



Bank of Russia



RUSSIA'S BALANCE OF PAYMENTS

No. 2 (4) • 2020 Q2

Information and analytical commentary

16 July 2020

RUSSIA'S BALANCE OF PAYMENTS (2020 Q2)¹

- The adverse influence of the coronavirus pandemic and the related restrictions on the balance of payments aggravated in 2020 Q2. Revenues from oil and gas exports declined due to the slump in both prices and quantities amid shrinking external demand caused by the recession in the global economy, as well as because of substantial production cuts by Russia under the OPEC+ deal.
- The plunge in exports was partially offset by the contraction of imports and the reduction in the deficit of the balance of other current account components. Goods imports declined due to sluggish domestic demand dragged down by the pandemic and restrictions, as well as due to the weakening of the ruble. Imports of services in the 'Travels' item almost discontinued following the suspension of international passenger services aimed at combating the spread of the coronavirus.
- Consequently, the current account surplus contracted nearly to zero.
- Amid the downturn in the global economy and investors' risk-off sentiment, net foreign investment in other sectors decreased, and banks' liabilities continued to go down slightly faster year-over-year.
- Fiscal rule-based foreign currency sales caused a reduction in the reserve assets. However, the overall level of the international reserves increased as of the end of the quarter since the positive revaluation, primarily resulting from the growth of world gold prices, offset the decline owing to the transactions recognised in the balance of payments.

Current account

In 2020 Q2, the current account surplus shrank almost to zero, or by USD 9 billion (hereinafter, year-over-year changes, unless indicated otherwise). The plunge in goods exports was partially offset by the contraction of goods imports and the reduction in the deficit of other components.

Goods and service exports

The decrease in the value of goods and service exports sped up to 35% in Q2 (vs -13% in 2020 Q1). Global prices for core Russian exports declined even more dramatically. Moreover, external demand continued to shrink amid the deterioration in the global economy and the anti-pandemic restrictions. Another drag on exports was the reduction in oil production by Russia, as required by the new OPEC+ agreement. The

value of exports declined primarily because of oil, petroleum products, and gas, since their share in goods and service exports contracted, equalling 37% (vs 50% in 2019 Q2).

Goods exports

Oil. The value of oil and petroleum product exports decreased by more than one-half in Q2 (vs -11% in 2020 Q1), with the Urals crude price plummeting by 57%. Over the course of Q2, world oil prices were plunging to multi-year lows due to the unprecedented shrinkage of demand induced by the quarantine restrictions and the increase in production after the expiry of the earlier deal. To support prices and rebalance the market, the OPEC+ countries agreed on record production cuts beginning from May. Specifically, the Russian Federation decreased its oil production by 10% in Q2, which reduced its oil export quantities. Nonetheless, according to up-to-date information from the FCS² for April–

¹ The commentary on the balance of payments includes a preliminary estimate of its indicators in 2020 Q2 and actual data on the international reserves.

² Federal Customs Service.

May, oil and petroleum product exports altered less significantly compared to production. This was associated with the decline in domestic energy consumption over the lockdown period and the low base of exports in 2019 Q2 due to the contamination of the Druzhba pipeline.

Natural gas. The slump in the value of natural gas exports sped up to more than 60% (vs -50% in 2020 Q1). Gas prices in Europe (which is the key market for Russia) continued to decline, dropping to over 40-year lows. After the warm winter, Europe had record large inventories, and this situation aggravated even more due to the shrinkage of demand caused by the coronavirus and related restrictions. According to the FCS, the quantities of exports of natural gas in the gaseous state from Russia contracted by 29% in April–May, mostly because of supplies to Germany and Turkey. As regards Turkey, this decline was caused by both reduced domestic consumption in that country and the switch in Turkey's imports from pipeline gas to LNG.

Non-oil and gas exports. The value of non-oil and gas exports contracted by 8% in Q2 (vs -5% in 2020 Q1). The recession in the global economy entailed a reduction in both the export value and quantities of coal, copper, nickel, aluminium, and a number of ferrous metals and timber products. Conversely, both the value and quantities of gold exports continued to increase owing to the growth of the world gold price by more than 30% as a result of steadily high demand for this protective asset amid the pandemic.

