

Russia balance of payments: mostly supportive of ruble

A higher-than-expected current account surplus of US\$8.7bn and portfolio investment inflow of US\$2.3bn are the two key positives from the July balance of payments. This allows the ruble to defy the seasonality and perform better than its peers. However, the elevated private capital outflow and global uncertainties remain risks factors in the near term



Russian rubles

July balance of payments: strong current account and portfolio inflows vs. local capital outflow

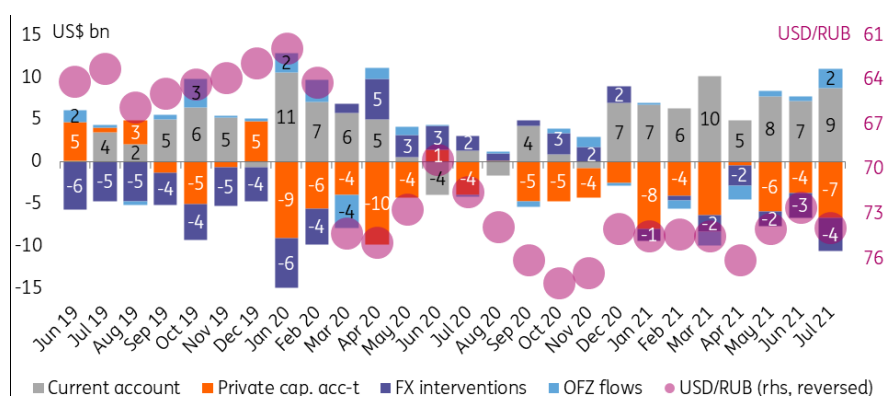
The Russian [balance of payments data for 7M21](#) suggests that the monthly current account surplus widened from US\$6.6bn in 2Q21 to US\$8.7bn in July (and US\$51.7bn in 7M21), exceeding our expectations of US\$6-7bn and outnumbering the local net private capital outflow, which totaled US\$6.6bn in July and US\$34.9bn in 7M21. We have the following observations and takeaways:

- Widening of the current account surplus in July is a positive result, given the relatively flat oil price performance and reopening of several popular summer tourism destinations,

including Turkey. It points at a possible increase in volumes of fuel exports and continued strong performance of non-fuel export items. To remind, there is easing in the OPEC+ restrictions starting in August, which should also be supportive of the current account until the year-end. Our full-year current account projections of US\$65bn for this year have a scope for increase, but the fast growth of merchandise imports remains a constraining factor.

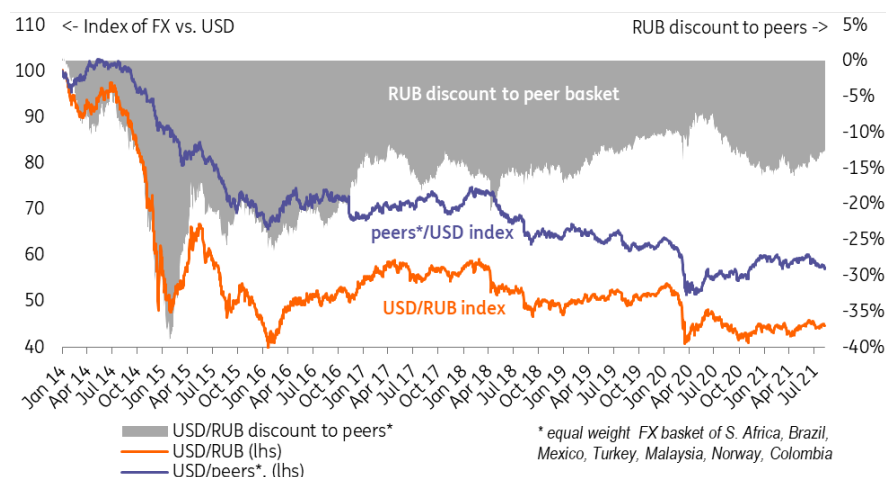
- The July current account was only partially sterilized by the FX purchases, [which totaled US\\$4.0 bn in July and were announced at US\\$4.3bn for August](#). We continue to believe, that the strong non-fuel component of the current account, especially as the period of annual dividend payments by the large corporates is over, lowers the importance of FX purchases for the balance of risks for the ruble until 4Q21, when some narrowing in the current account is possible. At the same time, our expectations of a reduction in the annual FX purchases by up to US\$10bn this year failed to materialise, as the government indicated that the financing of the domestic infrastructure projects out of the sovereign fund is likely to be postponed till 2022.
- Another positive point is that according to the preliminary estimates by the National Settlement Depository, the portfolio inflow into the local currency public debt market (OFZ) increased from US\$0.6bn in June to US\$2.3bn in July (the highest since pre-pandemic February 2020), with inflows continuing into August. This is the result of the continued tightening in the [Bank of Russia's monetary policy stance](#) and lack of negative events on the foreign policy front.
- The strong current account and portfolio inflows assured the ruble's relatively strong performance vs. peers, as its discount narrowed from 14% in June to 13% in July, the lowest level since October 2020. At the same time, that did not prevent the ruble's depreciation vs. USD due to the latter's strong performance globally and Russia's continued net capital outflow from the private sector, which according to the Bank of Russia is driven by the accumulation of the foreign assets.

Figure 1: Strong current account and portfolio inflows in OFZ are supportive, but private capital outflow remains an issue



Source: Bank of Russia, Refinitiv, ING

Figure 2: Ruble appears defensive in the face of global EM woes



Outlook for 3Q21 improved, but strong USDRUB appreciation would still be an optimistic case

The balance of payments data for July supports an upgrade of the 3Q21 target from USDRUB 75.0 to 74.0, and we remain **constructive** for the medium term. At the same time, a noticeable appreciation from the current levels would require weakening USD globally, and some meaningful slowdown in the local capital outflow from Russia, both of which are so far **outside the base case**.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial

Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.