



Bank of Russia



RUSSIA'S BALANCE OF PAYMENTS

No. 2 (2) • 2019 Q4

Information and analytical commentary

27 January 2020

RUSSIA'S BALANCE OF PAYMENTS (2019 Q4)¹

- In 2019 Q4, the current account surplus totalled \$16 billion, shrinking by \$22 billion YoY largely because of the decline in world prices for a range of key Russian export goods.
- Net borrowing in the public sector was up, exceeding \$5 billion (2018 Q4: net lending – \$1 billion; 2019 Q3: net borrowing – \$3.5 billion), amid an increase in the net purchase by non-residents of Russian sovereign debt securities in the secondary market.
- The balance of financial transactions in the private sector (net lending) contracted to \$6 billion from \$33 billion in 2018 Q4: the intensity of acquisition of foreign assets and reduction of external liabilities decreased.
- As a result of transactions recognised in the balance of payments, the international reserves (reserve assets) increased by \$15 billion (2018 Q4: +\$3 billion) primarily owing to fiscal rule-based foreign currency purchases. By the end of 2019, Russia's international reserves grew to \$554 billion.

Current account

In 2019 Q4, the current account surplus decreased by \$22 billion to \$16 billion (hereinafter, changes are year-on-year, unless indicated otherwise). Overall, it reduced by \$43 billion in 2019, to \$71 billion. That was mainly caused by the contraction of the trade balance surplus. Another reason was the expanded deficit of the investment income balance as a result of larger dividend payouts by Russian companies to investors, in particular to foreign investors.

Exports

The value of goods and service exports continued to decline in Q4, dropping by 8% (2019 Q3: -6%). The reason for this was that world prices for energy commodities and some metals remained below the previous year's level amid the subdued growth of the global economy.

Oil. The value of oil and petroleum product exports declined by 14% in Q4, with the price of Urals crude falling by over 7%. The negative price effect increased due to the 1–2 month time lag of changes in the global oil price affecting the export prices of oil and petroleum products. Thus, the value of exports in Q4 was also impacted by a more significant annual fall

in the world oil price in August–September. Exports were also subdued because of the decrease in oil production in Russia, as required by the OPEC+ agreements. However, according to up-to-date information from the Federal Customs Service, the export quantities of oil and petroleum products expanded by 3% in October–November 2019, mostly owing to larger supplies to Turkey. This was the result of the improved economic situation in that country and the refocusing of its oil imports from sanctioned Iran to other exporters. In addition, the competition between Russia and the USA for the EU market tightened. Yet, Russia managed to keep its leadership in this market (January–November 2019: 29% of the EU's oil and petroleum product imports, according to Eurostat). Russia retained its position in the Chinese market at the previous year's good level (January–November 2019: 15% of China's oil imports, according to the customs service). The growth of exports from Russia and Saudi Arabia offset the shrinkage of supplies to China from Iran and Venezuela.

Natural gas. The decline in the value of exports of natural gas in the gaseous state slowed down to 25% in Q4 compared to 32% in Q3. Firstly, this was the result of the recovery of the gas price in Europe (which is the key market for Russia). According to the World Bank, it was up by 29% against 2019 Q3, while remaining 41% below the level recorded in 2018 Q4. Secondly,

¹ The commentary on the balance of payments includes a preliminary estimate of its indicators in 2019 Q4 and actual data on the international reserves.