Service exports

Service exports plunged by 51% (vs -3% in 2020 Q1). This reduction was mostly caused by a 64% slump in transport service exports amid shrinking goods supplies and the suspension of inbound tourist traffic. Exports of services in the 'Travels' item almost discontinued since in March Russia had imposed an entry ban for foreigners, including tourists.

Goods and service imports

Goods and service imports contracted by 27% in 2020 Q2 (vs +1% in 2020 Q1). Among other factors, this reduction was caused by the

decline in imports of services in the 'Travels' item, which almost discontinued following the suspension of international passenger services.

Goods imports

The value of goods imports decreased by 14% in 2020 Q2 (vs +1% in 2020 Q1) due to sluggish domestic demand dragged down by the pandemic and restrictions, as well as due to the weakening of the ruble. Moreover, the decline in imports reached its lowest point in April (-20%) against the background of the production suspension and people's self-isolation for the period of non-work days. Imports of a range of investment goods considerably decreased. The closure of non-food stores entailed a reduction in both retail sales and the quantities of imported consumer goods. Thus, following the closure of car showrooms, car sales in Russia plummeted by over 70% in April, and car imports – more than twice. According to the FCS, the reduction in the value of imports slowed down to 13% in May owing to the easing of the restrictions and the decelerating decline in economic activity.

Service imports

The value of service imports decreased by 60% in 2020 Q2 (vs +2% in 2020 Q1). Imports of services in the 'Travels' item contracted to USD 0.4 billion due to the international flight restrictions introduced by the Russian Federation and travel restrictions in foreign countries (closure of borders, mandatory quarantine upon arrival, and others). Furthermore, transport service imports also collapsed (by 66%). When Russia starts to lift its restrictions, the recovery of tourism and transport service imports will still be hindered by the restrictions effective in host countries.

Financial account

General government³ and the central bank

In 2020 Q2, the general government and the central bank played a neutral role in the

³ Including the federal government and the local government.

formation of cross-border financial flows. Non-residents' net purchases of government bonds in the secondary market decreased to USD 2 billion (vs USD 11 billion in 2019 Q2) due to global investors' lowering risk appetite amid the pandemic.

Financial transactions of private sector

In Q2, net lending by the private sector to the rest of the world approximated USD 12 billion (2019 Q2: borrowing in the amount of USD 1 billion). This resulted from the net repayment of external debt in contrast to borrowing the year before, as well as the increase in foreign asset purchases.

Amid the recession in the global economy and investors' risk-off sentiment, the growth of foreign investment in other sectors slowed down. Nonetheless, net investment inflows remained, including owing to borrowing through debt instruments from related foreign entities.

The structure of investment abroad by other sectors also changed. In 2019 Q2, assets expanded primarily as a result of direct investment, while in 2020 Q2, in addition to direct investment, another important contributor was the expansion of assets in the form of portfolio investment in both debt and equity instruments.

Changes in banks' liabilities were driven predominantly by exogenous factors associated with the increased volatility of the ruble exchange rate. However, in contrast to last year's trends, banks' assets shrank by USD 1 billion (vs +USD 7 billion in 2019 Q2).

International reserves

As a result of transactions recognised in the balance of payments, the reserve assets contracted by USD 13 billion (vs +USD 17 billion in 2019 Q2). This was largely caused by fiscal rule-based foreign currency sales, including due to the purchase of Sberbank's equity by the Government using the National Wealth Fund's resources. Another contributor was operations involving the redemption of foreign currency-denominated sovereign debt instruments and the management of the reserve assets.

Concurrently, the international reserves increased by USD 5 billion over 2020 Q2, to total USD 569 billion, since the positive revaluation, primarily owing to the growth of world gold prices, exceeded the reduction caused by these operations.

