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Record $150 Billion Fled Russia in 2014 as Oil Prices and Sanctions Hit Economy

By The Moscow Times

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Net capital outflows from Russia nearly tripled in 2014 to their highest level on record, Central Bank data showed on Friday, illustrating the impact of Western sanctions and the blow to investor confidence from slumping oil prices.

Net outflows by companies and banks reached $151.5 billion, up from $61 billion in 2013 and exceeding the previous record of $133.6 billion set in 2008 during the global financial crisis.

Western sanctions imposed as a result of the crisis in Ukraine have severely limited the ability of Russian companies to borrow abroad, contributing to a collapse of foreign investment in Russia in 2014. The slump in the price of oil, the country's chief export, in the second half of the year, added to the economic problems, and capital outflows accelerated sharply in the fourth quarter.

The exodus of capital helped the ruble plunge by 40 percent against the dollar last year and has raised concerns among investors that Russia could be forced to impose capital controls.

This year the Central Bank has forecast that the net capital outflow will remain high at $118 billion. Much of that reflects corporate foreign debt repayments, with Western bank lending to refinance debts not expected to revive until sanctions are lifted.

Reflecting worsening economic conditions, Fitch Ratings downgraded ratings for 30 Russian and Russian-owned financial institutions, including the country's biggest lender, Sberbank, on Friday, after cutting Russia's sovereign rating on Jan. 9 to BBB minus, one notch above junk status.

Net outflows surged to $72.9 billion in the fourth quarter of 2014, from $16.9 billion in the previous quarter, the data showed, as the oil price fell more sharply.

The unadjusted figure was also inflated by $19.8 billion in forex liquidity provision to banks, following the introduction of a new Central Bank scheme to provide foreign currency repo loans.

The Central Bank raised interest rates six times by a cumulative 11.50 points last year to 17 percent to try and stem capital outflows and support the ruble.

But total outflows of $151.5 billion for the year were higher than a Central Bank forecast of $134 billion made just last month.

Excluding banks' foreign currency swaps, forex accounts and forex liquidity deals with the Central Bank, total net capital outflows in 2014 were $130.5 billion, according to Friday's data.

Large capital outflows from Russia have long been a matter of concern for analysts, underscoring poor incentives to invest linked to the poor business climate and political risks.

The Central Bank data also showed that the current account surplus measuring net overseas earnings from trade and investments rose last year to $56.7 billion, from $34.1 billion in the previous year.

The current account improved last year, despite the fall in oil prices, as the weaker ruble and stagnant economic growth reduced imports. The trade surplus rose to $185.6 billion, from $181.9 billion in 2013.

However, the improvement in net export and investment earnings failed to compensate for the dramatic increase in capital outflows, with the hole filled by the Central Bank spending $107.5 billion of its reserves, the balance of payments data showed.

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