

Is the Russian economy's external sector flourishing or floundering?

by

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After a review of the 2023 Annual Report issued by the Central Bank of Russia (CBR) in April 2024,² the impression that the Russian economy is flourishing despite the War against Ukraine and the ensuing sanctions³ may require some adjustments, at least as far as the external sector is concerned.

The Report shows that Russia's external sector did indeed do very well in 2022, the year of the launching of the War, but also that 2023 brought a significant deterioration, even relative to the country's performance in 2021, that is the year after COVID.

Russia's balance of payments (BoP) as of December 31, 2023, provides one measure of the country's distancing from the markets of Ukraine's allies and provides insights into the techniques of circumvention of the sanctions.

The country's international investment position (IIP) as of the same date presents a more complete measure of the effects of the sanctions on the country's access to international markets.

The CBR does not state clearly, at least in the English language documents on its site, whether and how the effects of the sanctions were taken into consideration in their preparation.⁴

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² "CBR Report, March 2024", CBR, Balance of payments, international investment position and external debt of the Russian Federation in 2023, https://www.cbr.ru/eng/statistics/macro_itm/svs/p_balance/.

³ Julien Boissou, War in Ukraine: Sanctions against Russia have had limited effect, Le Monde, Paris, February 23, 2024, https://www.lemonde.fr/en/economy/article/2024/02/23/war-in-ukraine-sanctions-against-russia-have-limited-effect_6551263_19.html.

⁴ The sanctions imposed by the European Union are summarized by the European Union Commission at Sanctions adopted following

That omission does cast a shadow over the reliability of the CBR's Reports, the more so since it would be contrary to the rules of the International Monetary Fund which require that "uncompensated seizures" be taken into consideration in the preparation of a country's international accounts.⁵

Our purpose is to shed light on the effects of the sanctions on Russia's external sector as they may appear in the BoP and the IIP.

In that process, several other inadequacies of the CBR's Reports are highlighted, including unclear, contradictory, suspect interpretations of the results in the accounts.

Finally, if the sanctions' effects are to be maximized, major exclusions from their scope, such those of European Union (EU) imports of Russian fossil fuels, as well as obvious circumventions, such as the recourse to payments to employees abroad, need correction.

1. Preliminary remarks

By way of introductory remarks, three points should be noted.

First, the Russian economy already shows marks of weakness.

As just one example, in 2022, Russia's real growth rate, according to the IMF, was negative, at -2.1%, which is a shock almost equivalent to that suffered in 2020 during COVID when real growth was negative by 2.7%.⁶

For 2024, the IMF is projecting a real growth rate in Russia of 3.2%, which is below the average for the original BRICs countries (4%).⁷

Russia's military aggression against Ukraine,
https://finance.ec.europa.eu/eu-and-world/sanctions-restrictive-measures/sanctions-adopted-following-russias-military-aggression-against-ukraine_en.

⁵ IMF, Overview of the Framework, p. 22,
<https://www.elibrary.imf.org/display/book/9781589068124/ch02.xml>.

⁶ IMF DataMapper,
<https://www.imf.org/external/datamapper/profile/RUS>.

⁷ South Africa - 0.9%, Brazil - 2.2%, China - 4.6% and India - 10.1%, IMF DataMapper,
<https://www.imf.org/external/datamapper/profile/RUS>.

More importantly, some 7.1% of GDP is spent on military expenditures,⁸ so without the doping of the economy by the War Machine, the country's GDP growth would be considered negative.

For 2024, the IMF forecasts a current account surplus of \$55.8 billion, which would be 55% below that achieved in 2021.⁹

With a government budget deficit of only 1.9% of gross domestic product (GDP),¹⁰ and projected current account surplus of 2.7% of GDP in 2024,¹¹ the Russian government does have the option of continued increases of military expenditures. But, even granting that military research will induce technological advances, the foregone opportunities to invest in economic and social progress will likely entail far greater costs.

In 2023, Russian exports of goods fell by 28% relative to 2022 and by 14% relative to 2021, which will have ripple effects because they represent 28% of Russia's GDP.¹²

Russia is also reported to be exporting its oil and gas at below market prices, so the cash value of the increase in exports is not what meets the eye.¹³

Furthermore, the War against Ukraine has pushed Russia ever more firmly into the grip the People's Republic of China (PRC), which ranks first among importing countries for fossil fuels overall with a share of 33%.¹⁴ China imports mostly crude

⁸ Tuba Ongun, Russia's military spending in 2024 estimated at \$140B, December 13, 2023, <https://www.aa.com.tr/en/world/russia-s-military-spending-in-2024-estimated-at-140b-report-shows/3081698>.

⁹ IMF DataMapper, <https://www.imf.org/external/datamapper/profile/RUS>.

¹⁰ IMF DataMapper, <https://www.imf.org/external/datamapper/profile/RUS>.

¹¹ IMF DataMapper, <https://www.imf.org/external/datamapper/profile/RUS>.

¹² Statista, <https://www.statista.com/statistics/998954/russia-goods-services-exports-share-of-gdp/#:~:text=Between%202021%20and%202022%2C%20the,the%20latest%20year%20under%20consideration>.

¹³ India and China Buy Oil From Russia at a Discount, Despite Sanctions, IER, June 13, 2023, <https://www.instituteforenergyresearch.org/international-issues/india-and-china-buy-oil-from-russia-at-a-discount-despite-sanctions/>.

