

## Cross-border Capital Flows on a Gross Basis

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### Abstract

Unlike other major emerging market economies, Russia has been consistently experiencing large capital outflows over a relatively long period of time, which has attracted special attention of the public to this phenomenon. It has brought to the analytical scrutiny the underlying reasons, nature, and forms of financial flows. The key to the perceived problem was expected to be found with the help of additional broad-spectrum data on gross flows.

Limitations to gross-basis compilation were primarily due to the lack of data for certain classes of units and for some financial instruments. While *Central Bank* and *General Government* sectors' data were available, in principle, and of good quality, compiling gross data for *Other sectors* and particularly for *Banks* represented a formidable challenge.

In assessing the quality of the produced gross flows data, the main problem in coverage may be attributed to the lack of information on *Portfolio Investment* flows, as they are most likely very large, especially on the liabilities' side. Assets-side data are not as much important for Russia. Notwithstanding the above, the Bank of Russia's recent work on gross flows has yielded broadly reliable data for analytical use and policy making.

Gross data on financial flows are many-times larger than net basis data and by far exceed the size of other cross-border transactions. The bulk of financial flows relate to short-term instruments which, in turn, largely consist of banks' current accounts and deposits with the prevailing current accounts' share.

*Keywords: balance of payments, private capital flows*

### Introduction

1. From both the analytical and pragmatic perspectives, net recording of flows in financial assets and liabilities is the generally recommended balance of payments (BOP) compilation approach. Nonetheless, data on gross flows are useful for analyzing market turnover and market behavior. Therefore, where practical to do so, the data could be made available to users comprehensively or only for particular components on a gross basis (see *Balance of Payments and International Investment Position Manual, 6-th edition*).
2. As the BOP data provide the main source for the analysis of large capital outflows experiencing over a relatively long period of time by Russia, its traditional net basis of data presentation has become insufficient for in-depth research. The key to the perceived problem was expected to be found with the help of additional broad-spectrum data on gross flows, which generated considerable demand for the data on behalf of Russia's economists and macroeconomic policy-makers. In response to the government and other users' requests, a new Russian BOP monthly presentation for 2010 and 2011 on gross basis has been prepared by the Bank of Russia, as described below.

### Gross flows recording scope and methods

3. Monthly tables covering gross flows have been compiled for the two years, posted on the official website of the Bank of Russia. For illustrative purposes, the Russian BOP compilers have presented the 2010 and 2011 BOP component data in a three-column break down into Credits, Debits and Net, instead of the usual single column with one item following the other. The BPM5 sign convention has been used.
4. Limitations to BOP components' gross-basis compilation were primarily due to the lack of data for certain classes of units and for some financial instruments. While Central Bank and General Government sectors' data were available, in principle, and of good quality, compiling gross data for Banks and Other sectors represented a formidable challenge.
5. In practical terms, the most difficult has turned out to be the problem with the information on banks which report their data on flows on net basis. Nevertheless, the banks' accounting records with account-specific credits and debits turnover data are regularly made available to the Bank of Russia, which have been selected as BOP flows' information sources. There are a few other reports received by the Bank of Russia which contain flows data on a gross basis. Such reporting forms have not been designed to show transactions separately from other valuation changes while they provide currency composition of the banks' assets and liabilities stocks' data. Thus, using the currency structure, the

- BOP compilers' task has been to retrieve from the banks' accounts credits and debits with non-residents data on monthly transactions through elimination of exchange rate changes
6. Other sectors' credits and debits data for Direct Investment and Loans have been broadly sufficient. However, Portfolio Investment flows' data have been lacking and could not be compiled, because one of the primary information sources used for compiling that component are custodian reports that contain only stocks' data.

#### Outcomes of the gross presentation of the Russian BOP

7. The magnitudes of Russia's incoming and outgoing gross flows in 2010 and 2011 appear almost equal, as they are so large in relation to the resulting net flows' amounts. Of course, we have always known that gross data are conceptually many-times larger than net basis data. But it was for the first time that we were able to gauge the difference in the case of Russia using the actual data.

