



Bank of Russia



RUSSIA'S BALANCE OF PAYMENTS

No. 2 (8) • 2021 Q2

Information and analytical commentary

15 July 2021

RUSSIA'S BALANCE OF PAYMENTS (2021 Q2)¹

- In 2021 Q2, the current account surplus went up on the same period in 2020. This was driven by exports that were expanding faster than imports.
- Rising global prices for most commodities made imports exceed the pre-Covid level of 2019 Q2. Moreover, export quantities of some products increased year-on-year thanks to the recovery of external demand.
- Imports continued to grow above the pre-Covid level, driven by a pickup in production and consumer activity in Russia. Nevertheless, imports of services were impeded by restrictions on foreign travels. As result, consumer demand partially shifted from services imports to goods imports.
- Growing yields on the sovereign bonds of advanced economies and pandemic-related uncertainty moderated global investors' appetite for financial instruments of emerging markets. In this environment, the financial account of the balance of payments net of reserve assets was mainly generated by a drop in the foreign liabilities of banks and other sectors.
- Like in the previous quarter, reserve assets increased owing to transactions recorded in the balance of payments that were mainly foreign currency purchases under the fiscal rule. These transactions together with positive revaluation following the growth of global gold prices led to an increase in the international reserves.

Current account

The current account surplus rose to 20 billion US dollars in 2021 Q2 (vs 2 billion US dollars in 2020 Q2).² This was driven by exports growing faster than imports.

Goods and services exports

The value of goods and services exports in 2021 Q2 was not only half as much as in 2020 Q2 but exceeded its pre-Covid level of 2019 Q2 by 5%. Global prices for most core Russian exports grew dramatically. In addition, export quantities of certain goods went up year-on-year due to recovery of global economic activity as restrictions were lifted.

GOODS EXPORTS

The annual pace of growth in the value of goods exports accelerated to 56% (vs +4% YoY in 2021 Q1) mainly due to a rise in global commodities prices amid reviving demand and

limited supply. Growth in exports was boosted by improving economic situation of Russia's major trading partners. According to the FCS of Russia,³ in April–May 2021, the value of exports to China rose by 44% YoY and by 6% on the same period of 2019. The value of exports to EU grew by 89% YoY in April–May 2021.

Oil. In 2021 Q2, the value of oil and petroleum products exports surged by 84% YoY (vs -16% YoY in 2021 Q1) as the Urals crude price more than doubled YoY from the very low base and grew nearly by 10% QoQ. However, the value of oil exports was still lower than in 2019 Q2 due to limited production under OPEC+ agreements. At the same time, the constraining effect subsided as the anti-pandemic restrictions relaxed.

Natural gas. 2021 Q2 saw the value of natural gas exports soaring by 131% YoY (vs +34% YoY in 2021 Q1). As compared with pre-pandemic 2019 Q2, this value increased by 10%. Growing demand and low stock⁴ made the prices rise dramatically. According the World Bank, natural

¹ The commentary on the balance of payments includes a preliminary estimate of its indicators in 2021 Q2 and actual data on the international reserves.

² Hereinafter, changes are relative to the same period of the previous year, unless specified otherwise.

³ Hereinafter, the structural measure of foreign trade in April–May 2021 is based on the data of the FCS of Russia.

⁴ Based on data by Gas Infrastructure Europe, gas volumes in European gas storages was much lower in late June 2021 (47%) than in late June 2020 (80%) and even in late June 2019 (73%).

gas prices in the European market, which is the main one for Russia, grew fivefold in 2021 Q2 YoY and twofold vs 2019 Q2. In June 2021, the price reached its seven-year high. The average export price of natural gas rose less significantly. In April–May 2021, it was up by 85% YoY and exceeded the pre-Covid level, according to data by the FCS of Russia. The export quantities of natural gas in April–May 2021 rose by 14% and returned to the pre-pandemic level of April–May 2019. Export growth was mainly driven by larger supplies to Germany and Turkey, according to the FCS of Russia.

