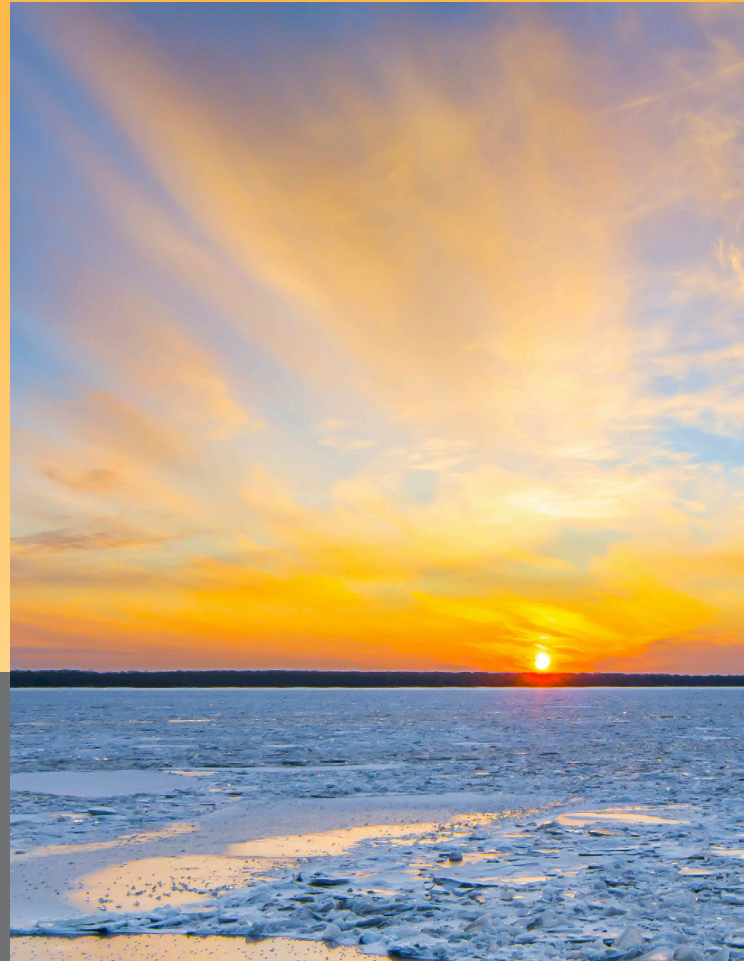




Bank of Russia



# RUSSIA'S BALANCE OF PAYMENTS

No.1 (3) • 2020 Q1

Information and analytical commentary

16 April 2020

## RUSSIA'S BALANCE OF PAYMENTS (2020 Q1)<sup>1</sup>

- Due to the spread of the COVID-19 pandemic, the first quarter of 2020 saw a reversal of trends observed over the course of the last year.
- Amid the pandemic and the associated restrictive measures implemented to limit people's movement, global oil consumption contracted dramatically, leading to oil prices plummeting to multi-year lows. Together with a general deterioration of external demand on the back of the expected global recession, this led to a significant drop in exports and a contraction of the current account surplus.
- Non-residents' purchases of Russian government bonds in the secondary market switched to net sales in the second half of the quarter due to a growing risk aversion of global investors amid the spread of the coronavirus. In this context, the inflow of foreign direct investments in the Russian non-banking private sector dropped almost to zero in 2020 Q1.
- At the same time, the floating exchange rate facilitated the adaptation of the balance of payments to low oil prices and the outflow of portfolio investments. Import amounts began to decline on the back of a weakening ruble and the anti-pandemic measures that were constraining the importation of travel services. In the months to come, imports will be additionally constrained by the quarantine measures in Russia, which have led to a decline in purchases of durable goods by households, as well as by supply problems due to production halts in other countries.
- The adaptation process was smoothed by proactive fiscal rule-based sales of foreign currency in March, taking into account the current oil price. Additional stabilisation was provided by the increased supply of foreign currency in the domestic market by the Bank of Russia in connection with its purchase of foreign currency from the National Wealth Fund (NWF) to pay for Sberbank shares acquired by the Russian Government.