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

Table 1

	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4**
Current account	21.1	1.6	-3.3	13.0	29.8	17.9	27.4	38.4	33.8	9.9	10.6	16.3
Trade balance	34.5	25.1	20.6	34.6	44.1	45.4	47.8	57.2	47.0	39.5	37.6	39.1
Exports	82.6	83.8	84.4	102.3	101.5	108.8	110.4	122.4	102.6	101.5	102.9	110.9
Imports	48.1	58.7	63.8	67.7	57.4	63.4	62.7	65.2	55.7	62.0	65.3	71.9
Services balance	-5.3	-7.7	-9.9	-8.4	-6.6	-7.7	-8.8	-6.9	-5.7	-9.1	-11.3	-8.5
Exports	12.3	14.7	15.3	15.4	13.9	16.7	17.4	16.7	14.2	15.7	17.3	16.4
Imports	17.5	22.4	25.1	23.8	20.5	24.3	26.1	23.6	20.0	24.8	28.6	24.9
Primary and secondary income account	-8.1	-15.8	-14.0	-13.1	-7.7	-19.8	-11.6	-11.9	-7.4	-20.5	-15.7	-14.2
Financial account, excluding reserve assets	10.8	-2.1	-10.6	14.0	12.4	9.3	24.1	30.8	12.6	-5.1	-7.2	-2.1
Balance of financial assets and liabilities of public sector	-5.9	-3.9	-10.3	6.7	-6.5	11.1	2.9	1.5	-9.0	-5.9	-3.5	-5.3
Balance of financial assets and liabilities of private sector	16.7	1.8	-0.3	7.3	18.9	-1.8	21.2	29.3	21.6	0.8	-3.8	3.2
Bank liabilities	-3.9	-11.7	-7.8	-4.2	-2.5	-9.6	-3.8	-9.2	-3.2	-6.7	-7.9	-2.4
Liabilities of other sectors	-3.6	13.0	3.0	1.7	1.0	4.0	-8.4	-0.8	5.7	13.0	5.3	1.7
Bank assets	13.6	-2.5	-16.3	0.8	0.3	-5.7	8.6	4.5	9.2	6.6	-5.8	-8.2
Assets of other sectors	-4.6	5.5	11.1	4.0	17.1	-1.7	0.5	14.8	15.0	0.6	-0.5	10.8
Net errors and omissions	0.9	4.1	-0.7	-1.7	2.1	2.9	1.7	-4.3	-2.6	1.9	-1.8	-2.8
Change in reserve assets	11.3	7.5	6.5	-2.7	19.3	11.3	5.0	2.6	18.6	16.6	15.9	15.4
For reference: financial transactions of private sector (net lending (+)/net borrowing (-))	15.3	-2.2	0.2	11.0	15.9	-4.8	18.8	33.1	24.0	-1.1	-2.2	5.9

* 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.

the export quantities of Russian gas increased by 9% in October–November 2019 (according to the Federal Customs Service). This growth was primarily driven by larger supplies to the EU amid the contraction of gas production in the EU. Another contributor to the expansion of Russian exports was the upsurge in LNG exports (by 2.5 times in October–November 2019) as the Yamal LNG plant reached its design capacity in late 2018 and the Cryogas-Vysotsk plant started shipping LNG, in particular to the external market.

Non-oil and gas exports. In 2019 Q4, the value of exports of commodities, other than oil and gas, declined by 3% (2019 Q3: +7%). According to the Federal Customs Service, October–November

2019 saw a marked reduction in both the value and quantities of ferrous metal, aluminium, copper and coal exports amid moderate external demand. The IHS MPI index (new export orders in manufacturing) also indicated weak external demand over that period. At the same time, service exports remained almost unchanged.

Imports

The rise in the value of goods and service imports sped up to 9% in 2019 Q4 from 6% in 2019 Q3, driven by the appreciation of the ruble. The annual growth rate of the nominal effective exchange rate of the ruble went up to 6% in Q4 (vs 4% in Q3). The quicker growth of the Russian economy in 2019 H2 also supported

the imports. According to the Federal Customs Service, October–November 2019 recorded an increase in imports of some investment goods (machinery, industrial and laboratory equipment, pipeline and boiler fittings, and railway locomotive components). Imports of a range of consumer goods (medicines, telephones, some apparels) also expanded. The revival of consumption also supported an increase in the imports of services, primarily tourism services, resulting in a larger deficit in the balance of services.