Non-oil and gas exports.⁵ Growth in the value of non-oil and gas exports in 2021 Q2 was not less impressive: +39% YoY and +31% vs 2019 Q2. Rapid rise in the global prices for coal and metals supported exports.⁶ Copper price was greatly affected by the apprehension that production in South America might be decreased. Enhanced external demand in April–May 2021 boosted increase in metals exports quantities: ferrous metals – by 3% YoY; copper – by 26% YoY; aluminium – by 45% YoY. The quantities of hard coal exports grew by 12% YoY. At the same time, quantities of some food products exports reduced due to higher export duties introduced by the Russian Government to cut food prices in the domestic market. In April–May 2021, physical volumes of wheat exports declined by 77% YoY, corn – by 26% YoY, and barley – by 8% YoY.

SERVICES EXPORTS

In 2021 Q2, services exports increased by a third YoY (vs -18% YoY in 2021 Q1). However, the value of services exports was overall 15% below pre-Covid level as of 2019 Q2, as exports of services under the 'Travel' item and transportation remained low due to pandemic-related restrictions on tourism.

Goods and services imports

Growth in the value of goods and services imports accelerated to 38% YoY (vs +3% YoY in 2021 Q1) amid the recovery of internal demand in the Russian economy. In 2021 Q2, goods and services imports rose by 5% relative to pre-Covid level.

GOODS IMPORTS

Annual rate of growth in the value of goods and services imports went up to 42% YoY in 2021 Q2 (vs +16% YoY in 2021 Q1). Notably, the positive gap with pre-pandemic 2019 increased to 23% in 2021 Q2 from 16% in 2021 Q1.

The expansion of imports in April–May 2021 was primarily generated by imports of investment goods rather than consumer ones. The value of investment goods imports rose by nearly a half YoY and a third vs April–May 2019. Growth of imports was boosted by purchases of goods related to recovering production activity in Russia. Thus, the number of imported cargo transportation vehicles⁷ (other than vessels) rose by 30% in April–May 2021 relative to pre-pandemic April–May 2019. The imports of construction machinery significantly expanded⁸ following a gradual increase in the construction volumes in Russia. Moreover, rising food prices encouraged farmers to purchase more imported agricultural machinery. The number of imported tractors⁹ went up by 75% YoY and by 35% vs April–May 2019.

The value of consumer goods imports in April–May 2021 increased by 35% YoY and 15% vs same period 2019. This growth was boosted by higher consumer activity in Russia.¹⁰ In addition, there was an expansion of imports of a large number of goods types, e.g. textile, textile products, footwear, and motor cars. Imports of some household consumer goods continue to rise.¹¹

⁵ Exports of goods except for oil, petroleum products, natural gas, and LNG.

⁶ According to the World Bank, Australian coal appreciated by 102% YoY and 36% vs 2019 Q2. Global prices for iron ore surged by 114% and 99%, copper – by 81% and 59%, and aluminium – by 60% and 34%, respectively.

⁷ Foreign economic activity commodity code 8704.

⁸ The number of imported bulldozers (foreign economic activity commodity code 8429) and lift trucks (foreign economic activity commodity code 8427) rose by nearly 60% vs April–May 2019.

⁹ Foreign economic activity commodity code 8701.

¹⁰ Retail trade turnover went up by 35% YoY in April 2021 and by 27% YoY in May 2021.

¹¹ Refrigerators, dish washers and vacuum cleaners.

SERVICES IMPORTS

The value of services imports rose by 22% YoY in 2021 Q2 (vs -32% YoY 2021 Q1) but it was more than 40% below the pre-pandemic level of 2019. Services imports continue to be limited by restrictions on foreign tourism. Imports under the 'Travel' item were 6 times less than in 2019 Q2. From 15 April to 21 June 2021, air traffic with Turkey was temporarily suspended due to the pandemic.¹² Based on data of the Border Service of the Federal Security Service of Russia, Turkey was the chosen destination of 30% and 40% of the Russian citizens¹³ going outside Russia in 2019 and 2020, respectively. Recovery of tourist traffic to Egypt¹⁴ in 2021 Q2 was constrained by absence of direct flights to Sharm El Sheikh and Hurghada. Travels to these resorts via Cairo required extra time and money. Restrictions implemented in host countries continued to prevent expansion of foreign tourism. Many of the countries with which Russia has resumed air traffic, are closed to Russian tourists. For example, some European countries – Germany, Italy, Hungary, Switzerland and other countries.