#### Private sector flows

8. *Net* private sector capital outflows from Russia in 2010 and 2011 amounted to USD 34.4 billion and USD 80.5 billion, respectively. Measured in terms of Russia's annual merchandise exports, the above net capital outflows' amounts were modest being equivalent in 2010 to 9 percent and in 2011 to 15 percent of the corresponding period's goods' export<sup>1</sup>. The magnitudes of gross private capital outflows from Russia, in contrast, were in 2010 some 58.9 times and in 2011 some 53.5 times greater than the country's goods' exports. The size of gross private capital inflows in the same two years was, in proportion, 58.8 times and 53.3 times greater than Russia's merchandise exports.
9. The bulk of Russia's private sector gross capital flows were related to the banking sector, which accounted for 98.3 - 98.7 percent of gross private sector inflows and outflows totals in 2010-2011.

**Chart 1. Inflows and Outflows of Private Capital in 2011 and 2010  
(On Balance of Payments Gross Basis Data)**

	Bln. of USD	
	2011	2010
<i>Private sector, total</i>		
<b>Net flows</b>	<b>-80.5</b>	<b>-34.4</b>
<b>Gross outflows (-)</b>	<b>-27 926.3</b>	<b>-23 600.8</b>
<b>Gross inflows (+)</b>	<b>27 845.8</b>	<b>23 566.4</b>
<i>Banks</i>		
<b>Net flows</b>	<b>-24.2</b>	<b>15.9</b>
Short-term	-10.4	18.6
Long-term	-13.8	-2.7
<b>Gross outflows (-)</b>	<b>-27 449.2</b>	<b>-23 232.7</b>
Short-term	-27 314.1	-23 114.0
Long-term	-135.2	-118.7
<b>Gross inflows (+)</b>	<b>27 425.1</b>	<b>23 248.5</b>
Short-term	27 303.7	23 132.7
Long-term	121.4	116.0
<i>Other sectors</i>		
<b>Net flows</b>	<b>-56.4</b>	<b>-50.3</b>
<b>Gross outflows (-)</b>	<b>-477.1</b>	<b>-368.1</b>
<b>Gross inflows (+)</b>	<b>420.7</b>	<b>317.8</b>

In some cases minor discrepancies between totals and sums of components are due to rounding.

1. The gross flows data have been rescaled in terms of Russia's respective annual exports of goods data to simplify the presentation.

**Chart 2. Inflows and Outflows of Private Capital in 2011 and 2010  
(In terms of same period Exports of Goods)**

	<b>2011</b>	<b>2010</b>
<i>Private sector, total</i>		
<b>Net flows</b>	<b>-0.15</b>	<b>-0.09</b>
<b>Gross outflows (-)</b>	<b>-53.50</b>	<b>-58.91</b>
<b>Gross inflows (+)</b>	<b>53.34</b>	<b>58.82</b>
<i>Banks</i>		
<b>Net flows</b>	<b>-0.05</b>	<b>0.04</b>
Short-term	-0.02	0.05
Long-term	-0.03	-0.01
<b>Gross outflows (-)</b>	<b>-52.58</b>	<b>-57.99</b>
Short-term	-52.32	-57.69
Long-term	-0.26	-0.30
<b>Gross inflows (+)</b>	<b>52.54</b>	<b>58.03</b>
Short-term	52.30	57.74
Long-term	0.23	0.29
<i>Other sectors</i>		
<b>Net flows</b>	<b>-0.11</b>	<b>-0.13</b>
<b>Gross outflows (-)</b>	<b>-0.91</b>	<b>-0.92</b>
<b>Gross inflows (+)</b>	<b>0.81</b>	<b>0.79</b>

10. It is noteworthy, that on the assets side gross short-term capital flows through current accounts and deposits of Russian banks' stood in 2010 at 43.4 times the country's goods' exports, whereas they decreased to 37.7 - 37.8 times the size of 2011 annual exports of goods given the rapid growth of the country's merchandise exports' from USD 400.6 billion in 2010 to USD 522.0 billion in 2011 (by 30.3 percent).
11. On the liabilities side, gross short-term capital flows through the banks' current and deposit accounts followed a different trend, as they somewhat increased in 2011 to 13.5 times in proportion to Russia's respective exports from 13.3 times the exports' size in the previous reporting year.
12. Long term bank assets' and liabilities' flows remained in the 2010-2011 period within the 23-to-30 percent of the annual goods' exports range.

