Non-residents' purchases of Russian government bonds in the secondary market reversed, giving way to their net sales amounting to USD 1 billion, due to investors' risk-off sentiment amid the pandemic and the rising risks of sanctions.

Financial transactions of the private sector

In 2020 Q3, net lending by the private sector to the rest of the world totalled USD 8 billion (2019 Q3: borrowing in the amount of USD 2 billion), which was the result of a more significant decrease in foreign liabilities. Furthermore, in contrast to the previous year, the net repayment of external debt was made not only by banks, but also by other sectors. A similar downward trend in other sectors' foreign liabilities was observed in 2018 amid risk-off sentiment in emerging market economies and the intensified risks of sanctions. 2020 Q3 recorded a decrease in other sectors' foreign liabilities by USD 12 billion, including in loans, other liabilities, and portfolio investment. A considerable outflow of portfolio investment in 2020 occurred not only in Russia, but generally across emerging market economies. This was induced by the weakening of global investors' risk appetite amid the pandemic and economic decline.

At the same time, banks' and other sectors' foreign assets contracted more significantly than in 2019 Q3. It should be noted that the decrease in other sectors' foreign assets was related not only to portfolio investment, but also to direct investment – for the first time since 2013 Q2.

International reserves

As a result of transactions recognised in the balance of payments, the reserve assets contracted by USD 2 billion (vs +USD 16 billion in 2019 Q3). This primarily resulted from fiscal rule-based foreign currency sales. In 2020 Q3, the amount of fiscal rule-based foreign currency sales was assessed by Russia's Ministry of Finance with account of basic oil and gas revenues calculated based on the revised oil output forecast that had not comprised oil production cuts under the OPEC+ deal from May 2020. Nonetheless, foreign currency sales decreased against 2020 Q2 as a result of the oil price rebound. Furthermore, Russia's international reserves expanded by USD 15 billion in 2020 Q3, to USD 583 billion as of 1 October 2020. The reduction in the reserves through transactions was less significant than their increase through the revaluation resulting from the growth of world gold prices and the weakening of the US dollar against a large number of currencies, as well as other changes.

⁶ Federal government and local government.

RUSSIA'S BALANCE OF PAYMENTS
(BILLIONS OF US DOLLARS)*

Table 1

	2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3**	Change in 2020 Q3 vs 2019 Q3***
Current account	33.5	9.9	10.7	11.2	22.1	-0.5	2.5	-8.3
Trade balance	47.0	39.4	37.9	41.0	32.4	15.3	17.0	-20.9
<i>Exports</i>	102.6	101.4	103.3	112.5	88.6	69.3	76.9	-26.4
<i>Imports</i>	55.7	62.0	65.4	71.6	56.2	54.0	59.9	-5.5
Services balance	-6.0	-9.0	-11.5	-9.7	-6.8	-2.3	-3.1	8.4
<i>Exports</i>	13.8	15.8	17.0	16.2	13.5	9.8	10.7	-6.3
<i>Imports</i>	19.8	24.7	28.5	26.0	20.3	12.1	13.8	-14.8
Primary and secondary income balance	-7.5	-20.5	-15.7	-20.0	-3.5	-13.5	-11.4	4.2
Financial account, excluding reserve assets	12.3	-5.2	-7.2	-3.8	17.3	13.8	3.2	10.4
Balance of financial assets and liabilities of general government and central bank	-9.3	-6.2	-3.6	-3.8	0.4	1.4	-3.2	0.4
Balance of financial assets and liabilities of private sector	21.6	1.0	-3.6	0.0	16.8	12.4	6.3	9.9
Bank liabilities	-3.2	-6.7	-7.9	-2.1	-6.8	-9.2	-3.6	4.2
Liabilities of other sectors	5.7	13.0	5.5	1.0	-5.9	6.5	-11.9	-17.4
Bank assets	9.2	6.6	-5.8	-12.0	2.5	-2.0	-8.7	-2.9
Assets of other sectors	14.9	0.8	-0.2	10.9	1.6	11.7	-0.5	-0.3
Net errors and omissions	-2.6	1.7	-1.9	0.8	0.2	1.6	-1.5	0.4
Change in reserve assets	18.6	16.6	15.9	15.4	5.0	-12.9	-2.3	-18.2
For reference: financial transactions of private sector (net lending (+)/net borrowing (-))	24.0	-0.7	-1.9	1.2	17.2	10.5	7.9	9.7
For reference: foreign direct investments								
Total, to other countries	9.7	4.7	2.1	5.5	0.6	4.6		
Total, to Russia	10.9	6.0	8.9	6.1	-3.8	6.1		
Other sectors, change in assets	9.0	4.4	4.8	4.4	0.3	4.8	-4.5	-9.3
Other sectors, change in liabilities	10.3	5.1	8.8	4.7	-4.1	5.8	3.1	-5.7

