

Flash Comment

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Russia: Is the trade balance really improving?

Data out of Russia Saturday showed some improvement in the trade balance in April, driven by lower imports and higher exports. Exports were USD 27.7bn in April – up from USD 26.4bn in March – and imports fell to USD 16.51bn in April from USD 17.2bn in March. In total this led to an almost USD 2bn improvement in the trade balance surplus from USD 9.2bn in March to USD 11.2bn in April. The surplus is, though, still lower than in April last year – USD 12.7bn.

We think that the positive development in the trade surplus is only temporary. Looking at yearly changes in nominal exports and imports, we see that imports are growing much faster than exports – c.f. the charts below. Export growth is slowing due to production constraints in especially the energy sector, and imports are accelerating due to strong consumer spending – a reflection of the booming Russian economy. Looking at net exports in fixed prices it is worth noting that it contributes negatively to growth in Russia.

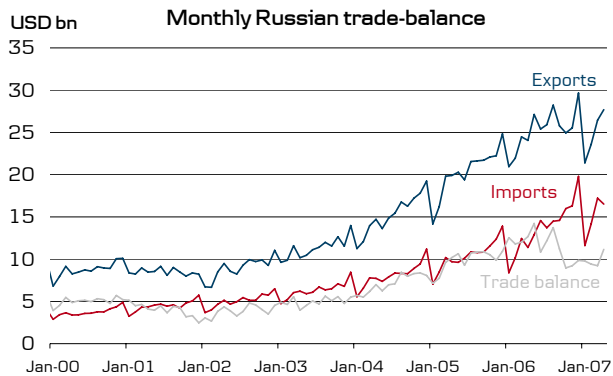
Nominal export numbers are related to the oil price – note that exports peaked last summer when oil prices peaked – but the question is how long Russian exports will be supported by the higher energy prices. Assuming that energy prices stay fairly flat and that the recent trend in export and import growth rates continues, the trade surplus might very well be gone by H2 2009.

This will ceteris paribus weigh negatively on Russia's external balances and reduce the scope for reserve accumulation. Having said that, we see different factors that point in the other direction: Russia is moving closer towards WTO-membership and experience from e.g. China shows that the WTO-membership boosted Chinese exports significantly. Looking at Russia, we expect the effect to be less evident, but it will most likely boost exports outside the energy sector. Not only exports could get a positive impulse from WTO-membership, also foreign direct investment (FDI) in Russia is expected to increase. Note that we already see FDI inflows accelerating.

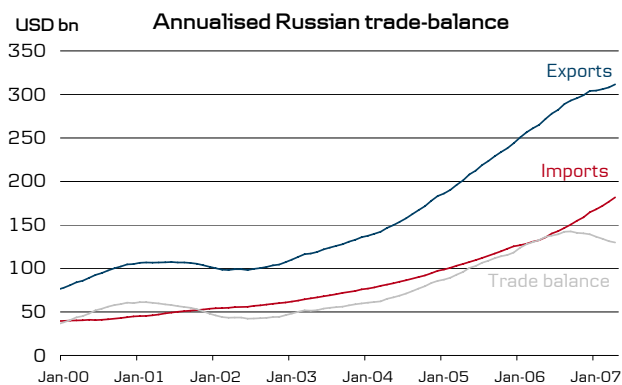
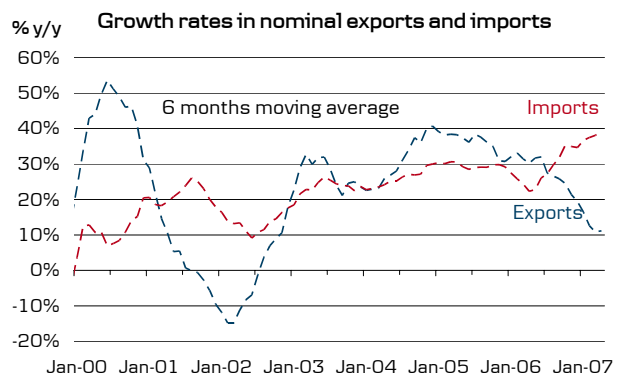
We think that it is vital for Russia to lift investments, as this will expand the supply side of the economy. This will increase productivity even further, will reduce the scope for imports, and will most likely be positive for the export sector. Furthermore, it is important to diversify the export composition further – two thirds of Russian exports are currently related to the energy sector – and the question is for how long the Russian economy will receive a positive stimulus from rising energy prices.

See charts overleaf

Is trade balance surplus really improving?



Acceleration in imports reflects consumer demand



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