The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Central Bank Puts Outflow at $56.8Bln

By Howard Amos

January 14, 2013

The Central Bank said net capital outflow in 2012 was $56.8 billion, a drop from 2011 but the fourth-highest annual figure since the fall of the Soviet Union.

Experts link the flight of funds to Russia's investment climate, the country's current account surplus and fears of political instability. Net outflows were observed every year after 2007, and inflows are on record for two only years since 1994. Other emerging markets, including India and Brazil, recorded inflows in 2012.

During the last quarter of 2012, $9.4 billion left Russia, according to preliminary data published on the Central Bank's website.

That was a slight uptick from the second and third quarters, which saw outflows of $6.4 billion and $7.6 billion respectively. Against the backdrop of political uncertainty, the presidential election campaign and economic crisis in Europe, $33.3 billion was sucked out of the country in the first quarter.

The banking sector saw a $23.6 billion inflow of capital, which helped the headline outflow figure to fall year on year. One of 2012's biggest deals, the $5.2 billion privatization of state lender Sberbank, was hailed at the time by officials as a boost for the effort to reduce capital outflow.

The net outflow in all other sectors outside banking was $80.4 billion. Many experts predict that outflows will shrink in 2013.

"We anticipate the positive trend with net outflows from the last two quarters in 2012 to become entrenched as the improving global backdrop in 2013 and the dissipating domestic risk premium to lead to small net inflows," Ivan Tchakarov, chief economist at Renaissance Capital, wrote in a note to investors Monday.

According to its official forecasts, the Central Bank expects capital outflow in 2013 to reach up to $10 billion if oil prices average $97 a barrel. This will rise up to $35 billion if the oil price averages $73 a barrel.

The Central Bank is expected to hold its key policy rates Tuesday, as it weighs its response to an easing of inflation pressures and a slowing economy, Reuters reported.

The regulator increased all its policy rates by 25 basis points in September, responding to a worrying jump in inflation that caused it to exceed its target of 5 to 6 percent.

In December it tweaked some rates, raising its overnight deposit rate while cutting its Forex swap rate for rubles, in line with its long-term objective of narrowing the spread between its lending and borrowing rates.

However, it has left its key lending rates unchanged since the September hike. The auction repo rate now stands at 5.5 percent, the one-day fixed repo rate at 6.5 percent, and the refinancing rate at 8.25 percent.

The wait-and-see approach is expected to continue this month. After its last meeting, the Central Bank said that it regarded rates as appropriate for the near future — a phrasing interpreted to mean there would be no changes for at least a month or two.

"There are fundamental reasons for that," said Vladimir Osakovsky, chief Russia economist at Bank of America Merrill Lynch. "Stable inflation does not raise the need for any hikes, and on the other hand the economy is kind of weak."

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