Financial account

Public sector²

In 2019 Q4, net borrowing in the public sector was up, exceeding \$5 billion (2018 Q4: net lending – \$1 billion; 2019 Q3: net borrowing – \$3.5 billion) as non-residents increased their purchases of Russian securities amid slower inflation and the expected easing of monetary policy by the Bank of Russia. The balance of foreign investors' transactions to buy and sell Russian sovereign debt securities in the secondary market denominated in both Russian rubles and foreign currency expanded to \$4 billion (2018 Q4: -\$1.5 billion; 2019 Q3: +\$1 billion), primarily driven by purchases of ruble-denominated securities.

Financial transactions of private sector

Net lending by the Russian private sector to the rest of the world shrank to \$6 billion in 2019 Q4 (2018 Q4: \$33 billion) mostly because of banks' transactions. In 2019 Q4, banks' foreign assets decreased in comparison with 2018 Q4 when they grew amid the suspension of fiscal rule-based foreign currency purchases. The contraction of the balance of the private sector's financial transactions in 2019 Q4 was also associated with a considerable reduction in banks' external liabilities. Foreign liabilities of other sectors went up in 2019 Q4 owing to foreign direct investment. However, the growth of foreign assets in other sectors was below last year's readings against the backdrop of smaller direct investment than in 2018.

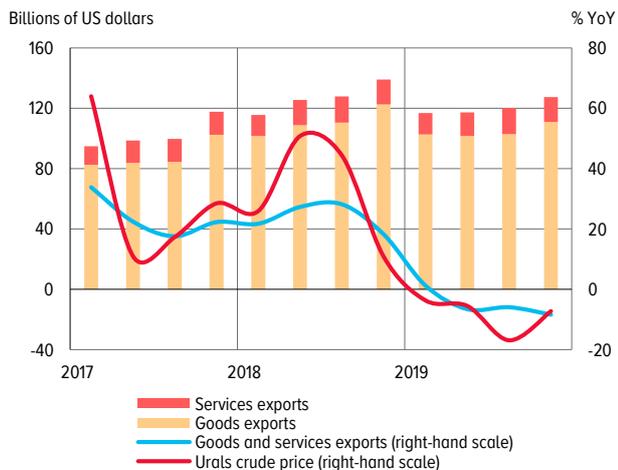
International reserves

As a result of transactions recognised in the balance of payments, the reserve assets increased by \$15 billion in 2019 Q4 (2018 Q4: +\$3 billion), primarily driven by fiscal rule-based foreign currency purchases. Overall, supported by transactions, revaluations and other adjustments, the international reserves rose by \$23 billion in 2019 Q4 to total \$554 billion. As forecast by the Bank of Russia, the fiscal rule will help further build up Russia's international reserves in 2020.

² Including the federal government, the local government and the central bank.

EXPORTS AND OIL PRICE

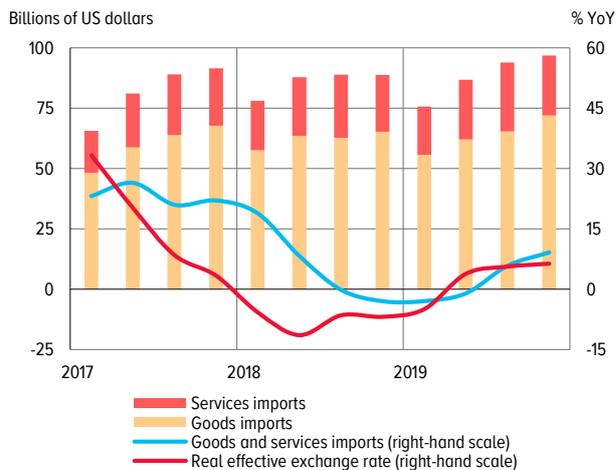
Chart 1



Sources: Bank of Russia, Thomson Reuters.