#### *Official capital flows*

13. Central Bank and General Government gross capital inflows and outflows largely represented Russia's monetary authorities' transactions in reserve assets. The volume of such operations in 2011 decreased in proportion to the country's merchandise exports to 12.6 times the annual amount from 18.5 - 18.7 times the respective amount in 2010.

#### **Overall quality assessment results**

14. In assessing the quality of the produced gross flows data, the main problem in coverage may be attributed to the lack of information on Portfolio Investment flows, as we recognize that they are probably very large, especially on the liabilities' side. Assets-side data are not as much important for us. We take comfort in that Russia does not have advanced financial markets yet.
15. Notwithstanding the above, on balance, the Bank of Russia's recent work on gross flows has yielded broadly reliable data for analytical use and policy making.

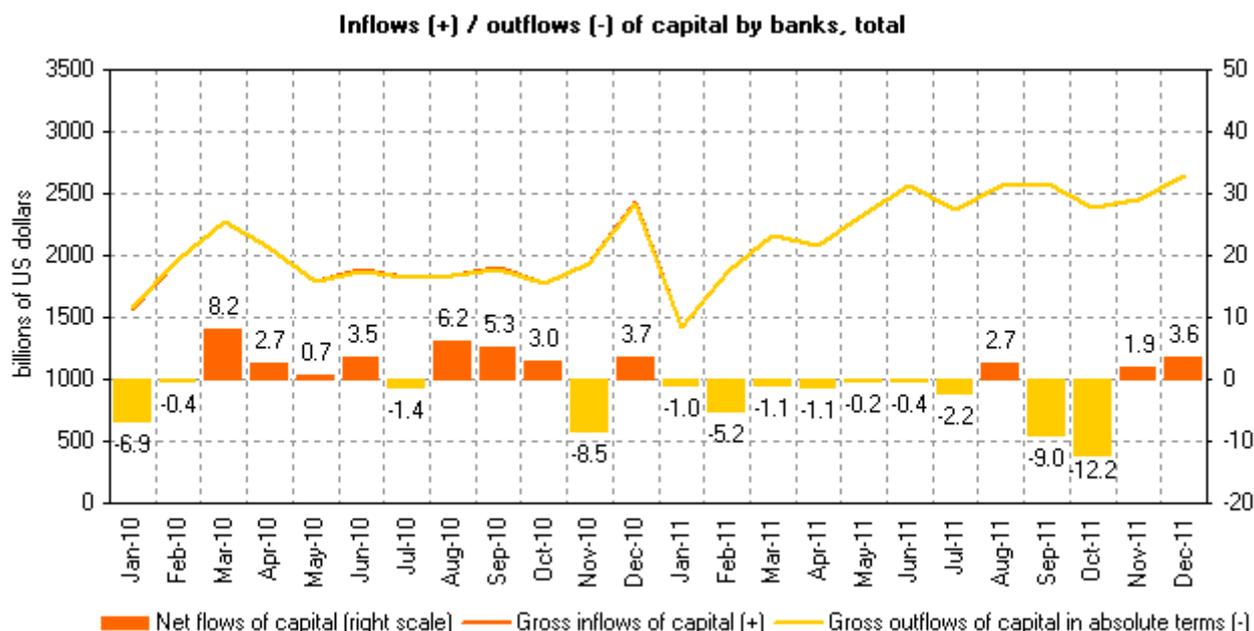
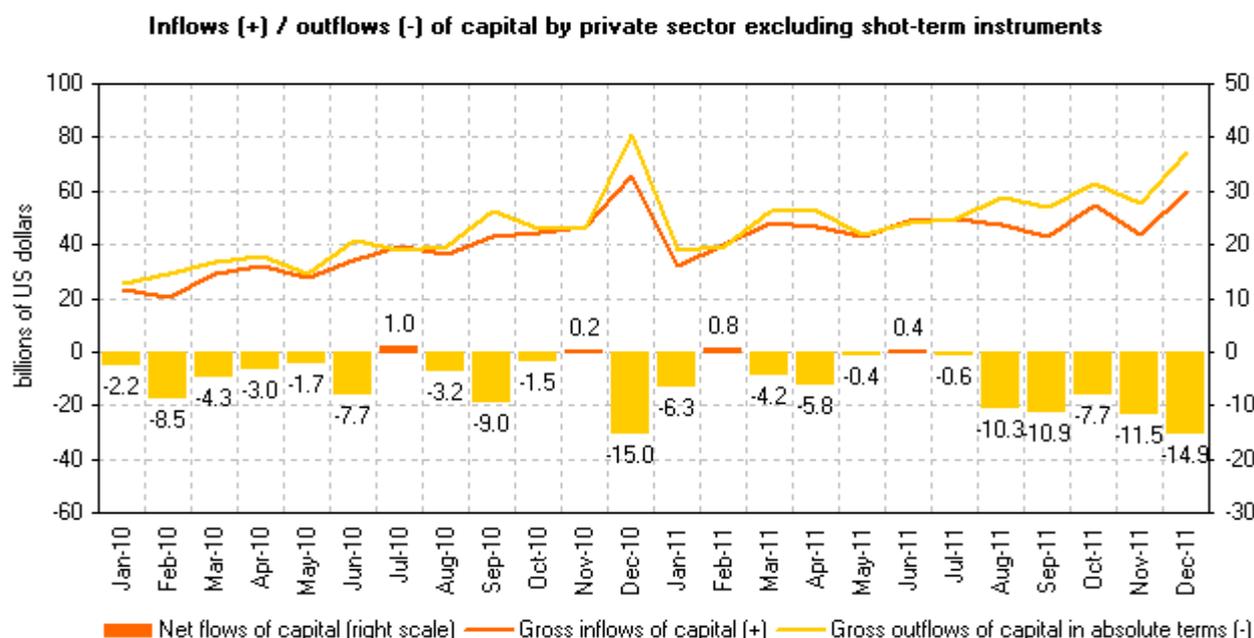
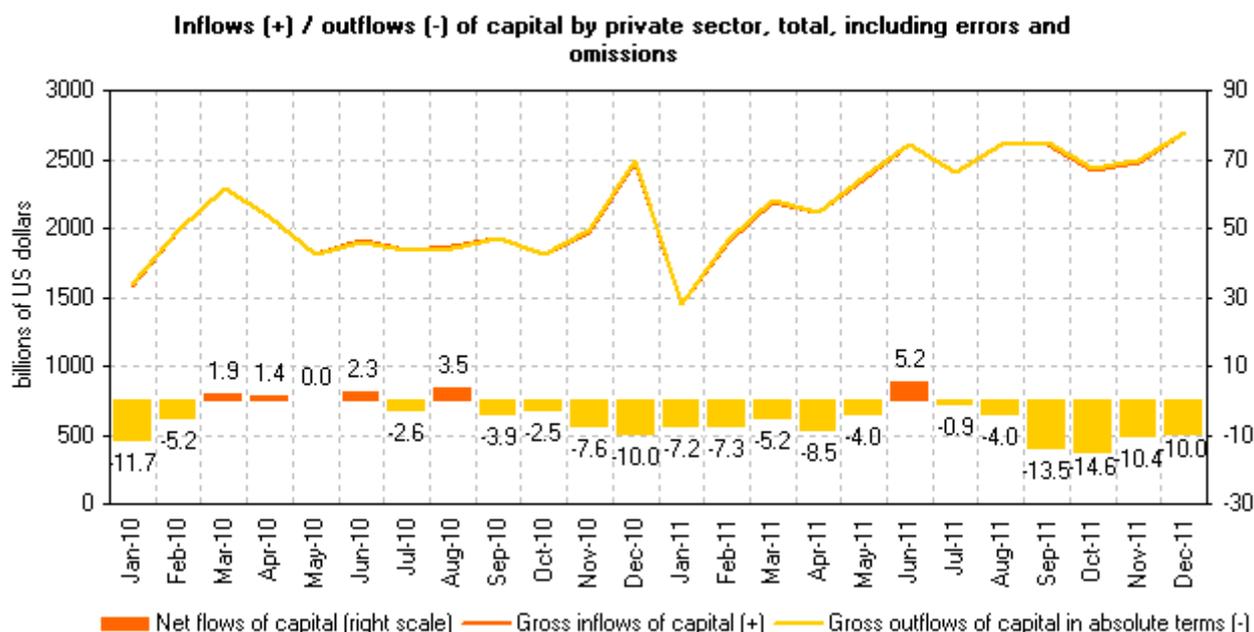
#### **Conclusions**

