Global Macro Views – What Russia's Current Account Surplus Means

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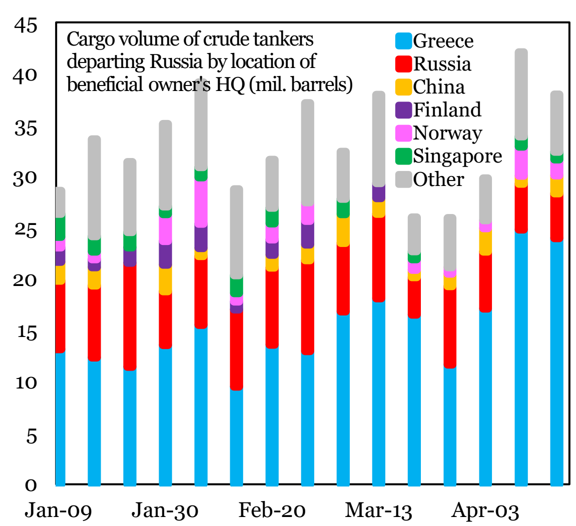
- Western sanctions on Russia represent a compromise.
- If all of Russia's financial institutions had been sanctioned, …
- that'd make it impossible for Europe to pay for Russian energy, …
- making this – in effect – equivalent to a full Russian energy embargo.
- Sanctioning only some banks allows oil and gas exports to keep flowing, …
- thereby preserving Russia's large and growing current account surplus, …
- which means Russia continues to accumulate foreign assets rapidly.
- That accumulation was mostly via central bank FX reserves before.
- With the CBR sanctioned, it has shifted to non-sanctioned banks.
- Sanctions are therefore re-jiggering foreign asset accumulation.
- Conceptually, only an energy embargo or full sanctions stop it.

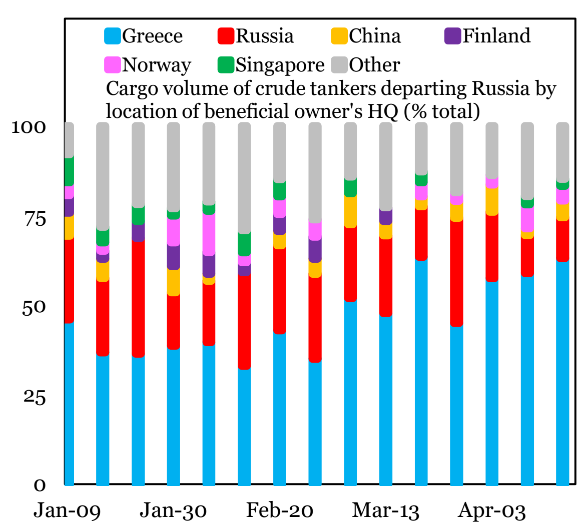
We track tanker traffic out of Russian ports as a high frequency proxy for the current account, given oil is the single biggest driver of the surplus. Our data show the current account is on track for a record surplus in 2022, as Elina Ribakova anticipated in recent ***Macro Notes***. The underlying reason for continued current account surpluses – and continued hard currency inflows – is that existing sanctions are a compromise. If all Russian banks were sanctioned, it would be impossible for Western Europe to pay for Russian energy, making this – in effect – equivalent to a full Russian energy embargo. Sanctioning only some banks – as is now the case – allows Russian energy exports to continue, preserving the current account surplus and Russia's rapid foreign asset accumulation. Prior to sanctions, much of that foreign asset accumulation happened via central bank FX reserves. Since the CBR is now sanctioned, foreign asset accumulation has shifted to non-sanctioned entities. In other words, existing sanctions are re-jiggering foreign asset accumulation, not stopping it. Only an energy embargo or sanctions on all banks will do that. None of this should be understood, however, to mean that sanctions haven't worked. They absolutely have. The most vivid illustration of this is the imposition of capital controls after CBR FX reserves were sanctioned, a step that is unpopular and likely costing Putin substantial political capital.

Exhibit 1. Tanker traffic out of Russia is up, …



Source: Haver, IIF

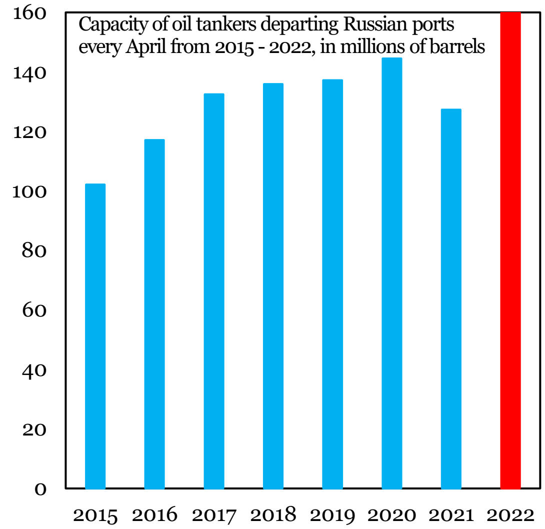
Exhibit 2. … with Greece accounting for most of that.