### Current account

In 2020 Q1, the current account surplus decreased by \$12 billion to \$22 billion (hereinafter, changes are year-on-year, unless indicated otherwise). This primarily occurred due to a contraction of oil and gas exports.

### Goods and services exports

In 2020 Q1, the value of goods and services exports declined by 13% (in 2019 Q4, by 8%). This was related to a dramatic drop in global prices for energy products and certain metals, as well as to an overall deterioration of external demand amid the spread of the coronavirus pandemic. According to the FCS,<sup>2</sup> in January – February 2020, the physical amount of supplies dropped for many products.

### Goods exports

**Oil.** In 2020 Q1, the decline in the value of exports of oil and petroleum products increased to 18% (in 2019 Q4, -14%), following the drop in global oil prices. According to the FCS, its physical amount contracted in January – February by 6% amid the declining global demand for energy products due to the pandemic and the associated restrictive measures. According to the International Air Transport Association (IATA) and FlightRadar24, the number of flights per day dropped by 70% in 2020 Q1 due to the termination of air transportation by certain countries and other restrictions on movement. Due to the lockdown, the consumption of motor fuel drastically declined. The drop in the supplies to the EU was the main contributor to the decline in Russian oil exports. However, Russia maintained its leadership in the EU oil and petroleum products import market with the share of around 30%.

<sup>1</sup> The commentary on the balance of payments includes a preliminary estimate of its indicators in 2020 Q1 and actual data on the international reserves.

<sup>2</sup> The Russian Federal Customs Service.

**Natural gas.** The value of exports of natural gas in the gaseous state contracted twofold in 2020 Q1 (in 2019 Q4, -24%). This was connected with the decline in gas prices in the European market that dropped by 50% in 2020 Q1 (in 2019 Q4, -41%) on the back of record high inventories due to a warm winter and increased LNG supplies. At the same time, according to the FCS, in January – February 2020, the average price of exported natural gas in the gaseous state from Russia to all countries plummeted by 35%. Its physical amount dropped by 25% (in 2019 Q4, +7%) primarily owing to the supplies to the EU. The growth in Russian LNG exports slowed down amid the weakening Asian demand due the coronavirus.

**Non-oil and gas exports.** In value terms, non-oil and gas exports of products and services in 2020 Q1 did not change significantly. Various product items showed mixed dynamics. On the one hand, January – February 2020 saw a decline in exports of wheat, coal, ferrous metals, aluminium, timber and fertilisers, both in value and physical terms, due to a slowdown in the pace of growth of the global economy. On the other hand, the export of gold was higher than during the same period of the previous year due to increased demand for safe assets amid the uncertainty caused by the coronavirus pandemic.

### **Services exports**

In 2020 Q1, services exports dropped by 5%. The export of services under the 'Travel' item fell by nearly 20% due to the pandemic. In January, Chinese authorities prohibited local travel agencies from selling tours abroad. This held back outbound tourism, including to Russia. In February, in order to contain the spread of the coronavirus, Russia closed entrance for Chinese citizens (8% of all foreign tourist visits to Russia in 2019). In March, entrance to Russia was closed for all foreign citizens and stateless persons, including tourists. Apart from travel services, the value of transportation services also saw a decline on the back of the above-mentioned contraction of supplies of goods and inbound tourism.

### **Goods and services imports**

In 2020 Q1, goods and services imports declined by 1% (in 2019 Q4, +10%).

### **Goods imports**

In 2020 Q1, the value of imports of goods remained nearly unchanged. At the same time, according to the FCS, imports from non-CIS countries declined in March by 4% due to the weakening ruble after its growth in January. The shutdown of production in China due to the coronavirus led to a decline in supplies of vehicles and parts for equipment, taps, valves and other fittings to Russia. Besides, a notable negative contribution to imports was made in January – February 2020 by a contraction of medicine purchases. Russian importers used reserves accumulated in October – November 2019 when they were expecting the introduction of mandatory labelling of medicines starting from 1 January 2020. In December, the effective date for that was postponed until 1 July 2020.

### **Services imports**

The value of imports decreased by 6% in 2020 Q1. The imports of travel services dropped by 14%. Due to the coronavirus, certain countries, which are popular destinations among Russian tourists, introduced restrictive measures (such as immigration bans, air travel suspension and mandatory quarantine). In addition, Russia first restricted flights to a number of countries and then terminated regular and charter flights from Russia to all countries altogether.

