

# Flash Comment

August 10, 2007

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## Russia: Trade balance surplus falls sharply

Data out of Russia today showed a sharp fall in the trade balance surplus in June, driven by a continued acceleration in imports and a fall in exports. Exports were USD 27.1bn in June – down from USD 30.3bn in May – and imports rose to USD 18.5bn in June from USD 17.6bn in May. Hence the trade surplus fell by USD 4bn in June to USD 8.6bn, compared with May. The surplus is also lower than in June last year – USD 10.8bn.

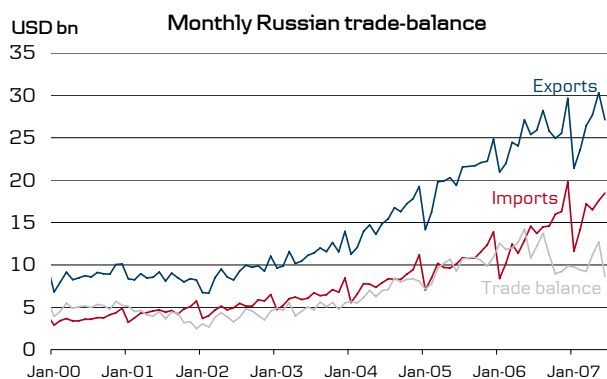
*The numbers highlights several important issues concerning the Russian economy.*

1. Exports out of Russia have been stagnating for some time now. Even though the exports sector, of which two thirds is related to the energy sector, keeps receiving a positive stimulus from rising oil prices, production capacity constraints are limiting further export expansions. Years of under-investments in productive capital and an undiversified exports sector dampen our expectation of rising exports over the coming years.
2. Looking at imports, we note that the ongoing consumer-driven economic expansion in Russia has fuelled consumption-based imports, which are now at an all-time high looking at seasonal adjusted numbers. Imports are growing 30-40% y/y in nominal terms, much more than exports.
3. The trade surplus outlook is much less benign compared to just one year ago – and as such reflects the recent re-acceleration in growth and private consumption. Looking ahead, we expect the surplus to have disappeared by Q3 2009 – and this projection even assumes an oil price around current levels.

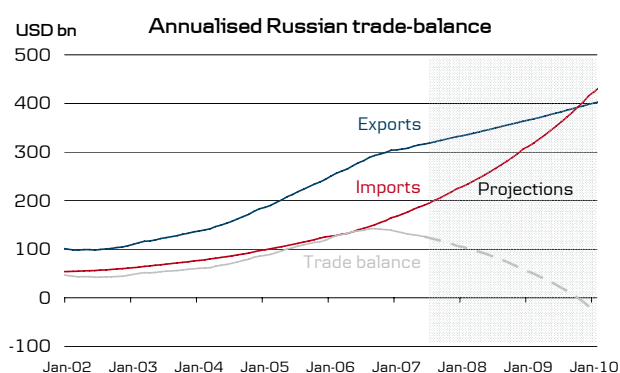
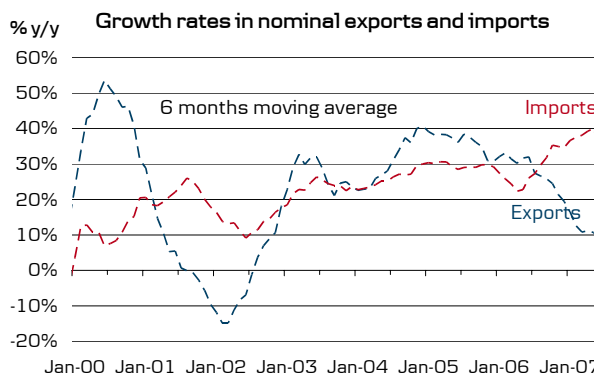
Obviously this will be something to watch in the coming years. Deterioration in the Russian external balances will in the longer run reduce the upside potential for the rouble. Having said that we continue to have faith in the rouble on a 1-year horizon, as the central bank will have to let it strengthen to reduce increasing inflationary pressures – see *Flash Comment - Russia: RUB strengthens versus basket*, August 9, 2007.

*See charts overleaf*

## Who shrunk the trade balance surplus?



## Acceleration in imports reflects consumer demand



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