¹⁴ China ranks as its first customer for exports of oil (52%) and coal (39%), second for liquid natural gas (21%) and oil products (and 12%), and third for pipeline gas (26%), CREA, January 2024 – Monthly analysis of Russian fossil fuel exports

oil (84% of total fossil fuels), and its imports of Russian crude oil peaked in 2022 and have fallen since then, with India actually supplanting it in 2023 as lead importer.¹⁵

Secondly by way of preliminary remarks, it bears noting that, whereas by the standards advocated by the IMF, “uncompensated seizures” of assets should be identified and taken into account,¹⁶ the CBR Report does not state whether and how the effects of the sanctions were taken into consideration in the preparation of the BoP and IIP as well as in its Reports.¹⁷

There seems to be agreement by all parties that some \$300 billion of Russian “reserve assets”, about half of the country’s total reserves, have been seized under the sanctions programs.¹⁸ An additional \$58 billion of assets held by Russian citizens and enterprises subject to sanctions have been seized.¹⁹

But, the seizures of Russia’s reserve assets appear not to have been taken into account in the BoP statement nor in the CBR March 2024 Report where it is claimed that reserve assets

and sanctions, <https://energyandcleanair.org/january-2024-monthly-analysis-of-russian-fossil-fuel-exports-and-sanctions/>.

¹⁵ CREA, January 2024 – Monthly analysis of Russian fossil fuel exports and sanctions, <https://energyandcleanair.org/january-2024-monthly-analysis-of-russian-fossil-fuel-exports-and-sanctions/>.

¹⁶ IMF, Overview of the Framework, p. 22, <https://www.elibrary.imf.org/display/book/9781589068124/ch02.xml>.

¹⁷ The sanctions imposed by the European Union are summarized by the European Union Commission at Sanctions adopted following Russia’s military aggression against Ukraine, https://finance.ec.europa.eu/eu-and-world/sanctions-restrictive-measures/sanctions-adopted-following-russias-military-aggression-against-ukraine_en.

¹⁸ Elena Fabrichnaya and Guy Faulconbridge, that and where are Russia's \$300 billion in reserves frozen in the West?, Reuters, December 218, 2023, <https://www.reuters.com/world/europe/what-where-are-russias-300-billion-reserves-frozen-west-2023-12-28/#:~:text=It%20is%20not%20clear%20exactly,billion%20of%20Russian%20reserves%20frozen>.

¹⁹ Kimberly Donovan and Maia Nikoladze, Global Sanctions Dashboard: What to do with sanctioned Russian assets, Atlantic Council, March 24, 2023, <https://www.atlanticcouncil.org/blogs/econographics/global-sanctions-dashboard-what-to-do-with-sanctioned-russian-assets/>.

will have increased in 2023 by \$16.2 billion from 2022 to \$598.6 in 2023.²⁰

On the other hand, the CBR's Report does attribute responsibility for certain trends to the effects of the sanctions.

For instance, the fall in Russia's exports of "computer, construction and other business" services in 2023 is attributed to "restrictive measures against Russian suppliers imposed by unfriendly jurisdictions".²¹

If, in fact, the CBR has not integrated the significant effects of sanctions in the country's international accounts, then they would lose in reliability as indicators of the country's actual performance, and the announced results would probably understate any difficulties experienced in the country's external sector.

On the other hand, for the CBR to treat the sanctions as having a definitive effect on ownership and control of Russia's foreign assets might be interpreted in some quarters in the West as a license to convert the seizures into confiscations.

Thirdly as a preliminary remark, the CBR issued its international accounts and in its Report using the US Dollar.

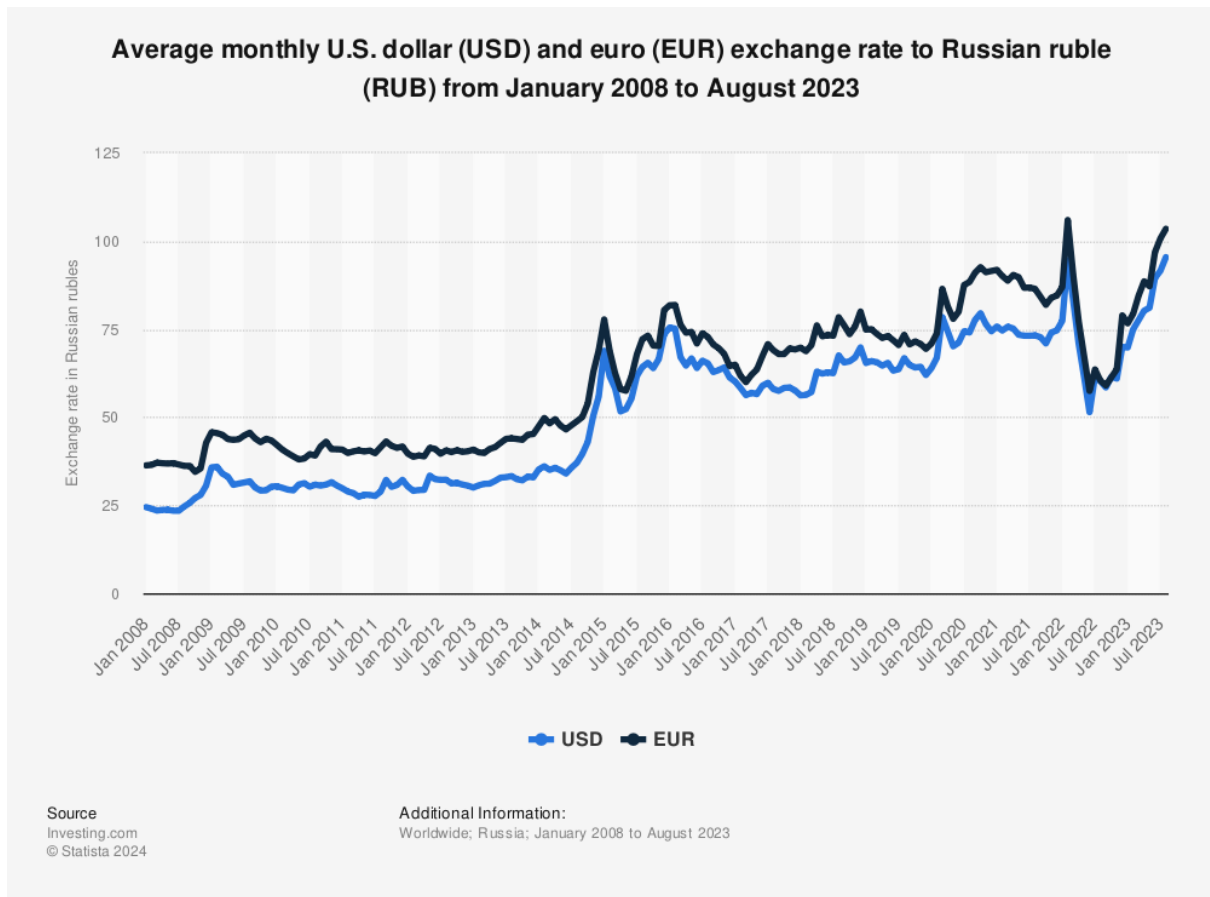
The exchange rates it used to convert other currencies into the dollar are unknown, but their choice could alter the analysis.

