

# Tensions in Ukraine Lead to Surge in Capital Outflow

By [The Moscow Times](#)

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A surge in capital outflows from Russia underscores how international tensions over Ukraine are adding to the woes of Russia's already struggling economy.

Russia's Central Bank has published balance of payments data that showed an estimated \$63.7 billion in net capital outflow in the first three months of this year — as much as the \$63 billion in outflows seen during the whole of 2013.

The bank first published a figure of \$50.6 billion on Tuesday, but later included an adjusted total to add \$13.2 billion in forex transactions between banks and the Central Bank, which analysts say provides a clearer picture of total capital flight.

The surge coincides with slumping investment and a sharp deterioration in business confidence, as forecasters slash economic growth forecasts after Russia's annexation of Crimea and warnings it could intervene further in Ukraine.

"Of course it is the conflict with Ukraine and the uncertainty about potential [military] operations in eastern Ukraine that triggered such big outflows," said Alexei Devyatov, economist at UralSib.

Alfa Bank economist Natalya Orlova said the Ukraine crisis was only one factor, as outflows were already strong even before the threat of Russian military intervention in Ukraine.

Domestic investment by Russian companies fell by 7 percent in January and by 3.5 percent in February, compared with a year earlier, illustrating how rising capital outflows coincide with declining willingness to invest in production in Russia.

"Overall the net capital outflows reflect general concern about financial stability, and also declining incentives to invest in large operational activities by Russian companies," she said.

Recent surveys suggest that business confidence is now the lowest since 2008.

Reacting to such trends, President Vladimir Putin has called for the business climate to be improved "substantially" and "at an accelerated pace," though previous such exhortations have delivered scant results.

VTB Capital economist Vladimir Kolychev said the outflow was being driven by companies and ordinary households, which have been rushing to convert their ruble savings into dollars.

"The most important factor behind this huge capital outflow was savings dollarization," he said.

Households' demand for foreign currency in the first quarter, \$19.6 billion, was the highest since the fourth quarter of 2008, while banks' foreign assets reached \$35 billion, also close to levels last seen in the 2008 financial crisis.

"Of course we see substantial increases in currency purchases by Russian residents as a reaction to ruble weakness — which was triggered by capital outflow. These things are self-supporting in a sense," said UralSib's Devyatov.

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