### **Financial account**

#### **General government<sup>3</sup> and the central bank**

In 2020 Q1, net borrowing dropped nearly to zero (in 2019 Q1, \$9 billion) largely due to a sell-off of Russian government bonds by non-residents in the secondary market, which offset the purchases of sovereign securities early in the year. This happened amid a growing risk

<sup>3</sup> Including the federal government and the constituent entities of the Russian Federation.

aversion of global investors on the back of the spread of the coronavirus.

### ***Financial transactions of the private sector***

In 2020 Q1, net lending by the private sector to the rest of the world contracted to \$17 billion (in 2019 Q1, \$24 billion). This happened largely due to a slowdown of growth in foreign assets on the back of dropping proceeds from foreign economic activity. At the same time, in 2020 Q1, the growth of assets of other sectors in the form of direct and portfolio investments was greater than the overall decline of assets in other forms. Foreign liabilities of other sectors in 2020 Q1 dropped mainly at the expense of portfolio investments and loans. Due to the deteriorating situation in global financial markets in connection with a threat of a global recession amid the pandemic, the inflow of foreign direct investments to other sectors came nearly to a halt in 2020 Q1 (in 2019 Q1, their liabilities in the form of foreign direct investments increased by \$10 billion). In 2020 Q1, foreign liabilities of banks continued to decline.

### ***international reserves***

As a result of transactions recognised in the balance of payments, reserve assets increased by \$5 billion in 2020 Q1 (in 2019 Q1, growth of \$19 billion). The growth of reserve assets slowed down mainly due to a decrease in fiscal rule-based foreign currency purchases amid falling oil prices. In addition, on 10 March, the Bank of Russia started proactive foreign currency sales in the domestic market under the fiscal rule, taking into account the current oil price. On 19 March, the Bank of Russia started foreign currency sales in the domestic market in connection with its purchase of foreign currency from the National Wealth Fund (NWF) to pay for acquired Sberbank shares. Overall, supported by transactions, revaluations and other adjustments, international reserves grew by \$9 billion in 2020 Q1 to \$563 billion.