16. First, the BPM6's gross basis BOP compilation and reporting recommendation is quite possible to implement in practice.  
Second, financial transactions' flows by far exceed the size of other BOP entries.  
Third, the bulk of financial flows relate to short-term instruments which, in turn, largely consist of banks' current accounts and deposits with the prevailing current accounts' share.  
Fourth, resident financial intermediaries have very large gross flows with nonresident related parties resulting with negligible net balances.  
Fifth, only advanced information users are aware how to interpret the new data.

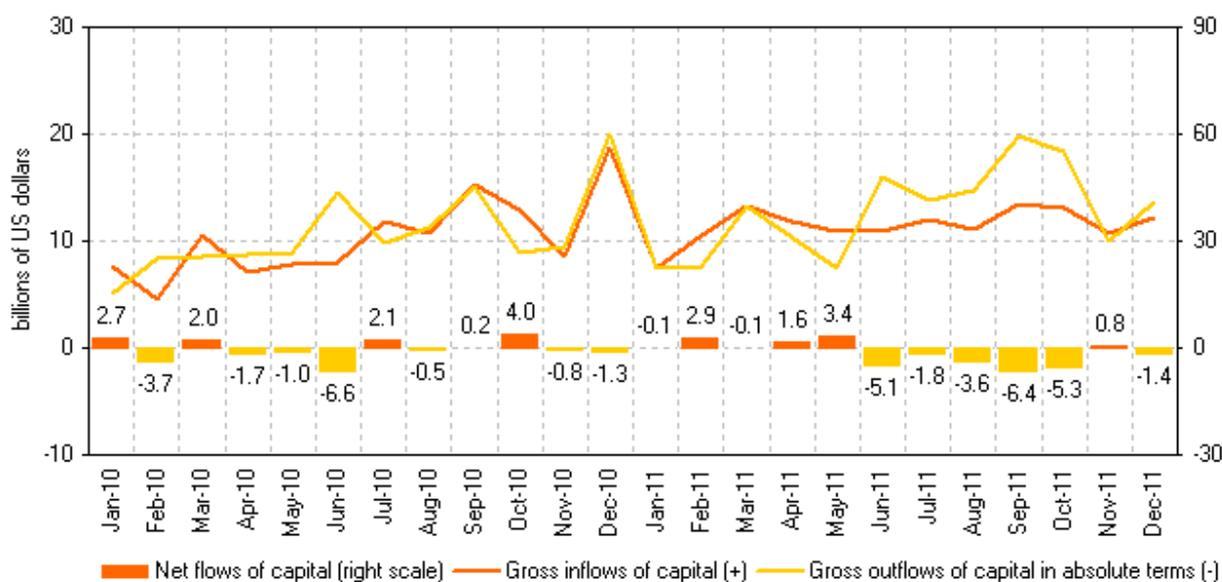
**Balance of Payments of the Russian Federation for 2011 and 2010 on Gross Basis**  
**Credit and Debit Presentation**

