# Russia to stabilise FX intervention, reinforcing ruble

Despite the recent spike in oil and gas prices, Russia will limit mandatory FX purchases to US$4.4b, slightly below September's level, and significantly lower than the US$9-10b monthly current account surplus that is to be expected for 4Q21 given current commodity prices. This should provide some reinforcement for the ruble vs its emerging market peers


318b

October FX purchases, RUB

down from RUB327b in August

Lower than expected

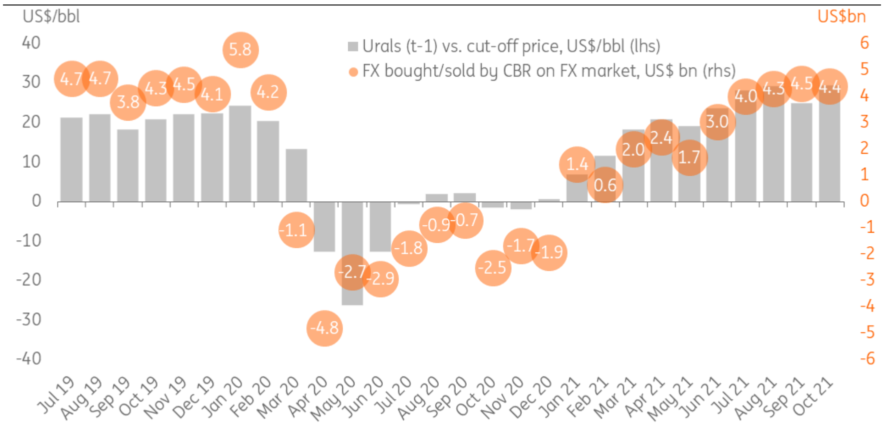
The Russian Finance Ministry announced today that monthly FX purchases will decline from

September's RUB327b to RUB318b in October, corresponding to a modest decline from US$4.5b to US$4.4b (Figure 1) at the current FX rate. The October announcement is below our US$4.9b expectation and the US$4.6-4.8b market consensus. The FX purchases, which are supposed to be equal to the extra fuel revenues in the budget, declined despite the recent increase in the average monthly oil and gas price. The usual suspect for such a discrepancy is the decline in physical volumes, however given the easing in OPEC+ restrictions and general supply newsflow, that explanation seems unlikely. However, we would not exclude the fact that it may actually reflect an extended delay in the adjustment of actual supply contracts to the rapidly growing spot prices for oil and gas.

As a reminder, gas prices have come into focus recently as a result of soaring demand in the EU and Asia. As for Russia, natural gas accounts for 15-20% of its fuel exports and the budget's fuel revenues, and it is a part of the fiscal rule – i.e. extra gas revenues are to be saved in the sovereign fund. According to our estimates, the cut-off gas price implied by the fiscal rule is US$147/kcm, and assuming some stabilisation in 4Q21, this year the budget is looking to receive around US$5-7b worth of gas revenues above the volumes planned at the end of last year.

Overall, assuming Urals prices average US$75/bbl in 4Q21, the current account surplus may reach US$27-30b in October-December, or US$9-10b per month, which is a comfortable enough volume to absorb the expected US$4.5-5.0b monthly FX purchases, and to finance capital outflows without any need for further ruble depreciation, all else being equal.

## Figure 1: FX intervention stabilised despite continued oil price growth




Source: Finance Ministry, Refinitiv, Bank of Russia, ING

## Budget 2022-24: focus on local investment out of the sovereign fund

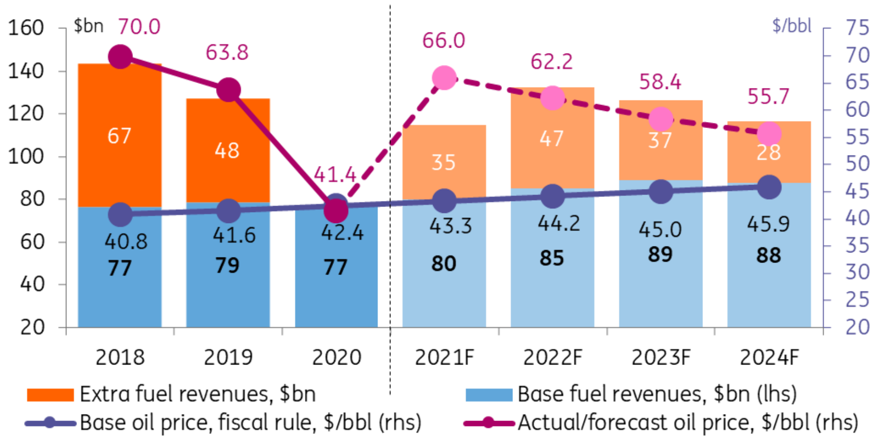
Looking at the proposed budget draft for 2022-24 currently under discussion in the Parliament, the government expects extra fuel revenues in the budget to increase from US$35b in 2021F to US$47b in 2022F despite the conservative assumption of a decline in the average Urals price from US$66 this year to US$62/bbl next year. This is supposed to happen thanks to the extra US$15b of proceeds from a 19% increase in oil export volumes and the recalibration of oil & gas taxation. As a result, the average annual budget revenues from oil & gas is set to increase from US$1.7b per US$1/bbl of oil price in 2021 to US$2.1b in 2022.