The volatility of the Ruble has at certain times been extreme as illustrated in this graph between January and July 2022:²²

²⁰ CBR Report, March 2024, p. 5,
https://www.cbr.ru/eng/statistics/macro_itm/svs/p_balance/.

²¹ CBR Report, March 2024, p. 2,
https://www.cbr.ru/eng/statistics/macro_itm/svs/p_balance/.

²² As of March 1, 2024, the rates were RUB75.3/Dollar,
79,7/Euro, and 128/RMB,
<https://www.statista.com/statistics/1200821/usd-eur-rub-exchange-rate-monthly/>.



As of May 2023, the ruble was used to transact 49.8% and 36.3% of Russia's exports to Europe and Asia, due to its imposition of payments in Rubles for its natural gas exports to both European and Asian markets.²³

2. General observations

Russia's international financial accounts illustrate the extent of the country's decoupling from the economies of Western countries and their allies as well as some of the methods used to circumvent the sanctions' effects.

In tandem with the shrinking of Russia's international trade flows, so have its international financial flows decreased.

The impressive performance of the external sector appears to have begun in 2021, that is, a year before the attack by Russia, and the results in 2023 marked a net deterioration compared to 2021.

²³ Russia's Ruble Is Weakening Again, GPF, July 21, 2023, <https://geopoliticalfutures.com/russias-ruble-is-weakening-again/>.

If only by that measure, the Russian external sector has deteriorated since the War.

OVERVIEW²⁴				
	2020	2021	2022	2023
Current account	35 373	124 953	237 678	50 224
Net long-term investment ²⁵	15 418	105 785	55 192	25 624
Net short-term financial flows	23 657	18 145	176 467	19 094

Already in 2021, Russia's current account surplus had increased from \$35.3 in 2020 to \$124.9 billion. So, the increase to \$237.7 billion in 2022 did not represent a new phenomenon generated by the War, but instead the continuation of a trend in motion before the War began.

More importantly, that trend of the current account surplus would appear to have reversed in 2023 since it has fallen to \$50.2 billion, that is a drop of 60% relative to 2021.

It would seem that a substantial share of exports has been financed by increased credit given by Russian non-government non-bank parties to foreign importers (\$79.4 billion in 2022 up from \$19.5 billion in 2021); in 2023, that amount remained \$30.2 billion, or 6.5% of total exports of goods and services, compared with 3.5% in 2021.

In 2023, the net foreign investment flows, short-term and long-term, decreased relative to 2022 by 80%.

Whereas, in 2021, financial exchanges were dominated by long-term flows, in 2022, short-term flows took precedence, revealing an exposure to rapid changes in international sentiments toward Russia and its economy or, in other words, financial crises. In 2023, whereas the long-term compartment shrunk by 54%, the short-term fell by 89%.

Huge swings in foreign investment by Russian parties might correspond, at least in part, to front-loading by those having anticipated the coming crisis in 2022.

²⁴ All amounts are expressed in millions of US dollars.

²⁵ The difference between the current account totals and the sum of the long- and short-term financial flows totals is explained by errors and omissions as reported in the accounts, subject to the reservation that the CBR not having broken out the financial derivatives account into short and long and short terms, approximations had to be made in this respect.

For instance, foreign direct investment by Russian residents went from \$7.3 billion to \$67,9 billion in 2021, before falling to \$1.8 billion in 2022 and going back to \$24.8 billion in 2023.

3. The current account

The Russian external sector is driven by trade in goods, with services representing only 22% of the trade balance in 2020 and having steadily declined to 14% in 2023. Still, the deficit on services increased by 75% from 2021 to 2023, mainly due to repeated decreases in exports.

RUSSIA'S INTERNATIONAL TRADE IN GOODS				
	2020	2021	2022	2023
Exports	333 530	494 350	592 064	424 223
Imports	240 089	304 013	276 510	303 297
Balance	93 441	190 337	315 554	120 926

CHANGES IN INTERNATIONAL TRADE IN GOODS				
	2021/2020	2022/2021	2023/2022	2023/2021
Exports	48%	20%	-28%	-14%
Imports	27%	-9%	10%	0%
Balance	104%	66%	-62%	-36%

The surge in exports of goods occurred in 2021 compared to 2020, up 48%, but that pace of increase was halved in 2022, and exports actually decreased in 2023 by 28% relative to 2022, and even by 14% relative to 2021, as did the balance on current account by 62% relative to 2022 and even by 36% relative to 2021.

The CBR attributes the drop in exports to the fall in world prices for the main goods exported by Russia.²⁶ The price of crude oil did indeed fall from 2022 and through 2023 from \$101 to \$82 per barrel.²⁷ The World Grains Price Index peaked in May 2022 at 169 before falling steadily to 123 in December 2023.²⁸

²⁶ CBR March 2024 Report, p. 1.

²⁷ Statista, Average annual Brent crude oil price from 1976 to 2024 (in U.S. dollars per barrel), <https://www.statista.com/statistics/262860/uk-brent-crude-oil-price-changes-since-1976/>.

²⁸ Charts, Grains Price Index, https://ycharts.com/indicators/grains_index_world_bank.

Imports of goods peaked in 2013 at \$341.2 billion, that is before the invasion of Ukraine in 2014, and the ensuing sanctions, and in 2021 they reached \$304 billion, which is also the result for 2023.

