

## Russia

### Economy recovered and imports soared in 2010.

Rosstat preliminarily estimates that Russian GDP grew 4 % y-o-y last year, a sharp improvement from the 8 % decline in 2009. The value of GDP was put at 44.5 trillion rubles (just over €1.1 trillion), which translates into GDP per capita of nearly €8,000.

Retail sales volume, a good indicator of private consumption trends, rose more than 4 % last year, slightly less than expected. Fixed capital investment increased 6 %. The volume of exports grew more than 10 %, partly reflecting recovery in natural gas exports after an exceptional decline at the start of 2009.

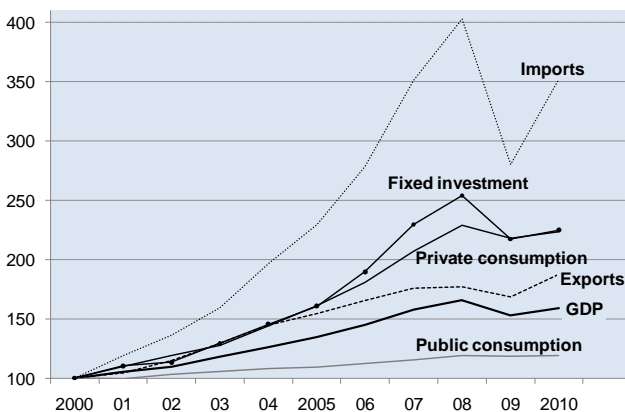
Private consumption as a share of GDP was 52 % last year, public consumption 20 % and fixed capital investment 21 %. Exports accounted for 30 % of GDP.

Recovery of the economy caused a roaring comeback in imports from a 30 % contraction in 2009 to 25 % growth last year. The shift highlights Russia's high propensity to import. Part of the shift back to imports this time came from substitution of domestic production hurt by the hot, dry summer.

Manufacturing grew more than 10 % last year. The transportation sector also recovered swiftly. Mining and mineral extraction industries saw production up 4–5 %; including an 11 % increase in natural gas output and a 2 % rise in crude oil production. Electricity production increased nearly 5 %. Commercial and housing construction remained depressed at the 2009 level. Hit with summer heat and drought, agricultural output fell more than 10 %.

After last summer's dip, the economy revived towards the year's end, led by growth in e.g. retail sales, capital investment and industrial output.

**GDP, demand factors and imports, volume indexes (2000 = 100)**



Source: Rosstat

### Real wages rose and unemployment declined in 2010.

Rosstat reports that in 2010 wages increased 11 % in nominal terms and 4 % in real terms. A worker's average monthly wage at year's end was slightly less than 22,000 rubles (about €540).

The highest wages continued to be paid in the financial sector, where the average monthly wage was 47,600 rubles or about €1,200. Wages were also high in the energy sector. The lowest wages were paid in the textile industry, where the average monthly wage was slightly below 10,000 rubles (about €250), the agriculture sector and in public education.

Wages were highest in Russia's oil and gas producing regions, Moscow and St. Petersburg. The lowest wages were paid in the North Caucasus region.

Pensions rose rapidly last year with large across-the-board hikes in the first half of the year. For the year, Russian pensions rose 30 % in real terms. However, Russian pensions are still quite modest. The average monthly pension at year's end was just 7,600 rubles or about €190.

The number of people living below the poverty line increased slightly during the recession, but began to decline again last year. At year's end, about 14 % of the population had income levels below the official subsistence minimum, or slightly more than the pre-recession level of 13 %.

Rosstat notes that income inequality increased slightly during the 2000s. International figures suggest that the income disparities in Russia and the United States at the end of the decade were about the same. Even so, Russian income distribution is considerably more egalitarian than in certain Latin American countries.

Russia's unemployment rate contracted in 2010 from 9 % to 7 %. In Moscow and St. Petersburg, the unemployment rate was just above 2 % in December.

**CBR tightens its monetary stance.** On Tuesday (Feb. 1), the Central Bank of Russia increased bank reserve requirements. The required reserve requirement of domestic liabilities rose from 2.5 % to 3 % and from 2.5 % to 3.5 % for foreign liabilities. The CBR also raised its deposit rate 0.25 percentage points in December.

The CBR said the hikes were justified by increased inflationary expectations and possible influx of short-term capital resulting from high global oil prices.

The central bank further announced that, despite recent positive economic performance, its company surveys suggest that confidence in economic growth is still uncertain. Therefore, the central bank is implementing monetary policy decisions that consider countervailing risks stemming from either slowing economic growth or fuelling inflation. The central bank's board meets once a month to decide monetary policy measures.