billions of US dollars

	2011			2010		
	Credits	Debits	Net	Credits	Debits	Net
<b>TOTAL</b>	<b>35 064,2</b>	<b>-35 064,2</b>	<b>0,0</b>	<b>31 505,6</b>	<b>-31 505,6</b>	<b>0,0</b>
<b>Current account transactions</b>						
	2011			2010		
	Exports of goods and services, income and transfers receivable (+)	Imports of goods and services, income and transfers payable (-)	Balance	Exports of goods and services, income and transfers receivable (+)	Imports of goods and services, income and transfers payable (-)	Balance
<b>Current account</b>	<b>634,8</b>	<b>-535,9</b>	<b>98,8</b>	<b>492,9</b>	<b>-421,8</b>	<b>71,1</b>
Goods	522,0	-323,8	198,2	400,6	-248,6	152,0
Services	54,0	-90,0	-36,0	45,0	-73,7	-28,7
Compensation of employees	3,9	-13,4	-9,5	3,6	-12,1	-8,5
Investment income	38,5	-89,2	-50,8	33,7	-73,8	-40,1
Current transfers	16,4	-19,6	-3,2	10,0	-13,6	-3,6
<b>Inflows and outflows of private capital</b>						
	2011			2010		
	Gross inflows of capital (+)	Gross outflows of capital (-)	Net flows of capital	Gross inflows of capital (+)	Gross outflows of capital (-)	Net flows of capital
<b>Inflows/outflows of capital by private sector, including net errors and omissions (1+2)</b>	<b>27 845,8</b>	<b>-27 926,3</b>	<b>-80,5</b>	<b>23 566,4</b>	<b>-23 600,8</b>	<b>-34,4</b>
<b>1. Inflows/outflows of capital by banks, total (1.1+1.2)</b>	<b>27 425,1</b>	<b>-27 449,2</b>	<b>-24,2</b>	<b>23 248,5</b>	<b>-23 232,7</b>	<b>15,9</b>
<i>1.1. Inflows/outflows of capital by banks relating to their foreign assets (Inflows mean decrease in assets, outflows mean increase in assets)</i>	<i>19 703,5</i>	<i>-19 735,5</i>	<i>-32,0</i>	<i>17 389,6</i>	<i>-17 391,4</i>	<i>-1,8</i>
of which in the form of:						
Direct investment	1,5	-2,5	-0,9	0,8	-1,8	-1,0
Portfolio investment	1,4	-6,9	-5,5	4,0	-7,5	-3,6
Financial derivatives	15,4	-0,5	14,8	7,8	-0,3	7,5
Current accounts, deposits and loans	19 674,2	-19 712,3	-38,1	17 366,5	-17 372,5	-6,0
Short-term	19 637,3	-19 656,0	-18,6	17 327,2	-17 322,4	4,8
Long-term	36,8	-56,3	-19,5	39,4	-50,1	-10,7
Other assets	11,0	-13,4	-2,4	10,6	-9,3	1,2
Short-term	4,5	-6,6	-2,2	5,5	-4,0	1,4
Long-term	6,5	-6,7	-0,2	5,1	-5,3	-0,2
<i>1.2. Inflows/outflows of capital by banks relating to their foreign liabilities (Inflows mean increase in liabilities, outflows mean decrease in liabilities)</i>	<i>7 721,6</i>	<i>-7 713,8</i>	<i>7,9</i>	<i>5 858,9</i>	<i>-5 841,3</i>	<i>17,7</i>
of which in the form of:						
Direct investment	11,3	-5,6	5,6	8,6	-3,2	5,5
Portfolio investment	3,0	-4,9	-1,9	3,3	-1,9	1,4
Financial derivatives	0,4	-16,6	-16,1	0,4	-9,7	-9,3
Current accounts, deposits and loans	7 126,6	-7 106,6	19,9	5 385,2	-5 365,9	19,3
Short-term	7 071,4	-7 060,2	11,2	5 335,6	-5 322,1	13,5
Long-term	55,2	-46,5	8,7	49,6	-43,8	5,8
Other assets	580,4	-580,0	0,4	461,4	-460,6	0,8
Short-term	574,7	-574,2	0,5	456,2	-455,5	0,7
Long-term	5,7	-5,8	-0,1	5,2	-5,1	0,1
<b>2. Inflows/outflows of capital by other sectors, including net errors and omissions (2.1+2.2+2.3)</b>	<b>420,7</b>	<b>-477,1</b>	<b>-56,4</b>	<b>317,8</b>	<b>-368,1</b>	<b>-50,3</b>