The deficit on the services account already deteriorating in 2021 relative to 2020 has continued its slide since then as exports have fallen and imports have remained roughly stable.

Two sectors of special interest are travel services and transportation services.

INTERNATIONAL TRADE IN TRAVEL SERVICES				
	2020	2021	2022	2023
Exports	3 909	3 991	5 604	6 711
Imports	9 145	11 407	20 793	32 978
Balance	-5 236	-7 415	-15 189	-26 266

The deficit in the travel services sector has been multiplied by more than four times since 2020 to \$26.3 billion in 2023.

This increase, mostly due to increased imports of travel services, would be consistent with a flight of Russians abroad.

Russia has overall succeeded in maintaining its international trade in transportation services, which begs the question whether the sanctions have adequately limited Russia's access to this international market. The European Union's sanctions on the Russian transportation sector thus appear not to have been particularly effective.²⁹

TRANSPORTATION SERVICES				
	2020	2021	2022	2023
Exports	15 944	18 091	14 926	14 982
Imports	12 073	16 128	14 082	15 733
Balance	3 871	1 963	844	-751

The flows of primary income peaked in 2021 as a share of the current account at 22% of trade in goods and services but that share has fallen to 11,5% in 2023.

²⁹ European Commission, EU Solidarity with Ukraine, https://eu-solidarity-ukraine.ec.europa.eu/eu-sanctions-against-russia-following-invasion-ukraine/sanctions-transport_en

Those annual net flows are all negative since 2020 and the decrease by half of the amount of the deficit projected for 2023 hides specific developments that are problematic.

PRIMARY INCOME				
	2020	2021	2022	2023
Inflows	44 787	81 791	39 265	34 192
Outflows	79 791	124 807	86 287	61 194
Balance	-35 005	-43 016	-47 022	-27 002

For instance, the deficit on compensation of employees has ballooned since 2021.

The fall in salaries paid into Russia is not surprising given the withdrawal of foreign enterprises.

On the other hand, the payment of salaries from Russia toward foreign-based employees will have doubled to \$7.5 billion in 2023, which may suggest a certain extent of sanctions-busting.

COMPENSATION OF EMPLOYEES				
	2020	2021	2022	2023
Inflows	3 686	3 867	3 245	2 512
Outflows	4 704	3 688	5 787	7 422
Balance	-1 018	179	-2 542	-4 910

The deficit on the income from investment account will in 2023 have been reduced by 52% compared with 2021, in about equal proportions for inflows and outflows. The CBR attributes this to "a decrease in the dividends accrued to non-residents".³⁰

Income from direct investment represents about 70% of the total investment income flows. The deficit in 2022, \$44.5 billion, was halved in 2023, which the CBR imputes to "a reduction in the degree of participation of direct investment investors in domestic business, as well as a reduction in the amounts of dividends declared by Russian companies".³¹ No mention is made of what share of those withdrawals of foreign investors were compensated and, if so, how.

³⁰ CBR March 2024, p. 2.

³¹ CBR March 2024, p. 2.

The CBR observes that the deficit on investment income was mitigated by the surplus on income from abroad on “other investments”.³²

INCOME FROM FOREIGN INVESTMENTS				
	2020	2021	2022	2023
Inflows	41 015	77 834	35 988	31 623
Outflows	75 067	121 096	80 496	53 759
Balance	-34 052	-43 262	-44 508	-22 136

Russia’s secondary income, such as unilateral transfers for pensions or family support, generated only 5% of the flows for all trade. The deficit in 2023 on secondary income doubled compared to 2021 mostly because of a decrease in inflows. The CBR Report provides no explanation but Russia’s isolation from the Western and allied banking systems would conceivably have had a role to play.

4. The financial account

Overall, the financial account balance dropped to an estimated \$43,3 billion in 2023, down by 65% compared to 2021 before the War.

This drop reflects the shrinking of the current account as detailed above.

FINANCIAL ACCOUNT BALANCE				
	2020	2021	2022	2023
Direct Investment	-3 632	25 433	26 715	20 747
Portfolio investment	25 296	32 084	21 211	4 934
Financial derivatives	1 950	-696	-3 469	-983
Other investments	29 229	3 708	189 875	28 622
Reserve assets	-13 768	63 525	-7 253	-10 020
Balance ³³	39 075	124 055	227 079	43 299

The largest single annual flow, which occurred in 2022 (\$189.7 billion up from \$3.7 billion in 2021), is recorded to

³² CBR March 2024, p. 2, “Other investments” is a residual account, which could include real estate. IMF, Balance of Payments Manual, p. 95, <https://www.imf.org/external/np/sta/bop/bopman.pdf>.

³³

	2020	2021	2022	2023
Errors and omissions	3 796	-1 023	-6 019	-5 506

“other investments”, namely “loans and currency” (net acquisition of \$72.4 billion, \$47.6 billion of which by non-government non-bank operators) and “other accounts payables/receivables” (net acquisition of \$79.7 billion of receivables, of which \$77.1 billion by the non-Government non-bank sectors).

By 2023, the balance on “other investments” had been reduced by 85% to \$28.6 billion, with receivables exceeding currency, loans and deposits.

This trend suggests that Russia’s non-government and non-bank sector is providing outsized credit to foreign importers thus promoting the country’s exports but with diminishing effect.

In short, not only has the huge current account balance of 2022 been significantly reduced, even what is left of Russia’s export markets are maintained at the risk of ever more credit, probably accorded on ever less favorable conditions and to decreasingly creditworthy buyers.

