



Bank of Russia



RUSSIA'S BALANCE OF PAYMENTS

No.4 (6) • 2020 Q4

Information and analytical commentary

28 January 2021

RUSSIA'S BALANCE OF PAYMENTS (2020 Q4)¹

- In 2020 Q4, the annual decrease in exports slowed down against Q3 owing to growing world prices for a large number of commodities and a rise in their quantities. The rebound in prices was driven by strengthening economic activity in the industrial sector worldwide and the US dollar weakening. A rich harvest of grain crops supported exports as well.
- The annual reduction in imports also decelerated amid a slower decrease in economic activity. However, as the borders with the majority of countries remained closed, this hindered the recovery in services imports.
- The shrinkage of exports was only partially offset by the contraction of imports and a smaller negative contribution of other current account components. As a result, the current account surplus decreased twofold year-on-year.
- Net lending by the Russian private sector to the rest of the world expanded primarily due to a reduction in foreign liabilities amid global investors' risk-off sentiment caused by the economic decline and the pandemic.
- Fiscal rule-based foreign currency sales by the Bank of Russia continued to play a balancing role in the domestic foreign exchange market. Nonetheless, the reduction in reserves owing to these and other transactions recognised in the balance of payments turned out to be less significant than their growth stemming from the positive revaluation amid the US dollar weakening. As a result, Russia's international reserves expanded in 2020 Q4.

Current account

The current account surplus contracted twofold year-on-year, specifically to 5.5 billion US dollars in 2020 Q4 and 32.5 billion US dollars over 2020 in general. The shrinkage of exports amid the recession in the global economy was partially offset by the decrease in imports and the deficit of other components. Moreover, the annual reduction in exports slowed down in 2020 Q4 against Q3 owing to growing world prices for a large number of commodities.

Goods and services exports

The value of goods and services exports in 2020 Q4 plummeted by 21% YoY (vs -26% YoY in 2020 Q3). The decline in global oil prices slowed down. The annual growth rates of gas prices in Europe and global aluminium and nickel prices turned positive, and the rise in iron ore and copper prices sped up.² The recovery in global

prices for core Russian exports was driven by strengthening economic activity in the industrial sector worldwide and the US dollar weakening.

Goods exports

Oil. The value of oil and petroleum product exports plunged by 44% YoY in Q4 (vs -48% YoY in 2020 Q3), with the Urals crude price losing less than 30% (hereinafter, year-on-year changes, unless indicated otherwise). In addition, as reported by the Russian Ministry of Energy, the decrease in Russia's oil production decelerated from 13% to 11% YoY amid the easing of the OPEC+ cuts beginning from August. According to up-to-date figures from the FCS,³ Russia's export quantities of oil and petroleum products contracted by 19% YoY in October–November, mostly due to the EU. European economies reduced their imports of this energy commodity from many countries as consumption declined amid new restrictions. Russia managed to maintain its positions in this market, with its portion in the EU's oil and

¹ The commentary on the balance of payments includes a preliminary estimate of its indicators in 2020 Q4 and actual data on the international reserves.

² According to the World Bank.

³ Federal Customs Service.

petroleum product imports remaining at the level of 30% in January–October 2020.⁴

Natural gas. The reduction in the value of exports of gaseous natural gas (GNG) slowed down to 19% YoY (vs -39% YoY in 2020 Q3). Natural gas prices in Europe, which is the key market for Russia, edged up by 5% YoY⁵ (vs -25% YoY in 2020 Q3) owing to the cold weather and reduced inventories. Prices soared by over 80%, as compared to 2020 Q3. However, as reported by the FCS, the quantities of GNS exports contracted by 9% YoY in October–November due to the previous year's high base. It is worth reminding that at the end of 2019 Russia considerably increased its supplies to Europe, including to gas holders, which was explained by the uncertainty about the new agreement on Russian gas transit through Ukraine.

Non-oil and gas exports. The value of non-oil and gas exports edged up by 5% YoY in 2020 Q4 (vs +2% YoY in 2020 Q3). Their growth was driven by higher global prices and an increase in the quantities of a range of exported goods. According to the FCS, wheat and barley exports expanded in October–November owing to the good harvest in Russia. Amid favourable price movements in the global market and strengthening economic activity in manufacturing worldwide, the export quantities of iron ore and concentrates, copper and aluminium were up. Contrastingly, exports of a range of goods (coal, mineral fertilisers, etc.) contracted as external demand remained weak.

Services exports

In 2020 Q4, services exports shrank by 34% YoY (vs -37% YoY in 2020 Q3). Exports of services in the 'Travels' item plummeted the most (by 87% YoY) due to the measures restricting the entrance of foreigners to Russia and the suspension of passenger transportation to a whole range of countries, including China (in 2019, it accounted for the largest number of tourists visiting Russia). In addition, in December Russia suspended air traffic with the UK because of the identification of a new strain of the coronavirus. Quarantine restrictions

entailed a slump in passenger transportation. Overall, exports of transport services shrank by 37% YoY in 2020 Q4.

