



BUSINESS

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Capital outflows highlight risk to Russian economy

In the third quarter of 2008, Russia may face an outflow of capital - for the second time this year. The Central bank has forecast an annual inflow of around 40 billion dollars. But experts say Russia will only hit that target if the situation in the global markets stabilizes.

Russia's central bank says this time it is the foreign debts of Russian companies that stand behind capital outflow. Oil company Rosneft, alone, has to pay back \$22 billion by the end of the year. Vladimir Tikhomirov, Chief Economist at Uralsib says there is a mountain of debt to be repaid by Russian companies.

In the first half of 2007, the Russian private sector on the whole, including banks and corporates, did manage to attract quite a significant amount of money – somewhere to the tune of about \$70 Billion. The large bulk of this had a duration of up to 12 months

Capital outflow is also a signal of decreasing interest by foreign investors in the Russian market. They are pulling money out of emerging economies to cover losses stemming from the financial crisis.

Kevin Dougherty of Pharos Financial group says the fear of a world-wide slow down is the key influence on investors.

In regards to the Russian equity market, it would be better if oil prices were to drop closer to \$100 per barrel because a high oil price and high other commodity prices are having a very negative impact on international financial markets. And that's a much bigger factor that will drive Russian equity markets down, rather than high commodity prices supporting Russia.

Russia seems to be between the hammer and the nail because a sharp correction in the oil price may also hit stock markets, as Vladimir Tikhomirov explains.

If oil starts to correct, and correct in a relatively short time, and by a significant amount. I think the Russian market might come under pressure. The Russian stock market is still about 60% dependent on oil – oil companies, oil service companies or gas companies.

According to some estimates an oil price returning to 90 dollars per barrel could result in 40 billion dollars leaving the country by the end of the year. Some hot speculative money is expected if the Central bank continues to support the Rouble. However this may drive inflation that, at a current rate of 15% is already discouraging foreign investors.