ACQUISITION OF LOANS, CURRENCY AND DEPOSITS (LCD)				
	2020	2021	2022	2023
Central bank and banks	17 803	14 433	19 194	-13 164
- Short-term	16 778	8 631	17 004	-9 765
- Long-term	1 025	5 802	2 190	-3 399
General government	1 585	3 020	4 911	2 217
- Short-term	0	0	0	0
- Long-term	1 585	3 020	4 911	2 217
Other sectors	-7 731	6 956	48 325	22 801
- Short-term	-5 035	6 663	47 635	19 935
- Long-term	-2 696	294	690	2 867
Net acquisition of LCD	11 657	24 410	72 430	11 854

ACQUISITION OF OTHER ACCOUNTS RECEIVABLES/PAYABLES (R/P)				
	2020	2021	2022	2023
Central bank and banks	-442	-1 006	1 724	3 398
- Short-term	9 066	13 523	16 896	3 987
- Long-term	-9 508	-14 528	-15 172	-589
General government	-553	375	880	320
- Short-term	-553	375	880	-178
- Long-term	0	0	-6	-34

Other sectors	7 628	20 161	77 138	26 539
- Short-term	7 628	12 435	77 143	21 443
- Long-term	0	0	-6	-34
Net acquisition of R/P	6 632	19 530	79 742	30 257

The decreases in the balances for direct and portfolio investments reflect the mutual disengagements of Russia and Western and allied enterprises while obscuring significant trends in both inflows and outflows.

The CBR's explanations for the trends in its data elicit some skepticism.

Thus, the CBR March 2024 Report's explanations of the external account trends sometimes differ from those advanced in its interim Report released in September 2023.³⁴

EXTERNAL FINANCIAL ASSETS		
	September 2023	March 2024
Direct Investment (increase)	The increase resulted "mainly from growth in investments of other sectors in foreign equity, partially offset by the reduction in claims for affiliated foreign companies as a result of the bond substitution program". ³⁵	Foreign financial assets rose "mainly driven by an increase in investment in foreign equities". ³⁶
Portfolio (decrease)	The decrease was "mainly due to the sale of debt securities, issued by non-residents". ³⁷	The decline was "primarily due to a decrease in residents' investments in foreign debt instruments". ³⁸
Other (increase)	Foreign claims increased "owing to finance of foreign	Foreign claims "grew, among other things, due to the accumulation of

³⁴ "CBR Report, September 2023", CBR, Balance of payments, international investment position and external debt of the Russian Federation in 2023, September, 2023, the document appears to have been removed from the CBR's site.

³⁵ CBR Report, September 2023, p. 3.

³⁶ CBR Report, March 2024, p. 4.

³⁷ CBR Report, September 2023, p. 3.

³⁸ CBR Report, March 2024, p. 4.

	trade transactions and other receivables". ³⁹	residents' funds in foreign accounts". ⁴⁰
Reserve assets (decrease)	No explanation is provided.	Reserve assets reduced "mostly as a consequence of foreign currency transactions carried out on the domestic market under the fiscal rule". ⁴¹

EXTERNAL LIABILITIES		
	September 2023	March 2024
Direct Investment (decrease)	The reduction in liabilities was due to "continued sales by non-residents of equity instruments of Russian companies, as well as reduction of debt under the bonds substitution program". ⁴²	The reduction in liabilities was due to "the repayments of liabilities on debt instruments to affiliated foreign companies, including as a part of the bond substitution mechanism". ⁴³
Portfolio (decrease)	The decrease was the "result of purchases of Russian sovereign debt securities and corporate bonds". ⁴⁴	The decrease was due to a "reduction in foreign investment in Russian debt securities". ⁴⁵
Other (increase)	Debt rose and an "important role was played by an increase in the gap between the value of imported goods and payments in favor of non-residents". ⁴⁶	Debt increased due to a "growth in debt on outstanding foreign trade settlements in the context of complicated logistics chains and as a result of rise in liabilities on accrued but not paid dividends". ⁴⁷

The CBR Report does not comment on certain trends that nevertheless are of some consequence.

³⁹ CBR Report, September 2023, p. 3.

⁴⁰ CBR Report, March 2024, p. 4.

⁴¹ CBR Report, March 2024, p. 4.

⁴² CBR Report, September 2023, p. 3.

⁴³ CBR Report, March 2024, p. 4.

⁴⁴ CBR Report, September 2023, p. 3.

⁴⁵ CBR Report, March 2024, p. 4.

⁴⁶ CBR Report, January-September 2023, p. 3.

⁴⁷ CBR Report, March 2024, p. 4.

For instance, foreign direct investment by Russia went up by more than 1,000% from 2020 to 2021, before turning negative in 2022 and then almost doubling in 2023 compared with 2021.

DIRECT INVESTMENTS⁴⁸				
	2020	2021	2022	2023
Outgoing	5 847	65 883	-13 086	9 567
Incoming	9 479	40 450	-39 801	-11 180

The CBR relates that, in 2022 and 2023, Russian enterprises decreased their loans to their foreign affiliates by a total of some \$27.6 billion. Furthermore, over those same two years, negative flows of reverse investments amount to a total of some \$33.9 billion, which reflects reductions in credits extended by Russian subsidiaries to their foreign parent direct investors.⁴⁹

But, how were these reductions implemented: repayments in the ordinary course of business, defaults, seizures?

The same questions might be raised about the following trends that are not specifically explained in the CBR Report:

- Russian portfolio investment abroad was reduced in 2022 and 2023 respectively by \$10.8 billion and \$4.3 billion,
- Russia's holdings of foreign bonds have dropped some \$14.1 billion in 2022 and 2023, which may reflect absence of new issues to roll-over expiring bonds and/or seizures by foreign governments, and

⁴⁸ The indicated numbers include both equity and debt funding of foreign enterprises.

⁴⁹ "Reverse investment occurs when a direct investment enterprise (DIE) has acquired a financial claim on its direct investor (DI)", International Monetary Fund, Reverse Investment and Directional Principle, 2004, <https://www.imf.org/External/NP/sta/bop/pdf/diteg7-8.pdf>; Reverse investment refers to the acquisition by a direct investment enterprise of a financial claim on its direct investor. Because direct investment is recorded on a directional basis, capital invested by the direct investment enterprise in its direct investor (reverse investment) is regarded as an offset to capital invested in the direct investment enterprises by a direct investor and its related enterprises, except in instances when the equity participations are at least 10 percent in both directions, United Nations Economic and Social Commission for Western Asia, <https://archive.unescwa.org/sd-glossary/reverse-investment>.

