The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Financial Regulator Admits High Flight

By Irina Filatova

November 01, 2011

Capital flight from Russia might reach $70 billion this year, as foreign investors have been taking money out of the country due to turbulence in the global economy, the Central Bank said Tuesday.

"An important reason for the activation of capital exports is the changing sentiment of foreign investors, which were taking money from Russian instruments amid increased uncertainty in the global financial markets," the bank said in a draft containing major highlights of the country's monetary policy for the next three years, RIA-Novosti reported.

Another reason for the fleeing capital is the country's unfavorable investment climate, which results in domestic investors turning to foreign assets, rather than investing at home, according to the document that the Central Bank sent to the State Duma for approval.

In its initial forecast released earlier this year the Central Bank said it expected capital flight to reach $36 billion in 2011. The revised forecast is above the levels of 2009 and 2010, when capital flight reached $56.1 billion and $35.3 billion, respectively, according to Central Bank figures.

According to the regulator, Russia saw a total of $49.3 billion in capital outflow in January through September, compared with $14.3 billion in the first nine months of last year, and the bank's first deputy chairman, Alexei Ulyukayev, said last month that the whole year's figure could amount to $50 billion.

Capital outflow is likely to reach $60 billion to $70 billion this year, as the situation on global markets gradually improves, but is still far from rosy, analysts said.

The capital outflow increased in September dramatically due to volatility on global markets, bringing the third quarter's total to $18.7 billion, but it's likely to decline a bit to reach $10 billion to $15 billion in the fourth quarter, said Alexei Devyatov, chief economist at UralSib Capital.

"The volatility might calm down a bit. We see certain efforts on the side of European Union countries to tackle debt problems," he said by phone.

"This improves the prospects of the Russian economy as well, because the situation in the domestic economy largely depends on the global situation," he said.

The outflow in the first three quarters of this year resulted from two major factors, said Vladimir Tikhonov, chief economist at Otkritie Capital.

Investors were leaving the risky domestic stock market amid global volatility, and low deposit rates, along with the weak ruble, didn't add to Russia's attractiveness, with domestic exporters depositing part of their currency gains abroad, he said.

If this trend remains, Russia is likely to see about $70 billion in capital outflow this year, Tikhonov said.

"The situation inspires no great optimism yet, and investors are likely to continue taking money out of the Russian market," he said.

Original url:
https://www.themoscowtimes.com/2011/11/01/financial-regulator-admits-high-flight-a10558