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

Table 1

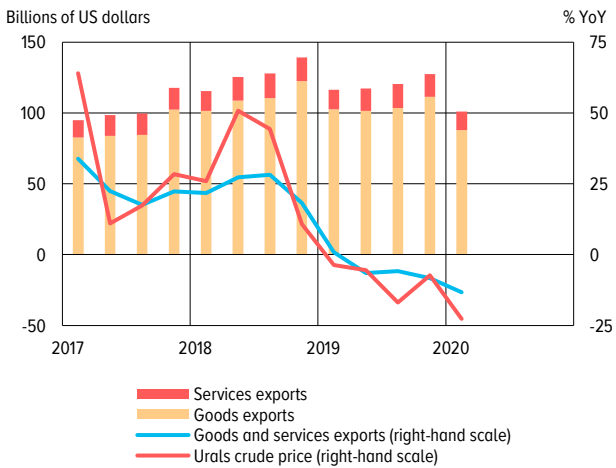
	2018				2019				2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1**
<b>Current account</b>	<b>29.9</b>	<b>18.0</b>	<b>27.5</b>	<b>38.4</b>	<b>33.6</b>	<b>10.0</b>	<b>10.9</b>	<b>10.2</b>	<b>21.7</b>
Trade balance	44.1	45.4	47.8	57.2	47.0	39.5	38.0	39.9	32.1
<i>Exports</i>	101.5	108.8	110.4	122.4	102.6	101.4	103.4	111.3	87.8
<i>Imports</i>	57.4	63.4	62.7	65.2	55.6	62.0	65.4	71.4	55.7
Services balance	-6.6	-7.7	-8.7	-6.9	-6.0	-9.0	-11.5	-9.8	-5.5
<i>Exports</i>	14.0	16.7	17.4	16.7	13.8	15.8	17.0	16.2	13.1
<i>Imports</i>	20.6	24.4	26.1	23.6	19.8	24.7	28.5	26.0	18.6
Primary and secondary income account	-7.6	-19.7	-11.5	-11.9	-7.4	-20.5	-15.6	-20.0	-4.9
<b>Financial account, excluding reserve assets</b>	<b>12.7</b>	<b>9.7</b>	<b>24.8</b>	<b>30.6</b>	<b>12.3</b>	<b>-5.1</b>	<b>-7.2</b>	<b>-4.6</b>	<b>15.7</b>
<b>Balance of financial assets and liabilities of general government and central bank</b>	<b>-6.6</b>	<b>11.1</b>	<b>2.9</b>	<b>1.3</b>	<b>-9.3</b>	<b>-6.2</b>	<b>-3.6</b>	<b>-3.9</b>	<b>-0.3</b>
<b>Balance of financial assets and liabilities of private sector</b>	<b>19.4</b>	<b>-1.4</b>	<b>21.9</b>	<b>29.3</b>	<b>21.6</b>	<b>1.1</b>	<b>-3.5</b>	<b>-0.8</b>	<b>16.1</b>
Bank liabilities	-2.5	-9.6	-3.8	-9.2	-3.2	-6.7	-7.9	-2.1	-4.1
Liabilities of other sectors	1.0	4.0	-8.4	-0.7	5.7	13.0	5.3	0.7	-4.7
Bank assets	0.3	-5.7	8.6	4.5	9.2	6.6	-5.8	-11.9	5.2
Assets of other sectors	17.6	-1.2	1.2	14.9	15.0	0.8	-0.3	9.8	2.1
<b>Net errors and omissions</b>	<b>2.5</b>	<b>3.3</b>	<b>2.3</b>	<b>-4.5</b>	<b>-2.6</b>	<b>1.7</b>	<b>-2.0</b>	<b>1.0</b>	<b>-1.0</b>
<b>Change in reserve assets</b>	<b>19.3</b>	<b>11.3</b>	<b>5.0</b>	<b>2.6</b>	<b>18.6</b>	<b>16.6</b>	<b>15.9</b>	<b>15.4</b>	<b>5.0</b>
<b>For reference: financial transactions of private sector (net lending (+)/net borrowing (-))</b>	<b>16.1</b>	<b>-4.7</b>	<b>19.0</b>	<b>33.3</b>	<b>24.0</b>	<b>-0.6</b>	<b>-1.7</b>	<b>0.2</b>	<b>17.0</b>
<b>For reference: foreign direct investments</b>									
Total, to other countries	13.4	4.9	1.3	11.9	9.7	4.7	2.4	5.7	
Total, to Russia	7.8	2.4	-2.9	1.5	10.9	6.0	9.0	5.9	
Other sectors, change in assets	12.6	4.6	1.0	11.5	9.1	4.4	5.1	4.6	4.9
Other sectors, change in liabilities	6.3	2.0	-4.0	1.5	10.3	5.1	8.8	4.5	0.2

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

\*\* Estimate, net of foreign currency reserves.

EXPORTS AND OIL PRICE

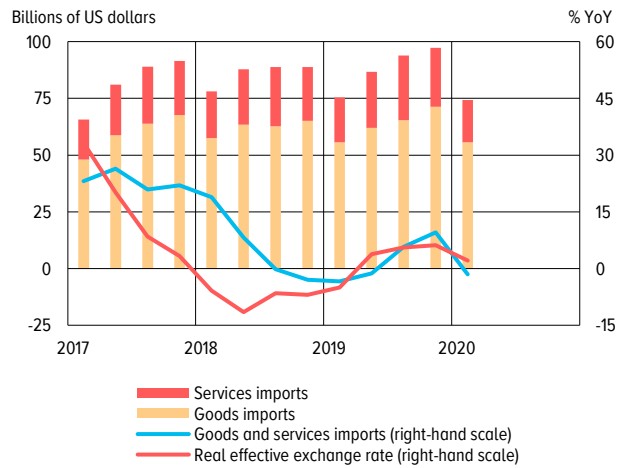
Chart 1



Sources: Bank of Russia, Thomson Reuters.

