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Goldman Puts 2014 Capital Flight at $130Bln

By The Moscow Times

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LONDON — Capital flight from Russia has risen sharply since the start of this year to $45 billion and $50 billion, Goldman said, predicting full-year outflows could be as much as $130 billion, or double 2013 levels.

Goldman said its calculations show capital outflows have jumped 60 percent from year-ago levels as the economy slows and the threat of Western sanctions bites. It also slashed its forecast for Russian economic growth this year to 1 percent.

Western powers are considering imposing sanctions on Moscow in response to its military intervention in neighboring Ukraine, especially if the Crimea region votes this weekend in a referendum to secede from Ukraine and join Russia.

"The Achilles heel of the Russian economy remains the flow abroad of Russian capital following any shock. We would also think that any sanctions or even the threat of sanctions

will be ultimately targeted at these flows," Goldman analysts Clemens Grafe and Andrew Matheny said in a note late last week.

"Most of these flows, in our view, are driven by Russian capital outflows rather than lower foreign inflows."

Grafe and Matheny calculate that total net private capital outflows amounted to between $45 billion and $50 billion in the year to date, or more than a tenth of Russia's economic output in the first 2014 quarter. The outflows also represent a big jump over the $28 billion that left the country in the first three months of 2013, they said.

Their models indicate total capital outflows for the year of $130 billion.

If confirmed, the data indicates growing pressure on the Russian economy which is already showing its slowest growth since 2008. Official data shows capital flight was $62.7 billion in 2013, with outflows totaling $420 billion since 2008.

Goldman based its capital flight calculations on estimates of a $25 billion current account surplus in the first three months of the year and $30 billion in foreign exchange interventions by the central bank.

"If we are right in our estimate of net private capital flows, pressure on the central bank's FX reserves will continue all year," the analysts said.

Goldman also is the latest investment bank to cut economic growth forecasts, predicting the economy will grow 1 percent this year. Citi this week also cut its 2013 growth estimates to 1 percent.

"Recent events including an even sharper than we had forecasted depreciation in the ruble, an even more aggressive reduction in public sector wage growth and, most importantly, a sharp shock to confidence on the back of the heightened political tensions ... require a significant change in our forecasts," Goldman told clients.

They added however that given the fluidity of the Ukraine situation and possible policy responses, the margin of error in all the forecasts remained large.

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