Financial account

General government¹⁵ and the central bank

In 2021 Q2, net lending by general government and the central bank to the rest of the world totalled 1.5 billion US dollars. In the secondary market, there were some net sales of the Russian sovereign bonds by non-residents due to investors' risk aversion caused by the pandemic and sizeable sanctions risk in early Q2. However, non-residents' demand for sovereign securities generally stabilised in late April and in June net purchases of sovereign securities replaced net sales. As a result, the total volume of the sovereign bonds net sales by non-residents in the secondary market over 2021 Q2 (1 billion US dollars) proved to be less considerable than in 2021 Q1 (3 billion US dollars).

Financial transactions of the private sector

Net lending by the Russian private sector to the rest of the world contracted to 10 billion US dollars (vs 13 billion US dollars in 2020 Q2).

The structure of net lending altered. In 2021 Q2, it primarily formed through reduction in foreign liabilities while in 2020 Q2, it was due to an increase in foreign assets.

In 2021 Q2, not only banks, but also other sectors reduced their foreign liabilities, and in case of the latter mostly by means of portfolio investments. This situation stemmed from declining appetite of global investors for financial instruments of emerging market economies amid rising yields on the sovereign bonds of advanced economies and pandemic-related uncertainty.

Banks reduced their foreign assets along with their foreign liabilities. Other sectors raised their foreign assets yet in lesser amount than in 2020 Q2. Foreign direct investments made the biggest contribution to the growth of foreign assets in other sectors. These developments were also evident in a rolling period over the last four quarters.

International reserves

Reserve assets increased by 8 billion US dollars in 2021 Q2 (vs -13 billion US dollars in 2020 Q2) mainly due to foreign currency purchases under the fiscal rule. Apart from the above increase in the international reserves due to transactions recorded in the balance of payments, the positive change in the international reserves was facilitated by revaluation associated with growth of global gold prices. As a result, international reserves totalled 592 billion US dollars as of 1 July 2021 (+18 billion US dollars in 2021 Q2).

¹² This measure did not apply to evacuation flights and two regular Moscow – Istanbul flights a week on a mutual basis.

¹³ Data of the Federal Security Service of Russia is available at [Unified Interdepartmental Information and Statistics System](#).

¹⁴ Received 15% of Russian tourists who travelled outside Russia in 2014.

¹⁵ Including federal and local authorities of the Russian Federation.