Goods and services imports

The value of goods and services imports in 2020 Q4 declined less considerably than exports, specifically by 12% YoY (vs -20% YoY in 2020 Q3). As before, imports were dragged down by a weaker ruble, an annual decline in economic activity, and the remaining foreign travel restrictions.

Goods imports

The decrease in the value of goods imports slowed down to 2% YoY in 2020 Q4 (vs -8% YoY in 2020 Q3). Moreover, according to the preliminary data of the FCS, non-CIS imports even expanded by 5% YoY in December 2020, despite a 14% YoY decline in the real exchange rate of the ruble, subdued economic activity in Russia, and new anti-pandemic restrictions.

The improved dynamics of imports in 2020 Q4 were driven by a slight deceleration of the decline in economic activity.

Chemical and engineering products were the major contributor to the increased non-CIS goods imports in December. Imports of pharmaceuticals again exceeded the level of the previous year, pushed upwards by the pandemic. Vessels and watercraft accounted for the largest portion in the growth of machine and equipment imports. In October–November, the number of imported vessels⁶ increased by 8% YoY, after a 27% YoY slump in 2020 Q3. As car sales bounced back in Russia, their import quantities expanded by 16% YoY in October–November, after a 26% YoY decline in 2020 Q3.

Services imports

The value of services imports in 2020 Q4 plummeted by 39% YoY, primarily dragged down by a 91% YoY slump in travel services imports. Imports of tourism services remained very low as host countries tightened their restrictions amid the worsening epidemic situation. Air traffic resumed in 2020 Q4 only partially. Flights

⁴ According to Eurostat.

⁵ According to the World Bank.

⁶ Foreign economic activity commodity codes 8901 and 8902.

to a range of countries popular among Russian tourists remained suspended.⁷ This was one of the reasons why the decline in transport services imports remained substantial (by 30% YoY), while decelerating against 2020 Q3.

Financial account

General government⁸ and the central bank

In 2020 Q4, net lending by general government and the central bank totalled 1 billion US dollars, with federal government bonds and Eurobonds placed by Russia's Ministry of Finance accounting for the largest portion of this amount. Non-residents' net sales of Russian government bonds in the secondary market in 2020 Q3 reversed to their net purchases totalling 1.5 billion US dollars in 2020 Q4. Nonetheless, their amount remained below the 2019 Q4 level (4 billion US dollars) amid investors' low risk appetite during the pandemic. The increase in non-residents' purchases of sovereign securities in 2019 Q4 was driven by the generally improved environment in global markets and ongoing expectations for monetary policy easing.

Financial transactions of the private sector

Net lending by the Russian private sector to the rest of the world expanded to 10 billion US dollars in 2020 Q4 and 48 billion US dollars over 2020 in general (vs 1 billion US dollars in 2019 Q4 and 22 billion US dollars over 2019).

The structure of net lending altered. In 2019, it was mostly driven by an increase in foreign assets. In 2020, the major contributor was a reduction in foreign liabilities due to global investors' risk-off sentiment amid the economic recession and new anti-pandemic restrictions. In contrast to the previous year, not only banks, but also other sectors reduced their liabilities, and mostly in the form of portfolio investment. The dynamics of foreign direct investments

worsened because they were largely accounted for by reinvestment of income which decreased due to lower profits.

The private sector's foreign assets also contracted in 2020 Q4. Nonetheless, the reduction in banks' foreign assets slowed down against 2020 Q3. The growth of foreign assets in other sectors in the form of direct and portfolio investments was more than offset by a shrinkage in other foreign asset forms.

International reserves

As a result of transactions, the reserve assets contracted by 4 billion US dollars in 2020 Q4 and by 14 billion US dollars over 2020 in general, which was primarily caused by fiscal rule-based foreign currency sales (vs +15 billion US dollars in 2019 Q4 and +66 billion US dollars over 2019). Nonetheless, Russia's international reserves expanded to 596 billion US dollars as of the end of 2020. The growth of the reserves over the year owing to the revaluation due to a weaker US dollar and high gold prices exceeded the decrease in the reserve assets resulting from transactions recognised in the balance of payments.

⁷ China, the majority of EU states.

⁸ Including the federal government and the local government.