IMPORTS AND RUBLE EXCHANGE RATE

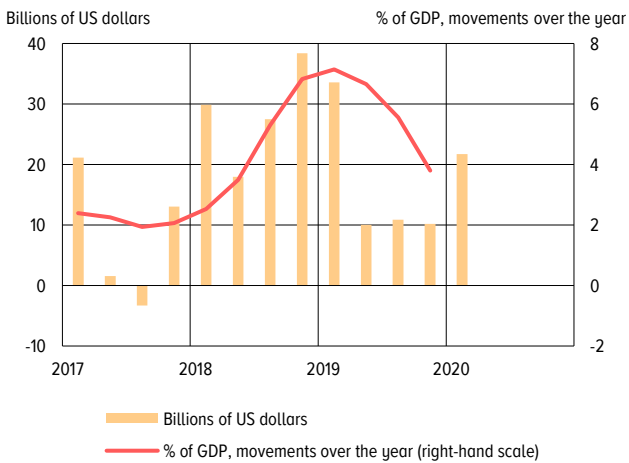
Chart 2



Source: Bank of Russia.

CURRENT ACCOUNT

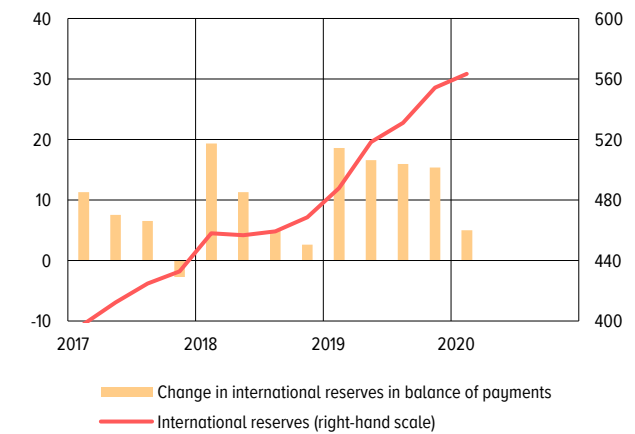
Chart 3



Sources: Bank of Russia, Rosstat.

INTERNATIONAL RESERVES  
(BILLIONS OF US DOLLARS)

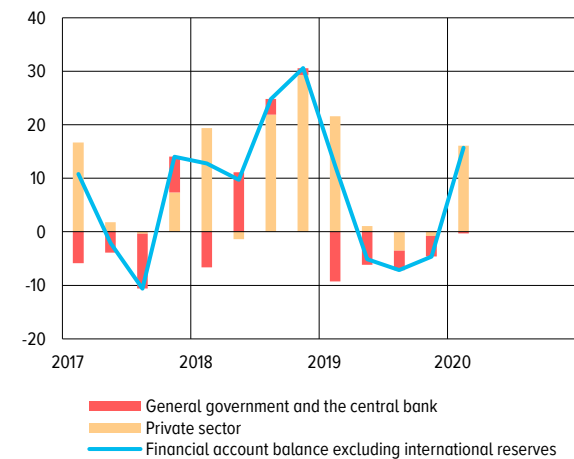
Chart 4



Source: Bank of Russia.

FINANCIAL ACCOUNT BALANCE\*  
(BILLIONS OF US DOLLARS)

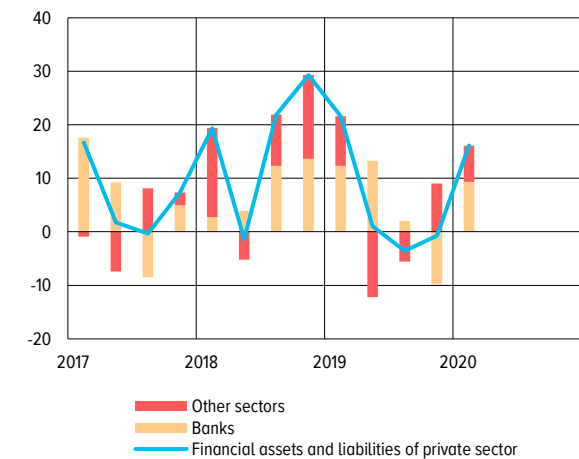
Chart 5



\* '+' 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 – 15.04.2020.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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