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

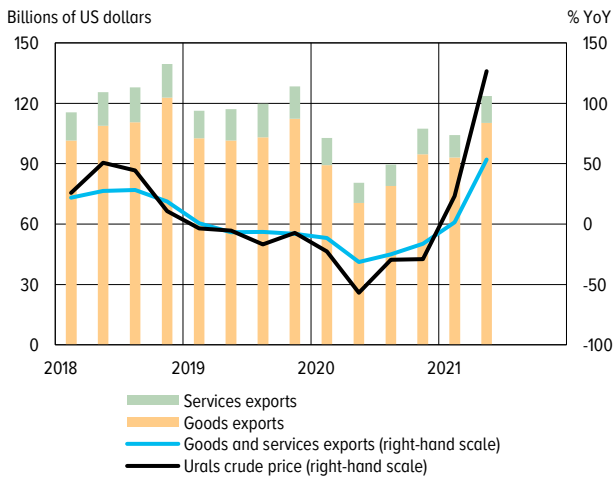
	2020					2021	
	Q1	Q2	Q3	Q4	Year	Q1	Q2**
Current account	23.5	1.6	4.0	7.1	36.1	23.2	19.9
Balance of trade	33.3	16.7	18.8	25.0	93.7	28.4	34.0
<i>Exports</i>	89.3	70.5	79.0	94.6	333.4	93.2	110.3
<i>Imports</i>	56.0	53.8	60.2	69.7	239.6	64.7	76.2
Balance of services	-6.4	-1.9	-3.6	-5.2	-17.0	-2.3	-1.3
<i>Exports</i>	13.5	10.0	10.7	12.8	47.0	11.1	13.3
<i>Imports</i>	19.9	11.9	14.3	18.0	64.1	13.5	14.5
Balance of primary and secondary income	-3.5	-13.2	-11.2	-12.7	-40.6	-2.9	-12.9
Capital account	0.0	-0.2	-0.1	-0.2	-0.5	0.3	-0.1
Financial account excluding reserve assets	19.3	14.5	8.6	10.6	53.1	20.9	10.5
Net liabilities assumed	-13.8	-3.0	-13.5	-9.8	-40.1	-1.1	-7.6
General government	0.6	1.1	-0.4	2.4	3.7	-3.3	-0.7
Central bank	-0.9	-1.3	2.3	-1.0	-0.9	2.1	-0.1
Banks	-6.8	-9.2	-2.2	-7.9	-26.2	0.3	-2.5
Other sectors	-6.6	6.3	-13.1	-3.3	-16.7	-0.2	-4.4
Net financial assets acquired	5.5	11.6	-4.9	0.8	13.0	19.8	2.9
General government	0.1	1.2	-0.7	1.0	1.6	0.4	0.8
Central bank	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Banks	2.5	-2.0	-7.4	2.4	-4.5	3.2	-6.8
Other sectors	3.0	12.4	3.2	-2.6	16.0	16.1	8.9
Net errors and omissions	0.9	0.3	2.5	0.2	3.7	1.1	-1.0
Change in reserve assets	5.0	-12.9	-2.3	-3.6	-13.8	3.7	8.3
Memo item: balance of the private sector's financial transactions	18.6	12.6	8.5	10.7	50.5	18.3	10.0
For reference: foreign direct investment							
Total, abroad	0.6	4.6	-3.1	3.5	5.7	8.6	
Total, in Russia	-3.8	6.3	2.3	4.4	9.2	5.0	
Other sectors, changes in assets	0.4	4.8	-2.9	3.3	5.5	8.5	4.9
Other sectors, changes in liabilities	-4.1	5.9	2.0	4.0	7.8	3.4	0.7

* 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

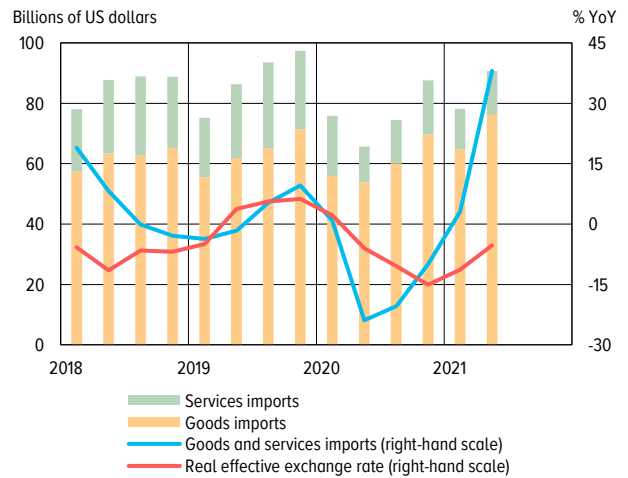
Chart 1



Sources: Bank of Russia, Thomson Reuters.