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

Table 1

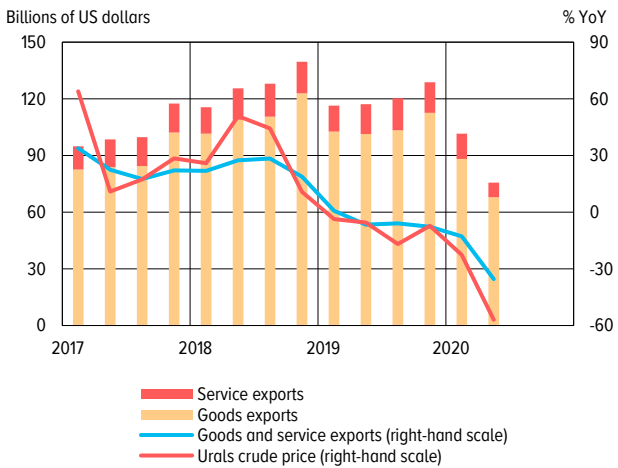
	2018				2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2**
Current account	30.2	18.4	28.1	39.0	33.5	9.9	10.7	11.2	21.7	0.6
Trade balance	44.0	45.5	47.8	57.7	47.0	39.4	37.9	41.0	31.9	14.3
<i>Exports</i>	101.6	108.9	110.6	122.9	102.6	101.4	103.3	112.5	88.1	67.9
<i>Imports</i>	57.5	63.4	62.7	65.2	55.7	62.0	65.4	71.6	56.2	53.6
Services balance	-6.6	-7.7	-8.8	-6.9	-6.0	-9.0	-11.5	-9.7	-6.7	-2.1
<i>Exports</i>	13.9	16.6	17.4	16.7	13.8	15.8	17.0	16.2	13.4	7.7
<i>Imports</i>	20.6	24.4	26.1	23.6	19.8	24.7	28.5	26.0	20.1	9.8
Primary and secondary income balance	-7.2	-19.3	-11.0	-11.8	-7.5	-20.5	-15.7	-20.0	-3.5	-11.6
Financial account, excluding reserve assets	12.7	9.8	24.9	31.0	12.3	-5.2	-7.2	-3.8	16.5	12.7
Balance of financial assets and liabilities of general government and central bank	-6.6	11.1	2.9	1.3	-9.3	-6.2	-3.6	-3.8	0.4	1.2
Balance of financial assets and liabilities of private sector	19.3	-1.3	22.0	29.8	21.6	1.0	-3.6	0.0	16.1	11.4
Bank liabilities	-2.5	-9.6	-3.8	-9.2	-3.2	-6.7	-7.9	-2.1	-7.0	-8.7
Liabilities of other sectors	1.0	4.0	-8.4	-0.8	5.7	13.0	5.5	1.0	-3.6	7.7
Bank assets	0.3	-5.7	8.6	4.5	9.2	6.6	-5.8	-12.0	2.5	-1.4
Assets of other sectors	17.5	-1.2	1.2	15.3	14.9	0.8	-0.2	10.9	3.0	11.8
Net errors and omissions	2.1	2.9	1.8	-4.7	-2.6	1.7	-1.9	0.8	-0.2	-0.6
Change in reserve assets	19.3	11.3	5.0	2.6	18.6	16.6	15.9	15.4	5.0	-12.9
For reference: financial transactions of private sector (net lending (+)/net borrowing (-))	16.4	-4.3	19.5	33.9	24.0	-0.7	-1.9	1.2	16.8	12.1
For reference: foreign direct investments										
Total, to other countries	13.4	4.9	1.3	11.9	9.7	4.7	2.1	5.5	2.4	
Total, to Russia	7.8	2.4	-2.9	1.5	10.9	6.0	8.9	6.1	-1.6	
Other sectors, change in assets	12.6	4.6	1.0	11.5	9.0	4.4	4.8	4.4	2.1	4.3
Other sectors, change in liabilities	6.3	2.0	-4.0	1.5	10.3	5.1	8.8	4.7	-1.7	6.0

* 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.

EXPORTS AND OIL PRICE

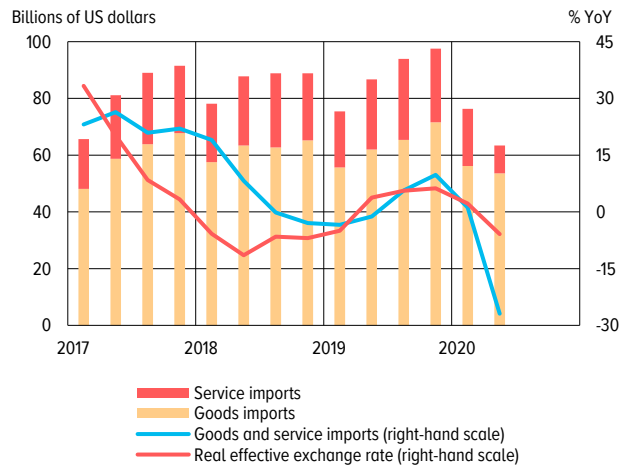
Chart 1



Sources: Bank of Russia, Thomson Reuters.