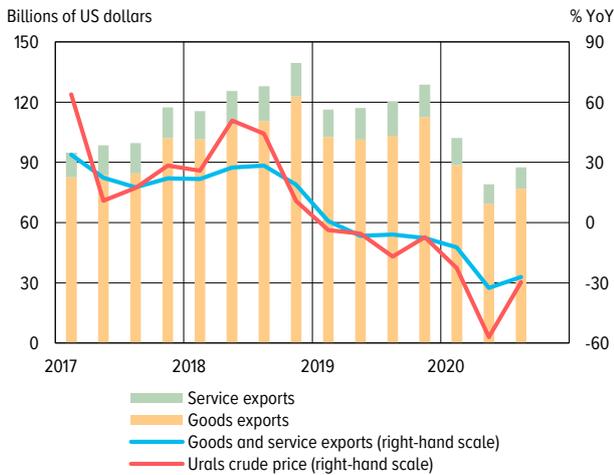
* In financial account, surplus denotes net lending and deficit denotes net borrowing. In assets and liabilities, '+' denotes growth, '-' denotes decline.

** Estimate of balance of payments indicators and actual data on international reserves.

*** Final values may differ from the difference of the respective values due to rounding.

EXPORTS AND OIL PRICE

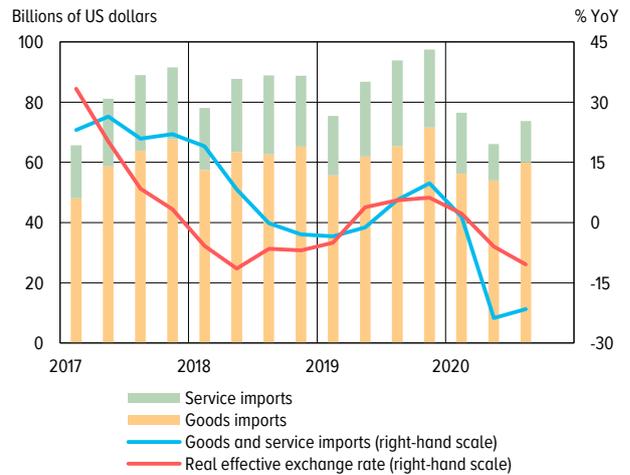
Chart 1



Sources: Bank of Russia, Thomson Reuters.

IMPORTS AND RUBLE EXCHANGE RATE

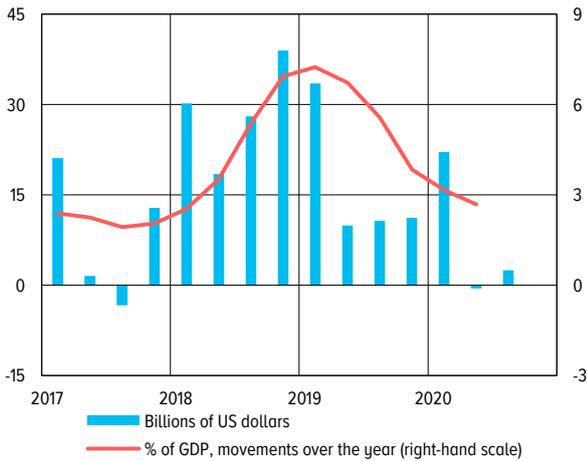
Chart 2



Source: Bank of Russia.