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

Table 1

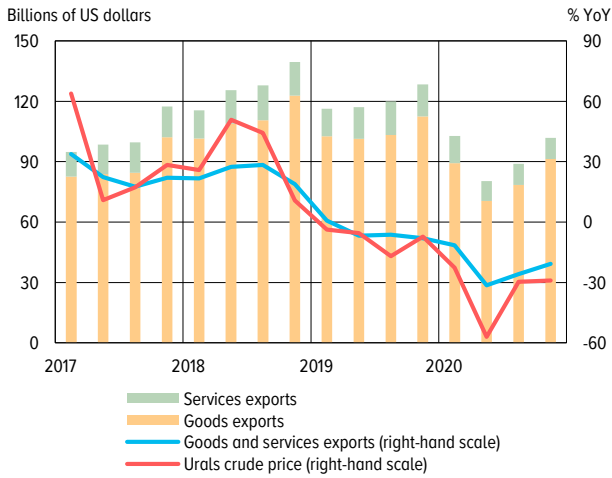
	2019					2020				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4**	Year**
Current account	33.4	10.0	10.5	10.9	64.8	22.9	0.9	3.2	5.5	32.5
Balance of trade	47.0	39.4	37.9	41.0	165.3	33.2	16.5	18.3	21.5	89.4
Exports	102.6	101.4	103.3	112.5	419.9	89.3	70.4	78.5	91.3	329.5
Imports	55.7	62.0	65.4	71.6	254.6	56.1	53.9	60.2	69.8	240.1
Balance of services	-6.1	-8.9	-11.7	-10.0	-36.7	-6.8	-2.2	-3.9	-5.4	-18.3
Exports	13.7	15.6	16.6	15.9	61.9	13.6	9.9	10.5	10.5	44.5
Imports	19.8	24.5	28.4	26.0	98.7	20.3	12.1	14.5	15.9	62.8
Balance of primary and secondary income	-7.5	-20.5	-15.7	-20.0	-63.7	-3.5	-13.4	-11.2	-10.6	-38.6
Capital account	0.0	-0.2	-0.1	-0.4	-0.7	0.0	-0.2	-0.1	-0.4	-0.7
Financial account excluding reserve assets	12.3	-5.2	-7.2	-3.8	-3.9	18.4	13.6	7.4	10.4	49.9
Net liabilities assumed	11.9	13.7	-0.7	3.8	28.7	-13.8	-2.7	-14.9	-11.7	-43.1
Public sector	7.2	10.1	1.4	3.3	22.0	0.6	1.1	-0.4	2.6	3.9
Central Bank	2.2	-2.8	0.3	1.7	1.4	-1.0	-1.3	2.3	-0.9	-0.9
Banks	-3.2	-6.7	-7.9	-2.1	-19.8	-6.8	-9.2	-2.2	-7.6	-25.8
Other sectors	5.7	13.0	5.5	1.0	25.2	-6.5	6.6	-14.5	-5.9	-20.3
Net financial assets acquired	24.2	8.6	-7.9	0.0	24.8	4.7	10.9	-7.5	-1.3	6.8
Public sector	0.1	1.2	-2.0	1.2	0.5	0.1	1.2	-0.7	0.3	0.9
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Banks	9.2	6.6	-5.8	-12.0	-2.1	2.5	-2.0	-7.4	-1.0	-7.9
Other sectors	14.9	0.8	-0.2	10.9	26.5	2.2	11.7	0.6	-0.6	13.9
Net errors and omissions	-2.5	1.6	-1.7	1.1	-1.5	0.6	0.0	2.1	1.6	4.3
Change in reserve assets	18.6	16.6	15.9	15.4	66.5	5.0	-12.9	-2.3	-3.6	-13.8
Memo item: balance of the private sector's financial transactions	23.8	-0.6	-2.1	0.9	22.1	18.0	11.9	7.7	10.2	47.8
Memo item: foreign direct investment										
Total, abroad	9.7	4.7	2.1	5.5	21.9	0.6	4.6	-4.3		
Total, in Russia	10.9	6.0	8.9	6.1	32.0	-3.8	6.3	0.9		
Other sectors, changes in assets	9.0	4.4	4.8	4.4	22.6	0.4	4.8	-4.2	5.2	6.3
Other sectors, changes in liabilities	10.3	5.1	8.8	4.7	28.9	-4.1	5.9	0.5	-0.9	1.4

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

** Estimate, net of international reserves.

EXPORTS AND OIL PRICE

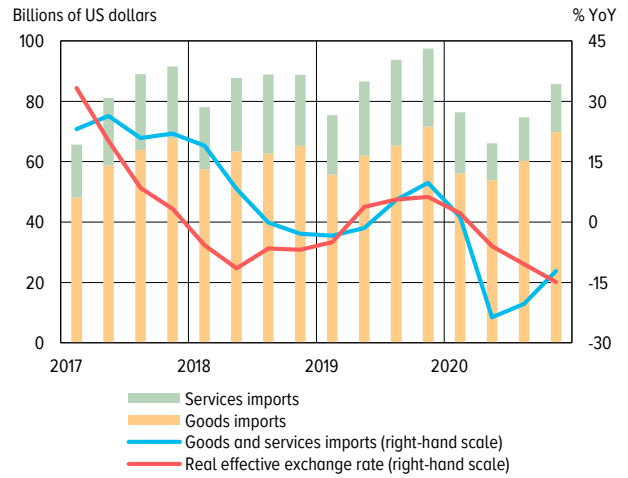
Chart 1



Sources: Bank of Russia, Thomson Reuters.