## China

**China systematically raising the yuan's international profile.** Yi Gang, who serves as both central bank deputy chairman and head of the State Administration of Foreign Exchange (SAFE) announced in January that the country plans to make the yuan a free-floating currency over the next five years. This will require phasing out of the current heavy-handed controls on capital movements. The announcement came just one week after the People's Bank of China gave Chinese firms and banks, which are involved in yuan-denominated foreign trade, permission to conduct direct foreign investment in yuan. The government also announced last month that selected Chinese financial institutions would be granted the opportunity to invest foreign funds to China's financial markets. The state-majority-owned Bank of China was last month granted permission to begin yuan trading in the US.

January's announcements are consistent with the government's ongoing efforts to increase the yuan's international profile. In mid-2009, a group of Chinese companies were given permission on a trial basis to conduct foreign trade payments in yuan. Since then yuan use has expanded to cover almost all foreign trade companies, and China's financial markets have gradually opened to foreign participants.

Hong Kong has been ground-zero for this experiment in yuan internationalisation. The stock of yuan deposits in banks in the special administrative region doubled from September to 315 billion yuan (€35 billion) at the end of December. Yuan appreciation pressures have created such strong international demand for yuan that occasionally the yuan's exchange rate in Hong Kong has been substantially higher than in Mainland China.

As the use of the yuan in foreign trade and investments is rapidly increasing, banks around the world are feverishly developing new yuan-based products and training staff to deal in the Chinese currency. While cross-border yuan flows are still small, the significance of the yuan both in China and globally seems to be rising faster than anyone might have expected a few years ago.

**January PMI shows little change in outlook of Chinese manufacturers.** China's official PMI, published by the China Federation of Logistics and Purchasing, fell from 53.9 in December to 52.9 in January. The parallel PMI of Hong-Kong-based HSBC for January was 54.5, essentially unchanged from the previous month. Both indexes were above 50, suggesting the robust growth continues.

PMI surveys are used to assess output trends. In contrast to China, PMI indexes in the US and EU rose sharply in January on predictions of accelerating growth.

### **Chinese banks posted good profitability numbers**

**throughout the financial crisis.** Despite the global downturn, net income of China's banking sector increased 30 % y-o-y in 2009 and healthy profitability growth continued in the first three quarters of 2010. The total assets of Chinese banks soared during the global financial crisis as the state implemented part of its stimulus policies through bank lending. During 2010, bank total assets climbed nearly 20 % y-o-y. Even with the increased lending, the China Bank Regulatory Commission (CBRC) said the stock of non-performing loans held by commercial banks continued to shrink, standing at just over 1 % of the bank loan stock as of end-December. Tighter monetary policy is expected to slow growth of bank balance sheets this year.

The People's Bank of China reports that China's financial system did well in recent on-site tests under the joint IMF and World Bank's Financial Sector Assessment Program (FSAP). FSAP is a comprehensive evaluation of the financial system that is now conducted in about three quarters of IMF member states under common principles. The PBoC said the FSAP highlights China's progress in structural reform of its financial system and how well the sector weathered the global financial crisis.

Despite a positive general picture, the assessment identified problems that the PBoC would not specify, and the IMF did not publish the report. One acknowledged problem area is off-balance-sheet lending by banks. Bank supervision officials have committed to moving such activities onto balance sheets during 2011.

### **China launches property tax trial to restrain rising apartment prices.**

After long discussion, property taxes were introduced on a trial basis at the end of January in Shanghai and Chongqing. The annual tax in Shanghai is 0.6 % or 0.4 %, depending on the apartment's selling price. It applies to second apartments owned by Shanghai residents and all apartments owned by non-residents. In the inland city of Chongqing, the annual tax is 0.5 %, 1.0 % or 1.2 %, depending on the purchase price of the apartment relative to the average price in the local market. In other words, buyers are only liable for property tax if their apartment is substantially pricier than average apartments.

The impact of the property tax on housing prices will depend on e.g. the stock of expensive apartments sitting empty. The tax's market impact will only be seen after the Lunar New Year holiday period, when apartment buying and selling returns to normal.

Despite last year's measures to fight overheating, the housing sector continues to give China's leaders headaches. Just ahead of the launch of the trial property tax, the downpayment requirement for second apartment buyers in China was raised from 50 % to 60 %. First-time homebuyers must produce a 30 % downpayment.