IMPORTS AND RUBLE EXCHANGE RATE

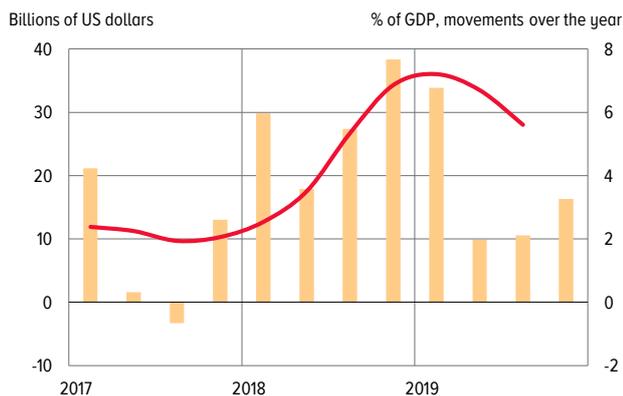
Chart 2



Source: Bank of Russia.

CURRENT ACCOUNT

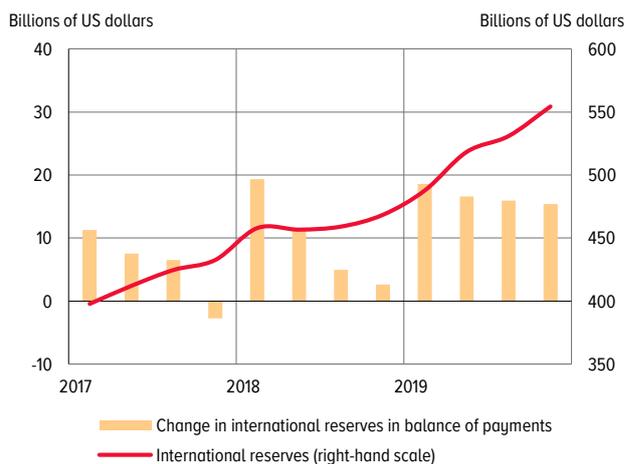
Chart 3



Sources: Bank of Russia, Rosstat.

INTERNATIONAL RESERVES

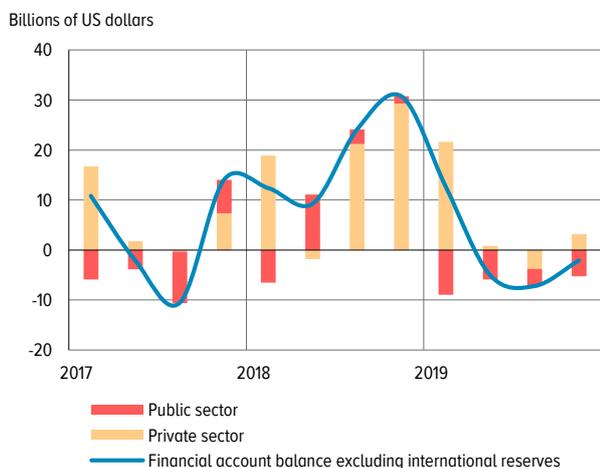
Chart 4



Source: Bank of Russia.

FINANCIAL ACCOUNT BALANCE*

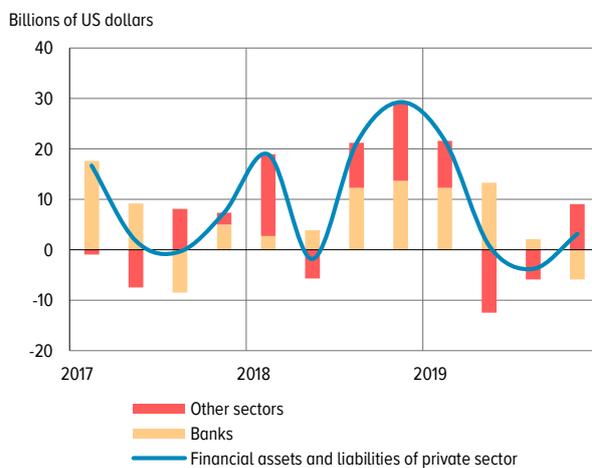
Chart 5



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

PRIVATE SECTOR FINANCIAL ACCOUNT COMPONENTS*

Chart 6



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

Data cut-off date – 17.01.2020.

Soft copies of information and analytical commentaries are available on the Bank of Russia website (<http://www.cbr.ru/DKP/surveys/>).

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

This commentary was prepared by the Monetary Policy Department.

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