- foreign portfolio investment in Russia, altogether over the 2020–2023 period, decreased by \$66.5 billion, some \$44.8 billion in foreign holdings of Russian equity and \$21.7 billion in foreign holdings of long-term Russian Government debt.

INCURRENCE OF LIABILITIES BY RUSSIAN RESIDENTS TOWARD FOREIGN RESIDENTS				
	2020	2021	2022	2023
Equity and investment fund shares	-14 794	-11 036	-16 519	-2 427
<i>Central bank and banks</i>	280	-1 148	-3 329	-380
<i>General government</i>	0	0	0	0
<i>Other sectors</i>	-15 074	-9 888	-13 190	-2 048
Debt securities	3 654	-3 094	-15 501	-6 778
<i>Central bank and banks</i>	27	237	-95	-216
Short-term	12	368	57	-204
Long-term	15	-131	-151	-12
<i>General government</i>	3 855	-3 608	-15 300	-6 469
Short-term	0	0	0	0
Long-term	3 855	-3 608	-15 300	-6 469
<i>Other sectors</i>	-228	277	-107	-92
Short-term	14	-13	36	-53
Long-term	-242	290	-143	-39
Net incurrence of liabilities	-11 140	-14 130	-32 021	-9 205

The decoupling of Russia from Western and allied countries' financial markets is further evidenced by the decreases in the country's participation in the international derivatives markets, both as buyer and as seller.

POSITIONS IN FINANCIAL DERIVATIVES				
	2020	2021	2022	2023
Net acquisition of assets	-25 420	-23 683	-17 920	-2 204
Central bank and banks	-24 178	-22 090	-16 790	-1 110
Forward-type contracts	-25 794	-24 377	-17 495	-2 107
Net incurrence of liabilities	-27 370	-22 987	-14 451	-1 221
Central Bank and banks	-25 514	-21 252	-13 422	-696

5. Russia's international investment position (IIP)

Whereas the BoP accounts reflect only transactions, the IIP reports on changes in stocks, which can be "attributable to transactions (flows), to valuation changes reflecting changes in exchange rates, prices, etc., or to other adjustments (e.g., uncompensated seizures)".⁵⁰

Put differently, to determine values in the IIP, consideration is given to changes of circumstances, such as "exchange rate" changes, "price" changes and "other adjustments", which type of adjustments are not integrated into the BoP.⁵¹

Thus, differences between the numbers for certain accounts in the BoP and their close equivalent in the IIP may arise.

In the BoP and the IIP presented by the CBR for 2023, there are significant such differences.

Neither in its BoP, its IIP, or its Reports, does the CBR explain its treatment of the sanctions, even though, according to IMF rules, "uncompensated seizures" should have been addressed.

Still, it may be possible to infer conclusions about the effects of sanctions, as the residual factor among those possibly justifying differences between the BoP and the IIP.

In other words, if the differences can be explained by inflation and exchange rates, then the CBR would not have recognized any effects of the sanctions on the results.

On the contrary, if the inflation and exchange rate movements do not justify the adjustments, their cause might be the sanctions including "uncompensated seizures".

FOREIGN FINANCIAL ASSETS OF RUSSIA			
	31.12.22	31.12.23	CHANGE
Direct	381 194	313 127	-68 067
Portfolio	80 641	68 712	-11 929
Derivatives	1 282	393	-889
Other	556 736	573 435	16 699

⁵⁰ IMF, Balance of Payments Manual, p. 14, <https://www.imf.org/external/np/sta/bop/bopman.pdf>.

⁵¹ IMF, International Investment Position, p. 22, <https://www.imf.org/external/np/sta/iip/guide/IIPguide.pdf>

Reserve	581 989	598 592	16 603
Totals	1 601 842	1 554 259	-47 583

Whereas, in the BoP accounts, Russia recorded outgoing "direct" investment in 2023 of \$9.5 billion, in the IIP, its "direct" investment declined by \$68 billion. The IIP explains this as "mainly due to a drop in value of foreign equity instruments under the influence of exchange rate factor and as a result of other changes caused by the transition of participants of foreign economic activity to the Russian jurisdiction".⁵²

Whereas, in the BoP accounts, Russia recorded outgoing "portfolio" investment in 2023 of \$2.5 billion, in the IIP it dropped by \$11.9 billion. The IIP explains the drop as "due to other changes associated with a decrease in investment in debt securities issued by non-residents".⁵³

Whereas, in the BoP accounts, Russia recorded outgoing "other" investment in 2023 of \$28.6 billion, in the IIP, "other" investment grew by \$16.7 billion "due to increased claims on outstanding foreign trade settlements and accumulation of residents' funds in foreign accounts as a year earlier".⁵⁴

In the IIP, "reserve" assets increased from \$582.0 billion to \$598.6 billion, which corresponds to the amount recorded in the BoP. Still, the IIP provides no explanation for the increase.

Most importantly, to all appearances, the CBR ignores that about half of the reserve assets are subject to seizures in countries implementing the sanctions.

FOREIGN FINANCIAL LIABILITIES OF RUSSIA			
	31.12.22	31.12.23	CHANGE
Direct	442 045	333 698	-108 347
Portfolio	155 097	148 190	-6 907
Derivatives	1 282	800	-482
Other	235 350	214 059	-21 291
Totals	833 774	696 747	-137 027

According to the IIP, the value of Russia's incoming direct investment dropped by \$108.3 billion in 2023, whereas in the BoP, foreign direct investment flows were negative but by only

⁵² CBR Report, March 2024, p. 5.

⁵³ CBR Report, March 2024, p. 5.

⁵⁴ CBR Report, March 2024, p. 5.