This, however, will not mean additional net pressure on the local FX market for two key reasons:

- Firstly, the increase in extra fuel revenues is coming largely from physical export volumes, meaning that the fuel exports per US$1/bbl of oil price will also increase, according to our estimates, from US$3.3b this year to US$3.6-3.7b next year.
- Secondly, the amount of actual FX intervention on the market could be reduced if the government delivers on the plan to invest RUB2.5t (US$36b) into local infrastructure out of the sovereign fund during 2022-24. Assuming the gradual fulfilment of that plan, the Finance Ministry will be annually converting US$12b of its FX savings into rubles in the next three years, causing the central bank to lower the planned market FX purchases for the netting purposes. This strengthens the ruble's fair value by around 1 RUB per USD, however the actual effect could be lower if a large chunk of local investment is used to finance imports.

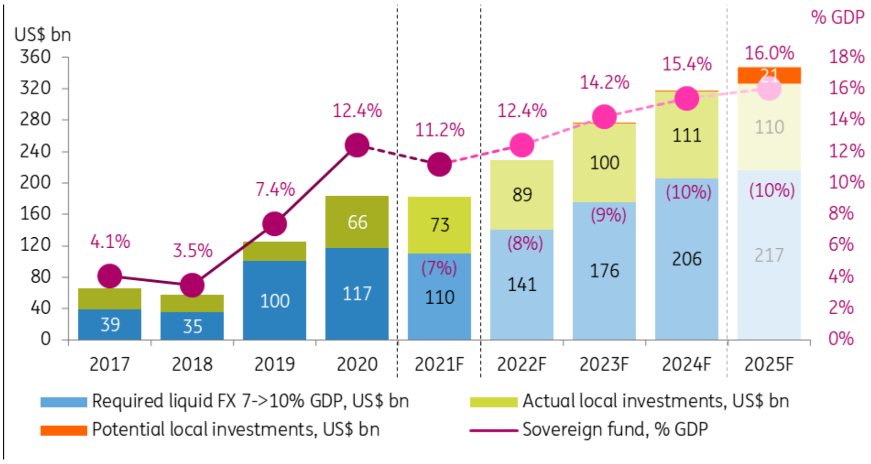
At the same time, the US$12b p.a. should be considered a maximum possible amount by which the FX purchases can be reduced in 2022-24. Firstly, the government is struggling to move forward with the plan as it is, as initially the said projects were supposed to start this year but have been postponed. Secondly, the recent proposal to raise the threshold of required liquid FX savings in the sovereign fund from 7% of GDP to 10% of GDP means there will be virtually no room for any local investments in addition to those currently under discussion (Figure 3), unless actual oil prices materially exceed the current official forecasts. According to our estimates, without an increase in the threshold from the current 7% of GDP, some US$60b of extra fuel revenues in the budget would have become available for potential local investment out of the sovereign fund by the end of 2024.

## Figure 2: Extra fuel revenues in the budget are to increase in 2022 on recovery of production volumes and tax changes...




Source: Finance Ministry, ING

## Figure 3: ...but actual FX purchases in 2022 could be $12b lower than suggested by fuel revenues, if the government proceeds with local investment out of the sovereign fund




Source: Finance Ministry, ING

## Ruble's position appears solid relative to peers, but sharp appreciation vs USD under question

We see today's FX intervention announcement and proposed 2022-24 budget draft as ruble-positive for now and benign for the local currency for the medium term. A strong fuel and non-fuel current account this year and next, possible local investments out of the sovereign fund, overall tight budget signals and conservative monetary policy should help the ruble to keep its relative advantage over its emerging market/commodity peers. At the same time, the ruble's ability to show sustainable appreciation vs. the US dollar is still less certain given the rise in core rates amid tightening in the Federal Reserve's policy, volatility in the Russia-specific portfolio flows, and the continued private capital outflow. For now, we continue to expect USD/RUB at 73.0 by year-end, with 3Q21 balance of payments, to be released on 11 October, as the next important checkpoint for this view.

### Author

**Dmitry Dolgin**
Chief Economist, CIS
dmitry.dolgin@ing.de