<i>2.1. Inflows/outflows of capital by other sectors relating to their foreign assets (Inflows mean decrease in assets, outflows mean increase in assets)</i>	<i>102,5</i>	<i>-211,0</i>	<i>-108,5</i>	<i>96,7</i>	<i>-163,6</i>	<i>-66,9</i>
of which in the form of:						
Direct investment	37,1	-103,4	-66,3	22,9	-73,7	-50,9
Portfolio investment	5,8	-10,9	-5,1	6,3	-6,2	0,1
Cash foreign currency ("-" means acquisition of foreign currency, "+" means disposal of foreign currency by residents from/to nonresidents)	22,8	-18,8	4,0	28,7	-14,5	14,2
Fictitious transactions	0,5	-32,8	-32,3	0,3	-30,9	-30,6
Other assets	36,3	-45,2	-8,9	38,6	-38,3	0,3
<i>2.2. Inflows/outflows of capital by other sectors relating to their foreign liabilities (Inflows mean increase in liabilities, outflows mean decrease in liabilities)</i>	<i>314,2</i>	<i>-252,0</i>	<i>62,2</i>	<i>213,7</i>	<i>-188,9</i>	<i>24,9</i>
of which in the form of:						
Direct investment	222,7	-175,4	47,3	134,8	-97,0	37,8
Portfolio investment	3,1	-9,5	-6,4	1,7	-6,7	-5,1
Loans	82,3	-60,9	21,5	73,0	-79,3	-6,3
Other liabilities	6,1	-6,2	-0,2	4,3	-5,8	-1,6
<i>2.3. Net errors and omissions</i>	<i>4,1</i>	<i>-14,0</i>	<i>-10,0</i>	<i>7,4</i>	<i>-15,7</i>	<i>-8,3</i>
<b>Inflows and outflows of capital by general government and monetary authorities</b>						
	2011			2010		
	Gross inflows of capital (+)	Gross outflows of capital (-)	Net flows of capital	Gross inflows of capital (+)	Gross outflows of capital (-)	Net flows of capital
<b>Inflows/outflows of capital by general government and monetary authorities (1+2)</b>	<b>6 583,7</b>	<b>-6 601,9</b>	<b>-18,2</b>	<b>7 446,1</b>	<b>-7 482,8</b>	<b>-36,7</b>
<b>1. Inflows/outflows of capital by general government, total (1.1+1.2)</b>	<b>12,1</b>	<b>-16,9</b>	<b>-4,9</b>	<b>16,7</b>	<b>-14,3</b>	<b>2,5</b>
<i>1.1. Inflows/outflows of capital relating to foreign assets</i>	<i>3,5</i>	<i>-7,7</i>	<i>-4,2</i>	<i>4,4</i>	<i>-6,2</i>	<i>-1,8</i>
<i>1.2. Inflows/outflows of capital relating to foreign liabilities</i>	<i>8,6</i>	<i>-9,3</i>	<i>-0,7</i>	<i>12,3</i>	<i>-8,0</i>	<i>4,3</i>
<b>2. Inflows/outflows of capital by monetary authorities, total (2.1+2.2+2.3)</b>	<b>6 571,6</b>	<b>-6 585,0</b>	<b>-13,3</b>	<b>7 429,4</b>	<b>-7 468,6</b>	<b>-39,2</b>
<i>2.1. Inflows/outflows of capital relating to foreign assets (excluding reserve assets)</i>	<i>2,3</i>	<i>-2,3</i>	<i>0,0</i>	<i>2,9</i>	<i>-2,9</i>	<i>0,0</i>
<i>2.2. Inflows/outflows of capital relating to foreign liabilities</i>	<i>27,4</i>	<i>-28,1</i>	<i>-0,7</i>	<i>20,7</i>	<i>-23,1</i>	<i>-2,4</i>
<i>2.3. Inflows/outflows of capital relating to reserve assets</i>	<i>6 541,9</i>	<i>-6 554,6</i>	<i>-12,6</i>	<i>7 405,8</i>	<i>-7 442,5</i>	<i>-36,8</i>



**Inflows (+)/ outflows (-) of capital by banks excluding short-term instruments**



**Inflows (+) / outflows (-) of capital by other sectors, total, including net errors and omissions**