IMPORTS AND RUBLE EXCHANGE RATE

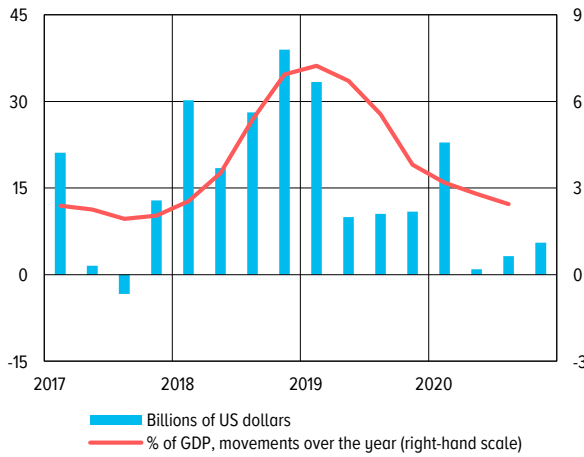
Chart 2



Source: Bank of Russia.

CURRENT ACCOUNT

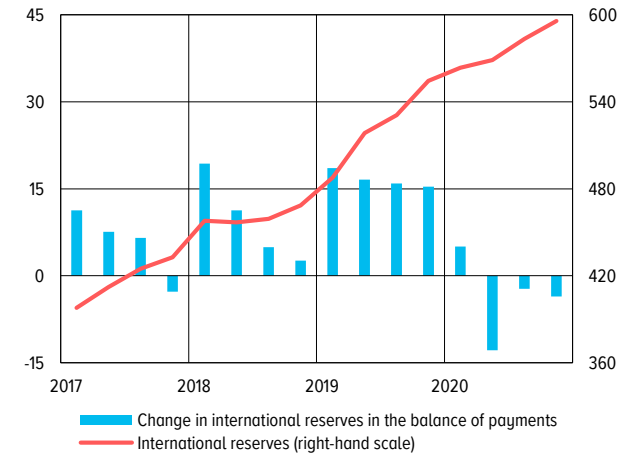
Chart 3



Sources: Bank of Russia, Rosstat.

INTERNATIONAL RESERVES
(BILLIONS OF US DOLLARS)

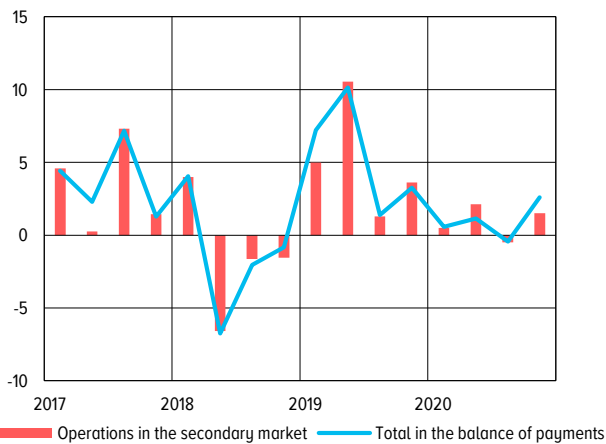
Chart 4



Source: Bank of Russia.

GENERAL GOVERNMENT'S FOREIGN LIABILITIES
(BILLIONS OF US DOLLARS)

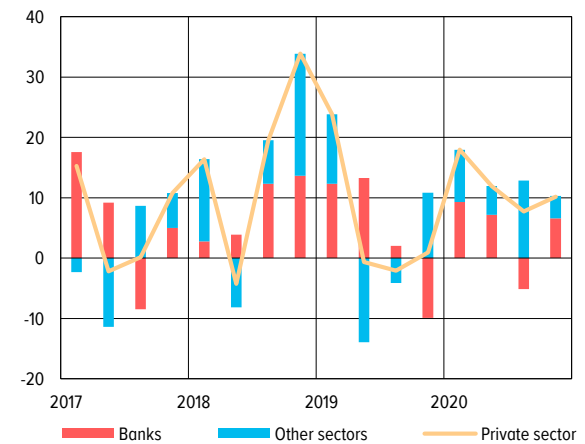
Chart 5



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 – 19.01.2021.

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

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