

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

trends and challenges of socio-economic development

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BALANCE OF PAYMENTS IN Q1 2025

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In Q1 2025, the current account surplus of the RF balance of payments dropped by 17% compared with Q1 2024. The deficit of the financial account balance in Q1 2025 was largely generated due to growth of foreign assets and a slight increase in foreign liabilities. In Q1 2025, the ruble appreciated against the US dollar by 17.7%.

According to preliminary assessment of the RF balance of payments published by the Bank of Russia, the current account balance in Q1 2025 amounted to \$19.8bn, which is 17% less than the current account balance in Q1 2024 (\$23.9bn – a reduction in absolute terms by \$4.1bn). Due to less details of the balance of payments of the Russian Federation published by the Bank of Russia compared to previous years, the structure of the current account operations can be summarized only in terms of three main balances: trade in goods, trade in services, and balance of primary and secondary incomes.

Balance of trade in goods constituted \$32.5 bn, which is by 6.6% (by \$2.3 bn) less than the value in Q1 2024 (\$34.8 bn). Reduction in exports of goods from \$101.9 bn in Q1 2024 to \$97.5 bn in Q1 2025 or 4.3% and a smaller reduction in shipments of imported goods by \$3.3 bn or 3.3% (to \$64.8 bn in Q1 2025 compared to \$67.1 bn in Q1 2024) played a determining role in this decline.

Such dynamics of exports is due to the following: in January-March 2025, physical volume of supplies of Russian products remained at Q1 2024 level with a slight decline in prices for basic goods of Russian exports, i.e. oil, petroleum products, grain, coal, ferrous and non-ferrous metals.

The observed dynamics of goods' imports has been caused by a gradual slowdown in the growth rates of economic activity in the Russian Federation, as rates of economic growth stabilize close to potential levels. This was also accompanied by strengthening of the national currency: according to the Bank of Russia, growth of index of the real ruble/US dollar exchange rate in Q1 2025 vs. Q1 2024 amounted to 4.4%, which means a relative cheapening of import supplies.¹ Thus, reduced demand for imports coupled with logistical difficulties

1 On the impact of exchange rate dynamics on trade ref. A.Y. Knobel, Estimating the import demand function in Russia // Applied Econometrics. 2011. No.4 (24). p.p.3-26; A. Knobel, A. Firanchuk. Russia in world exports in 2017 // Economic development of Russia. 2018. No.9. p.p.17-21.

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and cross-border payments, resulted in reduced supplies despite their relative cheapening.

Balance in trade in services in Q1 2025 constituted \$7.4 bn, not differing from a similar value for Q1 2024. Moreover, there was a decline in both exports (by 3%, from \$10.1 bn in Q1 2024 to \$9.8 bn in Q1 2025) and imports (by 1.7%, from \$17.5 bn in Q1 2025 to \$17.2 bn in Q1 2024). Finally, both of these changes, identical in absolute terms, contributed to the co-maintenance of the balance of trade in services.

Balance in primary and secondary incomes has significantly changed, having interrupted its slowdown, which started already in Q2 2022. Precisely, it amounted to -\$5.4 bn in Q1 2025, which is 54% higher than similar figure in Q1 2024 (-\$3.5 bn). Meanwhile, in Q1 2025, the income receivable fell by \$1.8 bn (from \$9.4 bn to \$7.6 bn), while the income payable remained almost unchanged at \$13 bn (from \$9.4 bn to \$7.6 bn).

In the coming quarters, due to ongoing capital controls, difficulties in repatriation of profits from Russia by foreign investors and EU and US restrictions on counterparties from these jurisdictions, primary and secondary income payable will not grow, while their balance will remain low, however, income receivable will likely continue to decline faster than income payable. Imports in value terms are likely to remain stable due to the need to maintain purchases of investment and intermediate goods and growth in the global prices. However, exports in value terms will stagnate, as, on the one hand, physical volumes of supplies will not grow, and, on the other hand, prices for basic commodities of Russian exports (oil, petroleum products, metals, grains) due to growing uncertainty in the global economy are unlikely to be higher than in 2024.

Financial account of the RF balance of payments is presented by aggregated data on net external assets and liabilities of all sectors of the economy. In Q1 2025, deficit of the financial account of the balance of payments, excluding reserve assets, totaled \$13.3bn, while in Q1 2024 it reached \$29.1bn. Net capital outflow was shaped mainly due to growth of foreign assets with a slight increase in foreign liabilities.

Growth of foreign assets (excluding reserve assets) in Q1 2025 reached \$18.4bn, which is 26% lower than in Q1 2024 (\$24.8bn). The increase in foreign assets was mainly due to growth in other investments.

Liabilities of all sectors of the Russian economy to non-residents in Q1 2025 increased by \$5.1bn, while in Q1 2024 they declined by \$4.3bn. This was due to a decline in net repayment of external loans and borrowings, as well as growth in direct investments.¹ The increasing liabilities of Russian economic agents to foreign agents may reflect, inter alia, investors' cautious optimism regarding possible stabilization of geopolitical situation and easing of sanctions against the Russian Federation.

In Q1 2025, Russia's external debt grew by 7.6% to \$312.4bn. The increase in liabilities to the outer world was observed in all sectors of the economy. Thus, the external debt of the public sector grew by 8.7% to \$21bn. External liabilities of the banking sector increased by 7% in Q1 2025 to \$102.2bn. External debt of other sectors increased by 7.9% to \$189.2bn.

Reserve assets of the Russian Federation shrank in Q1 2025 by \$5.9bn (-\$6.9bn in Q1 2024) due to sales of foreign currency as part of activities involving the

1 Balance of payments of the Bank of Russia No.1 (22), Q1 2025.

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National Welfare Fund. In Q1 2025, Russia's international reserves grew by 6.3% to \$647bn mainly due to positive revaluation.

It should be noted that in Q1 2025 the volume of operations of the RF Ministry of Finance on net sale of foreign currency in the domestic foreign exchange market amounted to Rb 316.2bn (Rb 361.9bn in Q4 2024). Of this amount, the volume of foreign exchange purchases as part of regular operations under the budget rule (in the amount of additional oil and gas revenues) for Q1 2025 totaled Rb 196.8bn¹ (for Q4 2024 – Rb 273.7 bn), whereas the amount of adjustment² announced by the RF Ministry of Finance, the volume of operations under the budget rule in terms of selling foreign currency from the NWF amounted to about Rb 513.0bn (Rb 635.6bn). In Q1 2025, the ruble appreciated against the US dollar by 17.7% to Rb 83.7 per US dollar as a result of these trends. Furthermore, this was due to both fundamental state of the balance of payments, which in Q4 2024 remained consistently positive with relatively high prices for main Russian-made goods, positive investor expectations regarding lifting of sanctions and restrictions against Russia and maintaining a tight monetary policy by the Bank of Russia, which made ruble assets attractive.

According to our estimates, if Brent oil prices remain at \$65–75/bbl, and taking into account the acting monetary and fiscal policy in 2025, the ruble exchange rate will be in the range of Rb 90–100/US dollar. ▲

1 RF Ministry of Finance, Details on generating and using additional oil and gas revenues of the federal budget in 2018-2024.

2 Regular transactions under budgetary rule are adjusted for the net amount of the following transactions: difference between the volume of currency purchases deferred from August 10 to December 31, 2023 under budget rule and the volume of the NWF expenditures to finance budget deficit for 2023 beyond budget rule, as well as currency sales to the extent of net investment of the NWF funds.