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BOFIT Weekly

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Russia

President Putin declares targeted measures with deadlines to promote a "new economy." Immediately after taking the oath of office on May 7, president Vladimir Putin signed eleven decrees laying out the goals of his third six-year term as Russia's president. The goals largely formalise campaign promises made by Putin relating to the economy, living standards and improvement of the social infrastructure. The novel aspect is that the measures are fairly detailed and subject to tight implementation schedules that mostly fall within the current presidential term.

In the decree concerning long-term development of the economy Putin gave the government the following five concrete goals to focus on: 1) creation of 25 million "high productivity" jobs by 2020 by either establishing new jobs or modernised existing ones, 2) lifting the ratio of investment to GDP to 27 % by 2018, 3) increasing high-tech production to 30 % above the 2011 level by 2018, 4) boosting labour productivity by 50 % by 2018, and 5) raising Russia's position in the World Bank's *Doing Business* rankings from its current rank of 120 to 20 by 2018.

Observers note that achieving such targets in the tight timeframe is quite challenging. For example, the labour productivity target alone requires annual productivity gains on the order of 6 % a year. Economists find it hard to imagine how this could be achieved when consensus forecasts see medium-term economic growth running at around 4 % a year with only a slight decrease expected in the size of the labour force. Observers also see little reason to expect investment will increase fast enough to substantially raise its share of GDP. Investment currently corresponds to around 20 % of GDP. Higher investment growth would require e.g. a major transformation of Russia's business environment − something that would take years even in a best-case scenario.

The social policy decree tasks the cabinet with attaining real wage growth of 40–50 % by 2018, including substantial hikes in wages in the fields of education and health care.

Other cabinet jobs in the health care sphere include specific reductions in the numbers of deaths caused by cardiovascular disease, tuberculosis and traffic accidents, as well as a reduction in infant mortality by 2018. The birth rate, in contrast, should rise by 2018, bringing the fertility rate per woman up to 1.75 children from about 1.6 in 2011. The average lifespan of Russians overall is also targeted to climb to 74 years by 2018. In 2011, the average life expectancy of a Russian was 70 years.

Plans to reform the Russian education system have been under preparation for years with little to show for it. The new goals are hoped to instil progress. The presidential decree calls for the cabinet to submit to the Duma a draft bill on education no later than June this year.

Bright lights, big city – Russian style. Research by Natalya Zubarevich, programme director for the Moscow-based Independent Institute for Social Policy (*Nezavisimyi institut sotsialnoi politiki*), finds the area of land in Russia that is populated and in economic use is currently decreasing, while the area of uninhabited land is increasing.

The ongoing trend means a gradual shift away from the industrial policy legacy of the Soviet era, when it was common to build complete towns near major natural resource deposits. These industrial operations were often remote from major cities and located in harsh climatic conditions. The resulting geography of production units is economically inefficient from both the standpoint of the companies and the economy in general. Municipalities with such companies face depopulation as these dinosaurs of Soviet industry have been or are being shut down. Workers involved in natural resource extraction in harsh climatic conditions prefer to live in more hospitable surroundings and today increasingly rotate through a few weeks at site and then commute home in a manner similar to workers in the Canadian north or the outback of Western Australia.

Russia's population density is just 6 people per square kilometre. While 73 % of Russia's land area lies east of the Urals, it holds only 29 % of the total Russian population. In comparison, the population density for Finland is around 16 persons per square kilometre.

During the 2000s, the only significant population gains were registered in the City of Moscow, the Moscow region, St. Petersburg and the three Caucasian republics: Chechnya, Dagestan and Karachay-Cherkessia. Modest growth was also registered in wealthy oil-producing regions. The trend is partly due to internal migration; 60 % of migrants head to Moscow or the Moscow region, while 20 % go to St. Petersburg. Zubarevich notes that Russia's long-standing obsession with centralising political and economic power in the capital is one of the factors creating an unnecessary population boost in Moscow. At the start of 2012, Rosstat put the official number of Moscow residents at 11.6 million.

Growth in the Caucasian populations reflects a high birth rate relative to the rest of Russia. While the national fertility rate for women is about 1.6, it is 3.4 for Chechnya and 2.0 for Dagestan. (In comparison, the Finnish fertility rate is 1.9.)

Concentration of the population means that 28 % of Russia's urban population lives in cities with a million or nearly a million inhabitants. Russia has more than 10 such large cities. About 27 % of the rural population lives in the most southern parts of Russia, i.e. the North Caucasus and Southern federal districts.