IMPORTS AND RUBLE EXCHANGE RATE

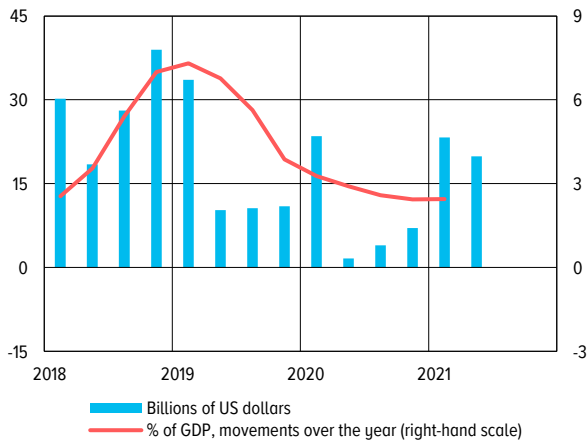
Chart 2



Source: Bank of Russia.

CURRENT ACCOUNT

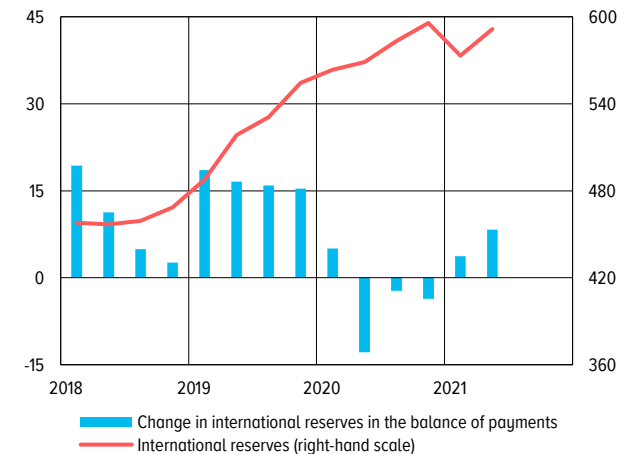
Chart 3



Note. 2021 Q2 GDP data is unavailable.
Sources: Bank of Russia, Rosstat.

INTERNATIONAL RESERVES
(BILLIONS OF US DOLLARS)

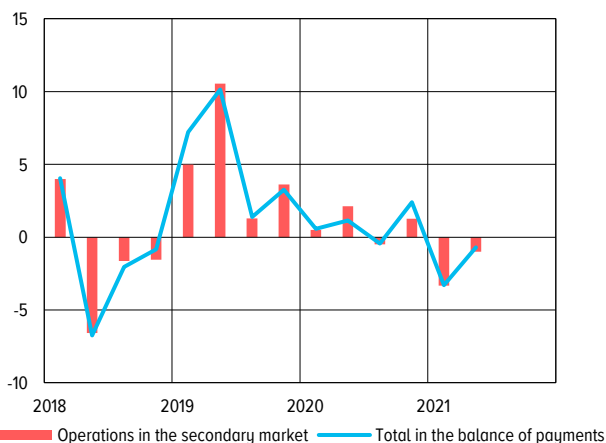
Chart 4



Source: Bank of Russia.

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

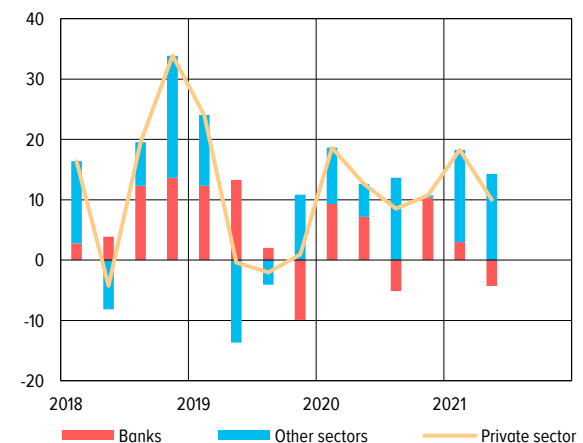
Chart 5



Source: Bank of Russia.

BALANCE OF FINANCIAL TRANSACTIONS
OF THE PRIVATE SECTOR*
(BILLIONS OF US DOLLARS)

Chart 6



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

Cut-off date – 9 July 2021.

A soft copy of the [information and analytical](#) commentary is 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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