

Russia balance of payments: supportive of ruble in the near-term, but risks for 2H21 mount

Russia's current account surplus was relatively strong in 4Q20 on merchandise exports and services imports, which is a positive sign for 1H21. Merchandise imports, however, proved sticky despite ruble depreciation, highlighting risks for 2H21, when the FX market will be more vulnerable to capital flows, and those remain volatile



Source: iStock

US\$32.5bn

Worse than expected

Current account surplus in 2020

including US\$5.5bn in 4Q20

Current account to remain well supported in 1H21

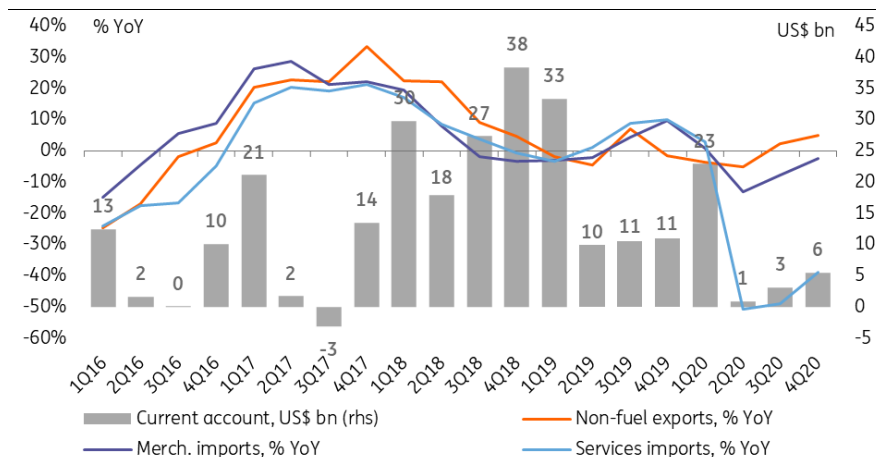
Russia's current account surplus totalled US\$32.5bn in 2020 (including US\$5.5bn in 4Q20), which is US\$4.5bn lower than we expected and half the 2019 surplus of US\$64.8bn. Nevertheless, we are not in a rush to take the numbers negatively. Looking into the structure of the 4Q20 current account, we see a number of positive developments.

- Non-fuel revenues growth showed a slight pick-up to 5% YoY in 4Q20 (Figure 1) on continued strong exports of gold and agriculture products, benefiting from favourable crops and a lack of internal demand for gold from the [Bank of Russia](#). The full-year result of flat non-fuel exports in Russia in 2020 may appear unimpressive, however, it does represent an improvement vs. the 32% drop in 2009, and 17% decline in 2016, suggesting lower dependence on pro-cyclical ferrous metals and manufacturing products.
- The decline of merchandise exports in 2020 by US\$90bn has therefore been fully driven by the US\$32/bbl drop in the average Urals price and the drop in volumes. However, the situation started to improve in 4Q20. Fuel exports per US\$1/bbl Urals prices started to reverse in 4Q20 (Figure 2), likely reflecting the pick-up in volumes. Further easing in OPEC+ restrictions for Russia combined with a higher oil price environment set the stage for a further recovery in fuel exports.
- Services balance continued to provide support through services imports (Figure 1), which despite some recovery in 4Q20 amid a partial lifting of travel restrictions remains under significant pressure. In 2020, Russians' spending on foreign travel dropped by US\$27.6bn (around RUB2.0tr), and a return to pre-Covid levels is highly unlikely in 2021.
- The balance of cross-border salary and investment income has also improved significantly – from net outflow of US\$63. bn in 2019 to US\$38.6bn (by US\$25.1 bn), mostly reflecting reduced dividend payouts. It remains to be seen whether a recovery this year would be easily achievable.

Still, one cause for concern (and the reason for the current account underperformance vs. our expectations) remains: merchandise imports remains a sizable pressure factor. As a result of recovery to -3% year-on-year in 4Q20 (Figure 1), the full-year drop of 6% YoY appears too shallow relative to the depreciation in the average ruble exchange rate level in 2020, which totalled 11% to US\$ (Figure 3) and 12% to euro. While the composition of the 2020 import dynamics is not yet available, the data for 11M20 for non-CIS imports, accounting for over 90% of the overall merchandise imports, could be used as a proxy. It appears that the drop was limited by the defensive performance in machinery&equipment (including autos), clothes, and food, together accounting for 68% of Russia's imports. One explanation is that consumer imports could have been supported by substitution of foreign travel. Meanwhile, the likely recovery in overall consumer demand in 2021 may push merchandise imports up 5-10% this year.