Source: Haver, IIF

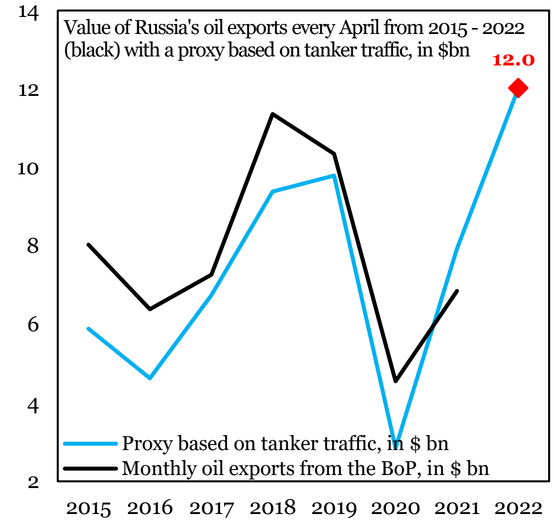
Our high-frequency tracking of tanker ships transporting Russian oil to the rest of the world points to large shipments underway (Exhibit 1), with composition shifting towards Greek ships since Russia's invasion of Ukraine (Exhibit 2). To adjust for seasonality, we compare volumes this month to April in previous years, where we extrapolate the volume of ships in the first half of April 2022 to the full month. This comparison shows that shipments are proceeding at a record pace (Exhibit 3), which – even allowing for the sizable discount on Russian crude relative to global benchmarks – means that oil export revenues are likely to surpass by a large margin the same month in previous years (Exhibit 4).

Exhibit 3. The current pace of tanker shipments, …



Source: Haver, IIF

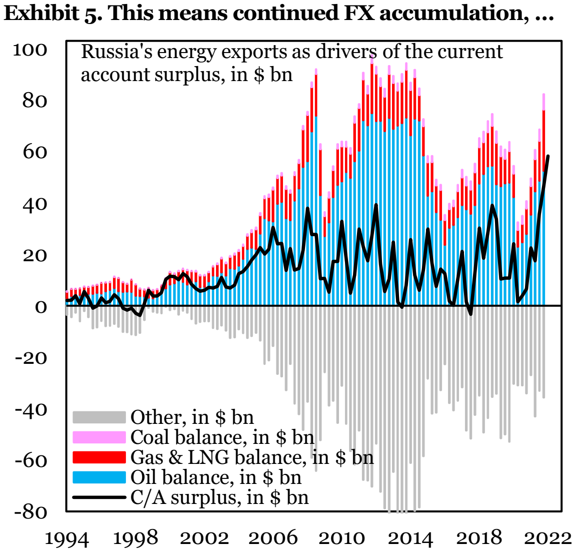
Exhibit 4. … boosts the current account surplus a lot.



Source: Haver, IIF

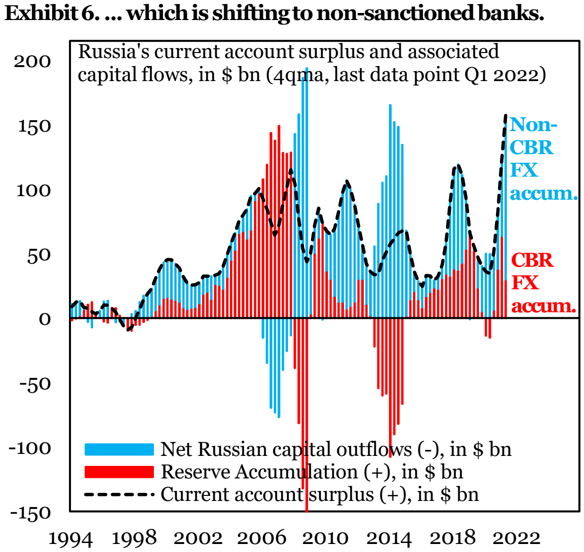
Russia's current account surplus is therefore likely to grow substantially, as Elina Ribakova has flagged. EU sanctions on coal are unlikely to change this, given that coal exports play a small role compared to oil and gas (Exhibit 5). Russia's ongoing current account surplus means that foreign asset accumulation, the flip-side of the current account surplus – must also keep growing. After all, payments in hard currency are still being made for Russian energy. Prior to sanctions, much of this foreign asset accumulation happened via rising official reserves at the central bank. Now that the CBR has been sanctioned, this accumulation is shifting to non-sanctioned banks (Exhibit 6). The current sanctions regime is thus re-jiggering foreign asset accumulation, not stopping it. Only sanctions on all Russian banks – equivalent to an energy embargo – would do that. None of this means, of course, that sanctions haven't worked. The opposite is true. In the past, when Russia experienced adverse shocks like in 2008 or 2014, there was always substantial capital flight, which the central bank accommodated by selling its FX reserves. Sanctions make that impossible now, requiring the imposition of capital controls, an unpopular step that is likely costing Putin political capital. Capital controls are thus perhaps the most vivid indication of how impactful existing sanctions have been.

Exhibit 5. This means continued FX accumulation, …



Source: Haver, IIF

Exhibit 6. … which is shifting to non-sanctioned banks.



Source: Haver, IIF