IMPORTS AND RUBLE EXCHANGE RATE

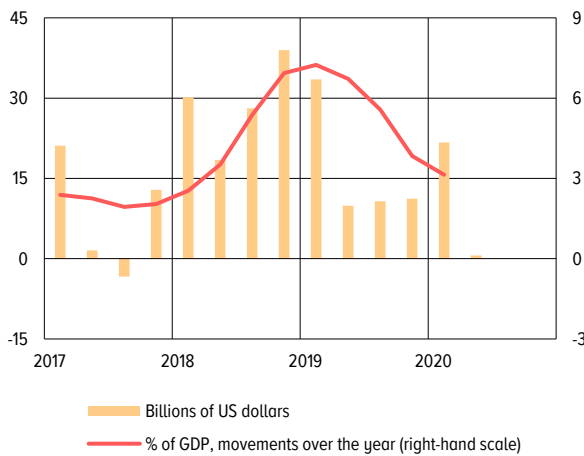
Chart 2



Source: Bank of Russia.

CURRENT ACCOUNT

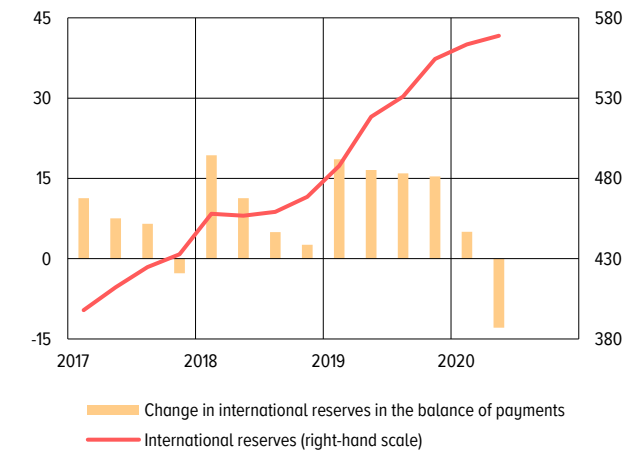
Chart 3



Sources: Bank of Russia, Rosstat.

INTERNATIONAL RESERVES
(BILLIONS OF US DOLLARS)

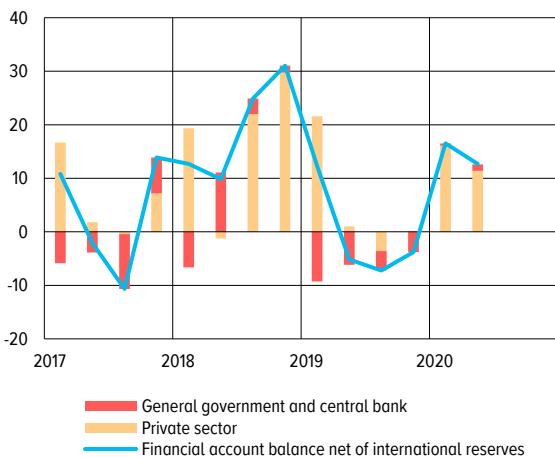
Chart 4



Source: Bank of Russia.

FINANCIAL ACCOUNT BALANCE*
(BILLIONS OF US DOLLARS)

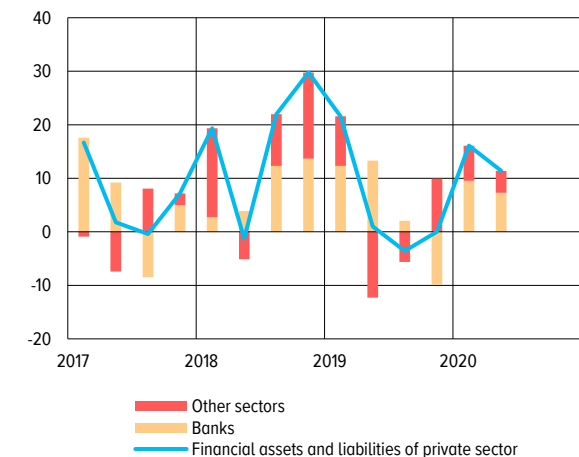
Chart 5



* '+' 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 – 10.07.2020.

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.

Cover photo: E. Krasin, Bank of Russia.

12 Neglinnaya Street, Moscow 107016

Bank of Russia website: www.cbr.ru