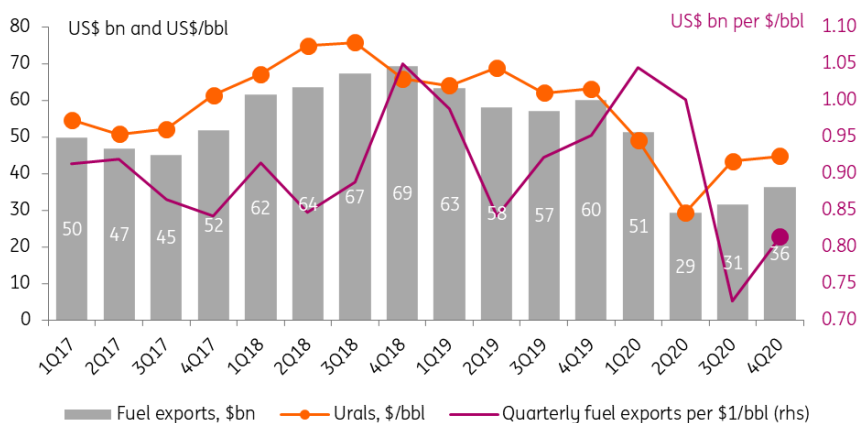
Overall, assuming ING's global [oil price forecast](#) and given the abovementioned positive trends, the Russian current account surplus can easily achieve a US\$45bn surplus in FY21, although given seasonality and gradual recovery in imports the distribution will be uneven. Two-thirds of this surplus, or US\$30bn, will be achieved in 1H21, with a significant reduction in 2H21, leaving the FX market more vulnerable to [expected FX purchases](#) (which are distributed more evenly) and volatility in other balance of payment items later this year.

Figure 1: Non-fuel revenues were relatively strong in 4Q20, supporting current account surplus



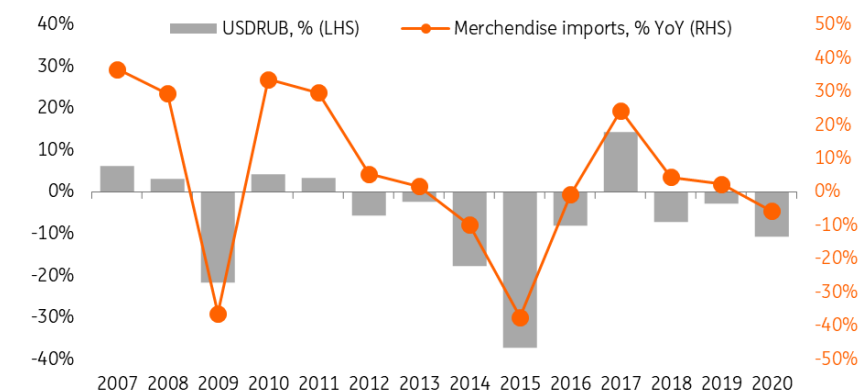
Source: Bank of Russia, ING

Figure 2: Physical volumes of fuel exports are recovering



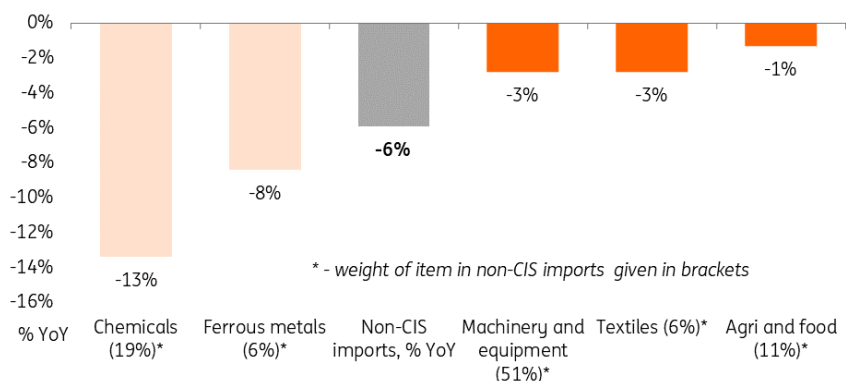
Source: Bank of Russia, Reuters, ING

Figure 3: 2020 merchandise imports drop shallow given RUB depreciation



Source: Bank of Russia, Reuters, ING

Figure 4: Shallow drop in machinery (including auto), clothes, and food suggest consumer substitution of foreign travel