CURRENT ACCOUNT

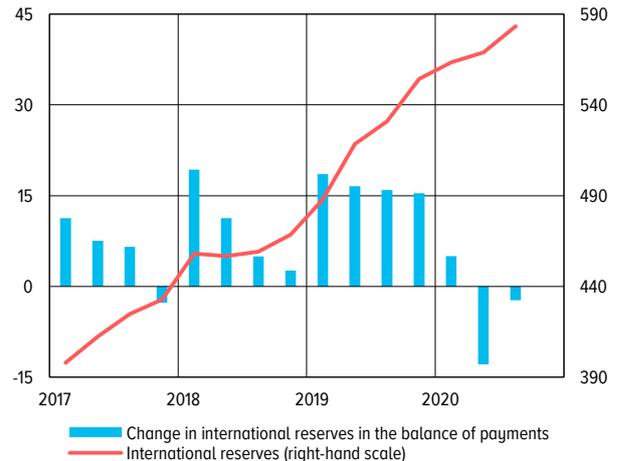
Chart 3



Sources: Bank of Russia, Rosstat.

INTERNATIONAL RESERVES
(BILLIONS OF US DOLLARS)

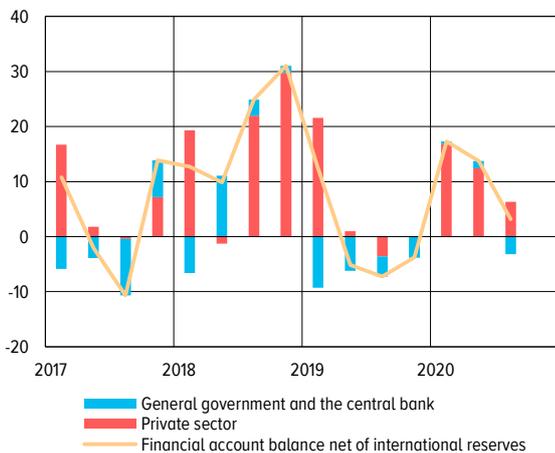
Chart 4



Source: Bank of Russia.

FINANCIAL ACCOUNT BALANCE*
(BILLIONS OF US DOLLARS)

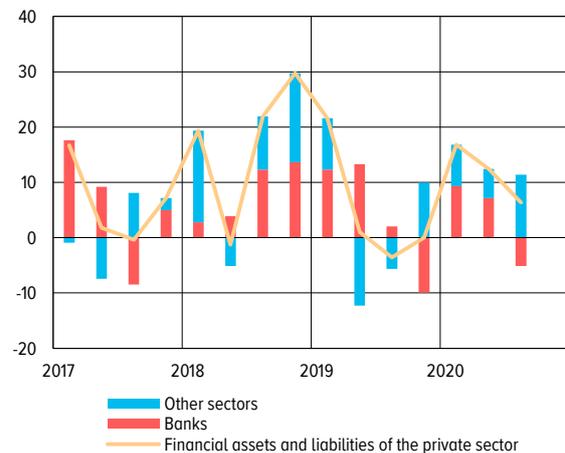
Chart 5



* '+' denotes net lending and '-' denotes net borrowing.
Source: Bank of Russia.

PRIVATE SECTOR FINANCIAL ACCOUNT
COMPONENTS*
(BILLIONS OF US DOLLARS)

Chart 6



* '+' denotes net lending and '-' denotes net borrowing.
Source: Bank of Russia.

Data cut-off date – 09.10.2020.

[Soft copies](#) of information and analytical commentaries are available on the Bank of Russia website.

Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary was prepared by the Monetary Policy Department.

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