\$11.1 billion. According to the CBR, this drop occurred “mainly as a result of negative revaluations and deoffshorization of Russian business”.⁵⁵

According to the IIP, the value of Russia’s incoming portfolio investment dropped by \$6.9 billion in 2023, whereas the BoP reported an outflow (withdrawal) of \$9.2 billion. According to the CBR, this drop occurred “due to the sale of Russian debt instruments by non-residents”.⁵⁶

ESTIMATE OF ADJUSTMENTS DUE TO SANCTIONS			
	IIP	BoP	VARIATION
<i>Change in</i>			
<i>Assets</i>			
Direct	-68 067	9 567	-77 634
Portfolio	-11 929	-4 271	-7 658
Other	16 699	42 117	-25 418
Reserves	16 603	-10 020	26 623
Total change in assets	-63 297	47 413	-110 710
<i>Change in</i>			
<i>Liabilities</i>			
Direct	-108 347	-11 180	-97 167
Portfolio	-6 907	-9 205	2 298
Other	-21 291	13 495	-34 786
Total change in liabilities	-136 545	-6 890	-129 655
Total differences IIP/BoP	-183 239	30 503	-213 742

In short, the CBR’s BoP understates the degree of Russia’s isolation relative to that revealed in the IIP.

According to the IIP, the value of the country’s assets held abroad dropped by \$110.7 billion more than indicated in the BoP (not including the increase in reserve assets of \$26.6 billion).

According to the IIP, the value of the country’s liabilities due to foreign residents dropped by \$213.7 billion more than indicated in the BoP, that is by some 25% more.

The CBR does not specifically explain differences between the BoP positions and those in the IIP.

Considering that two of the factors specifically mentioned in the IMF texts as justifying such adjustments between the

⁵⁵ CBR Report, March 2024, p. 5.

⁵⁶ CBR Report, March 2024, p. 5.

BoP and the IIP, namely inflation and exchange rates, are at least in theory offsetting (thus a currency with a high inflation rate is destined to depreciate), these two factors might be considered as cancelling each other over the medium to long term, and at least to some extent even within a year.

As regards inflation in isolation, considering that Russia experienced in 2023 a rate almost identical to the world average rate (6.9% versus a world average of 6.8%),⁵⁷ one might conclude that any differential in inflation rates is not a significant factor accounting for adjustments between the BoP and the IIP.

As regards exchange rate movements, even though its accounts are presented in US Dollars, the CBR provides no explanations regarding its use of exchange rates with respect to the Ruble or other currencies.

The CBR itself only invokes changes in exchange rates as justifying adjustments to its estimates of values of foreign direct investment by Russian residents.

But, presumably, a preponderance of Russia's assets held abroad are in US Dollars or currencies more or less closely linked to it, like the Euro and the British pound, so on a BoP and IIP statement presented in US Dollars, there is no significant nominal exchange rate risk, or need for significant adjustment of the value of the stock of Russian investments held abroad.

On the other hand, Russia's debt liabilities toward foreign residents are estimated to be about 80% contracted in Rubles.⁵⁸ Investments in Russian equities are likewise preponderantly expressed in Rubles. The currencies in which "Other" liabilities are expressed are not disclosed in the CBR Reports, but given that this account includes a significant share of trade and related operations, the use of foreign currencies is no doubt frequent.

The depreciation of the Ruble in 2023 would have entailed a decrease in the US Dollar value of Russian liabilities

⁵⁷ IMF, Country Data (Russia), <https://www.imf.org/en/Countries/RUS>, and IMF, World Economic Outlook, May 20, 2024, <https://www.imf.org/en/Publications/WEO#:~:text=Global%20inflation%20is%20forecast%20to,projected%20to%20decline%20more%20gradually>.

⁵⁸ Doug Hostland, Faisal Faisal, Imminent Russia Debt Default Has Not Unsettled Financials Markets?, TD, April 21, 2022, <https://economics.td.com/gbl-russia-debt>.

toward foreign residents, but limited to 20% on an estimated weighted amount of liabilities toward foreigner residents in Rubles of \$627 billion, namely some \$125 billion.

ESTIMATE OF AMOUNT OF FOREIGN LIABILITIES IN RUBLES			
	31.12.2022	ESTIMATED %	LIABILITIES
		IN RUBLES	IN RUBLES
Direct	442 045	80	353 636
Portfolio	155 097	100	155 097
Derivatives	1 282	80	1 026
Other	235 350	50	117 675
Totals	833 774		627 434

As the amount of write-down in the IIP relative to the BoP of liabilities owed to foreign residents was \$129.6, it may well be that the exchange rate movement could explain the entirety of the adjustment as between the BoP and the IIP.

Such a result would imply that the CBR Reports have not made any adjustments to the value of liabilities owed to foreign residents due to the sanctions, which would hardly be realistic.

Furthermore, the US Dollar is playing an ever-reducing role in Russia foreign trade and investment.

According to the Russian Minister of Economic Development, from January to October, 2023, "68% of all Russian trade was carried out in the two countries' currencies". As well, "approximately 60% of Russia's sovereign wealth fund is in RMB assets, and 40% of its foreign exchange reserves are also in RMB assets."⁵⁹

According to another source, China in 2023 paid for much of a roughly \$88 billion commodities trade with Russia using the Renminbi.⁶⁰

⁵⁹ Mauro Ramos, Dedollarization: 95% of trade between China and Russia is no longer done in US currency, People's Despatch, December 19, 2023,

<https://peoplesdispatch.org/2023/12/19/dedollarization-95-of-trade-between-china-and-russia-is-no-longer-done-in-us-currency/>.

⁶⁰ Chen Aizhu, Vast China-Russia resources trade shifts to yuan from dollars in Ukraine fallout, Reuters, May 11, 2023, <https://www.reuters.com/markets/currencies/vast-china-russia-resources-trade-shifts-yuan-dollars-ukraine-fallout-2023-05-11/>.

What may be of greater purport for both Russia and China is that in 2023 the Ruble depreciated by 16% relative to the Renminbi.⁶¹

Each of the Renminbi and the Ruble depreciated in 2023 by relative to the US Dollar, by 19% for the Ruble and by 2.7% for the Renminbi.⁶²

6. Conclusion

Russia's external sector, after a euphoric 2022, has in 2023 fallen back to reality.

The sanctions and other reprisals for Russia's aggression of Ukraine are causing a significant decrease in the benefits that Russia had been obtaining from its participation in international trade and finance.