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China

China's economic growth continued to slow in April. On-year growth in industrial output slowed in April to 9 %, down from 12 % in March. The signs of falling output were visible across the board, with output growth sliding in both light and heavy industry. While electrical power generation was up 5 % y-o-y in the first four months of 2012, in April electrical power generation was only a couple per cent higher than year ago.

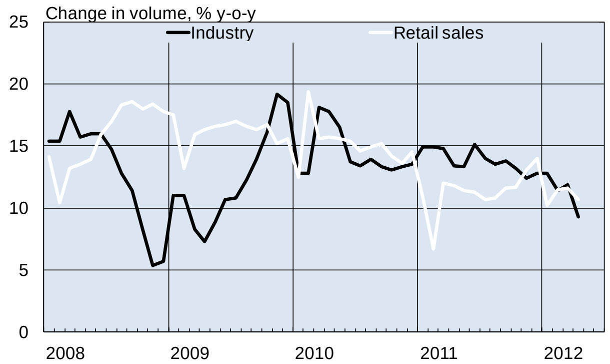
Lower growth was especially evident in construction activity and capital investment. For example, cement production rose just 3 % y-o-y in January-April. Although a record volume of new apartments were completed in recent months, the volume of new apartment starts measured in planned square metres of living space was down about 8 % from the early months of 2011. Land use right sales were down 20 % y-o-y in the first four months of this year.

Seasonally adjusted fixed capital investment declined to 0.8 % m-o-m in April, which largely reflects the drop in sales of land use rights.

The volume growth of retail sales slowed in April by a percentage point to just under 11 % y-o-y. January-March freight volumes also indicated slowing economic activity.

Both exports and imports showed signs of weakness. Weakening growth in both domestic and foreign demand creates new challenges for economic policymakers. The slowing of investment growth was expected, however, so it would be inappropriate to dramatise the situation.

Industrial output and retail sales, %-change y-o-y



Source: Macrobond

Inflation slows in April; PBoC relaxes monetary stance. Consumer prices were up 3.4 % y-o-y in April, down from 3.6 % in March. Prices declined in April 0.1 % from March. The slowdown in the inflation rate reflects the People's Bank of China's relatively tight monetary stance, slower economic growth and a 0.9 % decline in food prices in April. Food prices in April, however, were still 7 % higher than in April 2011. Producer prices in April were unchanged from a year earlier.

The slowdown in economic growth and inflation has provided the PBoC with an opportunity to relax monetary policy. Reserve requirements, the PBoC's most actively used monetary policy tool, were lowered a half percentage point today (May 18). The reserve requirement falls to 20 % of total deposits for the large commercial banks and 16.5 % of deposits for smaller commercial banks. The reserve requirement means that a specified share of a bank's deposits must be held as cash in vaults or as deposits with the central bank.

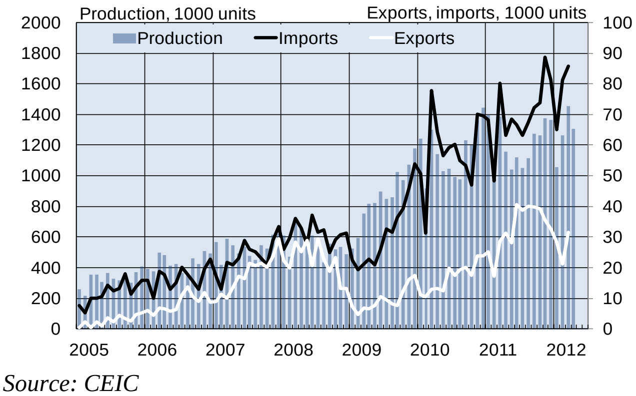
The cut in reserve requirements was the second this year. Easing of the PBoC's monetary stance is expected to continue.

Growth in Chinese car production slows. About 14.5 million passenger cars were manufactured in China last year, an increase of about 5 % from 2010. Production growth has slowed significantly from recent years and was just 3 % y-o-y in the first quarter of 2012.

China's car exports are still modest, with growth hampered at the end of the last decade by the global recession and more recently the emergence of economic uncertainty in Europe. During the last 12 months China has exported over 400,000 passenger cars. Exports of Chinese cars are especially directed to emerging economies. For example, Iran and Russia each accounted for about 10 % of Chinese car exports in January-March.

Car imports took a hit during 2009, when subsidies for domestic car production were increased in response to the global financial crisis. Over the past twelve months, some 880,000 cars were imported to China. In 2009, the share of imported cars sold to total car sales bottomed at around 3 %, but since then has come back to pre-crisis levels of about 6 %. German makes accounted for about three-quarters of the nearly $6 billion in car imports in the first quarter of this year.

Chinese car production, imports and exports (thousand units)



Source: CEIC

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