World Economic Situation and Prospects
Weekly Highlights

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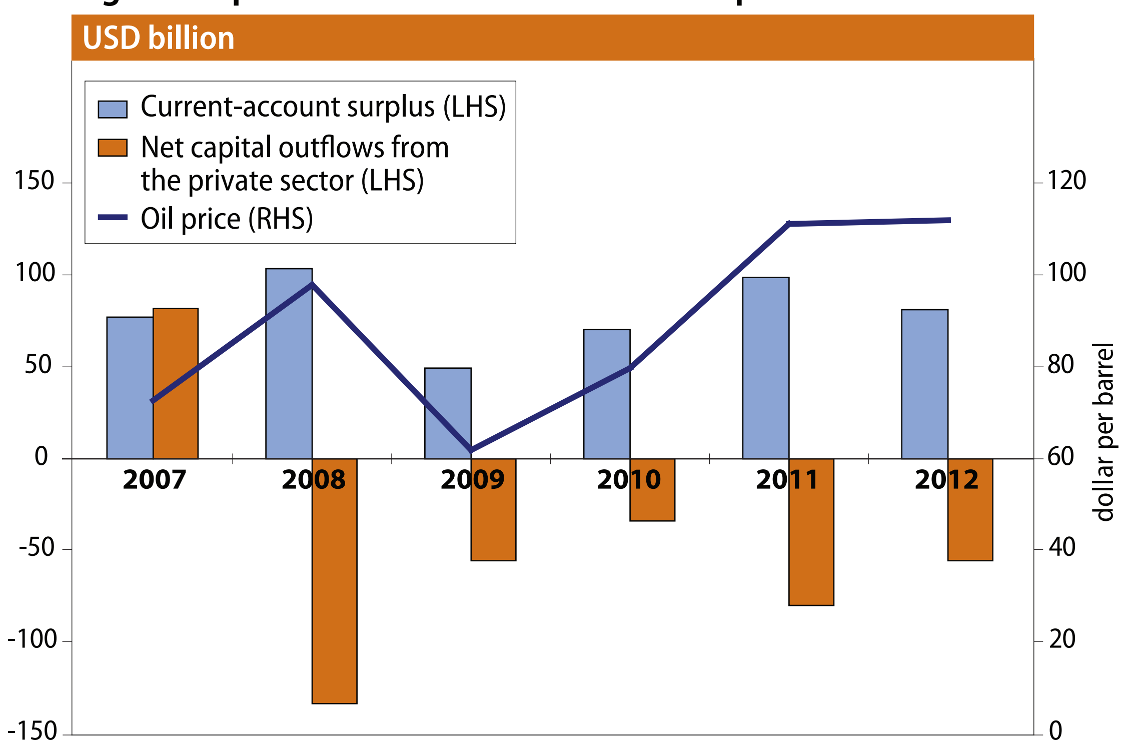
Different approaches to estimating capital outflow from the Russian Federation

The Russian Federation has typically run a sizeable trade and current-account surplus on the back of strong oil and natural gas revenues. However, those surpluses were persistently mirrored by large net outflows of capital from the Russian private sector, which intensified during the global economic crisis. Those large-scale capital outflows have always raised concern, being perceived as forfeited domestic investment and social spending. According to the central bank of the Russian Federation, net capital outflows from the country amounted to $56 billion in 2012, and were between $14 billion and $16 billion in the first two months of 2013, equivalent to the official expected figure for the year as a whole.

Figure: Capital outflows from the Russian private sector



Sources: the IMF, the central bank of the Russian Federation.

There are, however, different views on the genuine magnitude of Russian capital outflows and their macroeconomic implications. The central bank estimates outflows by examining the changes in net foreign assets of the domestic banking and non-banking sectors, adding "net errors and omissions". However, this methodology is subject to some debate. As pointed out in other non-government estimates[1], the central bank's approach captures capital repatriated by parent banks from their Russian subsidiaries in order to repair their balance sheets (as occurred in 2008). The central bank's estimates also include mergers and acquisitions made by Russian companies overseas, which reflect their expansion into the global market and facilitate technology transfer. In addition, repayment of foreign debt by Russian companies, payments of dividends to foreign stakeholders, and purchases of foreign currency by Russian residents are also included. Thus, this statistical indicator of capital flows may not be efficient as an economic indicator, especially because a significant part of those "outflows" returns back to the country as FDI. Based on those considerations, other sources have suggested that the "real" capital outflows should be estimated at only about 50 per cent of the central bank's figures.

1 For example, a 2012 report prepared by Ernst & Young, in collaboration with other organizations