Source: Federal customs, ING

US\$47.8bn

Net private capital outflow in 2020

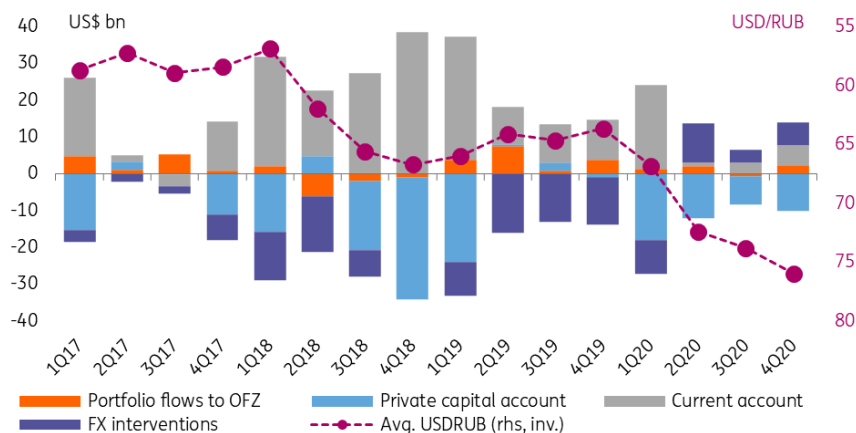
including US\$10.2bn in 4Q20

Capital outflow remains a concern

Without the details the corporate foreign debt, which is expected to be released on 21 January, the headline net private capital outflow numbers are of limited use at this point. Nevertheless, some preliminary observations could be made:

- The overall number of US\$10.2bn in 4Q20 and US\$47.9bn for 2020 (vs. US\$22.1bn in 2019) is large and contradicts our [positive expectations](#) of some improvement in the capital account towards the year-end. It also explains RUB's relative weakness to peers in 4Q20 despite a US\$5.5bn current account surplus, Bank of Russia FX sales of US\$6.1bn, and US\$2.3bn portfolio inflows into the local current state debt market (OFZ) (Figure 5). The local private sector remains the key pressure factor on RUB.
- The composition of capital outflow shows very modest improvement at best. At first glance, the entire net capital outflow in 4Q20 and 2020 reflects a reduction in the foreign liabilities of banks and non-financial sector, which may seem like deleveraging and generally an improvement vs. 2019, when the capital outflow was fully assured by the accumulation of foreign assets. However, taking a closer look, foreign liabilities this year have lost the support of FDI inflows (mostly equity, rather than debt) into the non-financial sector, which shrank by US\$27.5bn YoY gross, and by US\$11.2bn YoY on a net basis – assuring half of the capital account deterioration in 2020. While partially that can be attributed to the exceptional global conditions last year, it also clouds the capital account outlook for 2021 as well.

Figure 5: Low confidence in the local private sector remains the key pressure factor on RUB



Source: Bank of Russia, Reuters, ING

Risks to RUB accumulating in 2H21

The relatively healthy current account surplus, which we expect at US\$30bn for 1H21, should be large enough to withstand the pressure of mandatory FX purchases, sluggish portfolio inflows into OFZ and the persistent capital outflow by the private sector. However, by mid-2021 the support from the current account should wear thin, making the FX market vulnerable to the pressure of other balance of payment items.

Assuming a benign global risk backdrop and no further deterioration of the Russia-specific case, our [expectations](#) of USDRUB returning to the 71-72 range in 1H21 are still realistic. Meanwhile, the 2H21 appears weaker from the balance of payments perspective, calling for a 73-75 target range, all else being equal.

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