The deteriorating performance of Russia's external sector will impact negatively on domestic growth, at least for a few years. After the invasion of Crimea and the ensuing sanctions, the Russian GDP shrunk in 2014-15 (2.7%), but was growing again by 2016 (2%), as Russia no doubt devised circumventions of the relatively loose sanctions applied at that time.⁶³

If the deterioration of Russia's external sector is to be maintained or a *fortiori* aggravated, then the sanctions and other reprisals must be further tightened.

Most importantly, EU trade with Russia in fossil fuels must be stopped completely.

At the very least, the sanctioning countries could pursue more aggressively the imposition of a \$30/barrel price cap on Russia's exports of oil, which according to some estimates would reduce Russia's fossil fuel revenues by some 25%.⁶⁴ In

⁶¹ Exchange-Rates.org, <https://www.exchange-rates.org/exchange-rate-history/rub-cny-2023>.

⁶² Exchange-Rates.org, <https://www.exchange-rates.org/converter/cny-usd>.

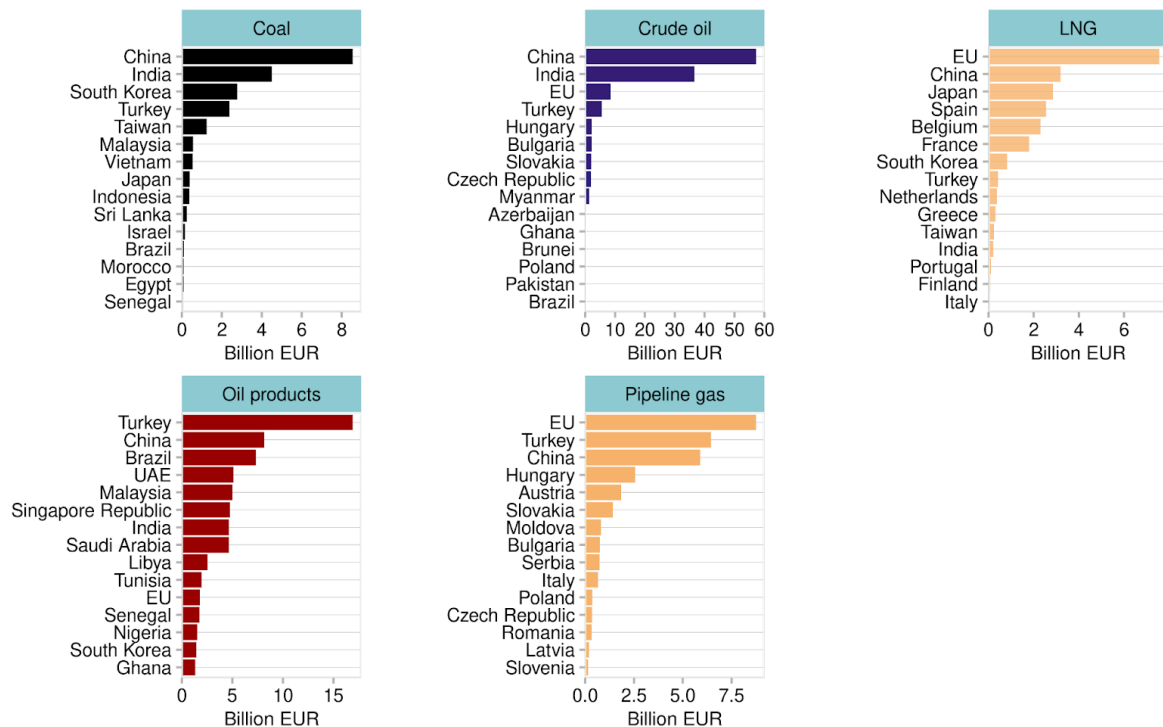
⁶³ IMF, DataMapper, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/RUS?zoom=RUS&highlight=RUS.

⁶⁴ CREA, Monthly analysis of Russian fossil fuel exports and sanctions, February, 2024, <https://energyandcleanair.org/february-2024-monthly-analysis-of-russian-fossil-fuel-exports-and-sanctions/#:~:text=Turkey%20has%20been%20the%20largest,be%20tr anshipping%20Russian%20petroleum%20globally>.

February, 2024, only 45% of Russian oil and its derivatives were carried by ships subject to the price cap.⁶⁵

Who bought Russia's fossil fuels after EU bans?

Shipments arriving since EU oil bans until end of January 2024



Source: CREA analysis based on Kpler, Marine Traffic, ENTSOG and customs data.



Another initiative to improve the sanctions' efficacy would be to tighten the enforcement of secondary sanctions on third countries' financial institutions to dissuade them further from transacting with sanctioned Russian parties.

The sensitivity of operators in third countries to the risks entailed by violations of secondary sanctions should strengthen the willingness to require their enforcement.

In that regard, reports are emerging of serious delays, and even refusals, by banks in China, Turkey and the UAE to process payments involving Russian parties for fear of incurring secondary sanctions from Western and allied Governments.⁶⁶

⁶⁵ CREA, Monthly analysis of Russian fossil fuel exports and sanctions, February, 2024, <https://energyandcleanair.org/february-2024-monthly-analysis-of-russian-fossil-fuel-exports-and-sanctions/#:~:text=Turkey%20has%20been%20the%20largest,be%20tr anshipping%20Russian%20petroleum%20globally.>

⁶⁶ Russia struggles to collect oil payments as China, UAE, Turkey raise bank scrutiny, Reuters, March 27, 2024, <https://www.reuters.com/markets/commodities/russia-struggles->

Loopholes such as payments of salaries by Russian enterprises to employees abroad and engagements by Russians of foreign carriers must be closed.

collect-oil-payments-china-uae-turkey-raise-bank-scrutiny-2024-03-27/;
John Feng, Chinese Banks Tighten Financial Noose Around Russia, Newsweek, March 21, 2024,
<https://www.newsweek.com/china-russia-trade-problems-payment-settlement-ruble-yuan-sanctions-1881709>.