

## Russia

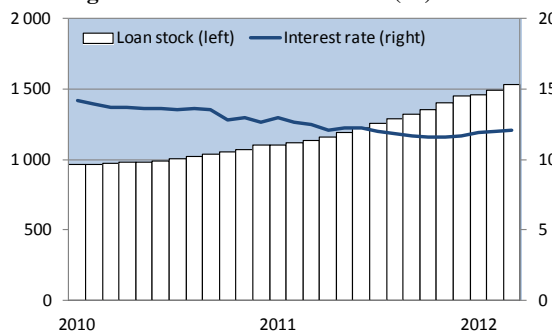
**Russians show increased willingness to take a loan to buy an apartment.** A recent Rosstat survey finds that about 4 % of Russian households are planning to change apartments in the next 2–3 years. Half of prospective apartment-switchers said they planned to buy a newly built apartment or house.

Based on average prices last year, a new apartment with 50 square metres of living area would cost just over 2 million rubles (€50,000), or about eight years of an average Russian worker's wages. Russians have traditionally bought apartments with savings, and most survey respondents said they would still use savings in buying their future apartment. Many are also planning to use their maternity grant for financing the purchase of new apartment (families with more than one child are eligible for state money that can be used for designated purposes).

The importance of bank financing in housing deals continues to increase. The survey found that nearly a third of new apartment buyers plan to use housing loans for financing their acquisition. The stock of housing loans has increased nearly ten-fold over the past five years, and as of end-March the housing loan stock was valued at 1,700 billion rubles (€40 billion). The average ruble-denominated housing loan granted this year was around 1.4 million rubles (€35,000), with an average interest rate of 12 % p.a. and an average duration of 14–15 years. As most Russians do not have housing loans, the loan stock averages out to under €1,000 per household.

The Rosstat survey also tracked general attitudes about housing. Only 10 % of respondents characterised their current housing conditions as bad or very bad. The biggest complaints about current Russian apartment living were poor sound insulation and inadequate space heating. The most commonly mentioned issues related to neighbourhood surroundings were the lack of road maintenance, traffic safety, alcohol abuse and poor municipal services.

**Stock of ruble-denominated housing loans (billions of rubles) and average interest rate on a new loan (%)**



Source: CBR

**Plans to move most federal administrative offices to newly created Moscow expansion zone take shape.** The southwest expansion of Moscow city limits, proposed last summer by president Dmitri Medvedev and subsequently approved by the Russian parliament in December, becomes official on July 1, 2012.

Bureaucrats hope to move ahead swiftly with the project. A design competition for the new district is underway, along with negotiations with land owners on suitable construction sites. The plans on location and construction should be ready by July, and the winners of the design competition should be announced in September. If the schedule holds, construction would begin at the end of next year and the first occupancies would occur in 2015.

In March, Medvedev declared that several federal agencies would be moved to the new district. The only agencies that would keep their offices downtown are the interior ministry, the defence ministry, the justice ministry and the Federal Security Service. The new administrative zone includes a parliamentary centre, with relocation of both houses of parliament to a single location.

The project is massive. In addition to the new administrative centre and related services, it is necessary to build infrastructure such as roadways and municipal services, as well as residential housing and social services. The combined floorspace of the main government buildings is currently around 400,000 m<sup>2</sup>; this would be much greater in the new centre. Part of the financing plan calls for selling off current administrative offices to pay for construction of the new administrative centre.

The construction plans have been criticised for their steep price tag, as well as possible environmental effects. The new administrative centre was a pet project of former president Medvedev and current president Putin's enthusiasm for project is still unclear.

**The wealthy Moscow suffers from unequal income distribution.** The average monthly wage of a Moscow resident is 42,000 rubles (€1,040), or nearly double that of the average monthly wage nationally, about 24,000 rubles (€580). Income distribution in the capital region is more uneven, however, than elsewhere in Russia, and a greater proportion of the population lives in poverty than the national average. Income differences in Moscow are also greater than in other major European cities.

According to a published draft of the City of Moscow development strategy for 2025, the huge income disparities among Moscow residents threaten the city's development and could create social tensions. As a group, families with small children are the worst off; 20 % of Muscovite kids live in families classified below the poverty line.

The purchasing power of the wealthy population puts upward pressure e.g. on housing prices. Only about 30 % of Muscovites can afford to buy a house or flat of their own.

## China

**Direct yuan-yen trade lifts yuan's profile as an international currency.** Starting today (June 1), direct exchange of Japanese yen and Chinese yuan begins in Tokyo and Shanghai. Previously, Chinese and Japanese firms had to change their domestic currencies into dollars before purchasing yen or yuan. In Tokyo, the yuan-yen rate will now be set on the open market. However, the People's Bank of China will post a daily exchange rate from which rates can deviate by a maximum of 3 % in either direction. The allowing of direct currency exchange does not imply a general lifting of controls on capital movements and thus does little to enhance yuan convertibility in this respect.

Liberalisation of currency exchange in this case is part of efforts by China and Japan to shore up their bilateral economic relations; direct currency trade reduces foreign exchange costs for firms. China is Japan's largest trading partner, accounting for about a fifth of total Japanese exports and imports. After the EU and the US, Japan is China's third largest export market (8 % of China's total exports). About a tenth of China's imports come from Japan, putting Japan on par with the EU as a goods supplier.

In addition to strengthening China-Japan economic ties, direct yuan-yen exchange should eventually reduce the US dollar's importance in Asia. From China's standpoint, an important motive for permitting direct currency sales is to support international acceptance of the yuan.

In recent years, the yuan market has gradually been deregulated in Hong Kong, increasing yuan use in the Special Administrative Region and raising demands for further measures to deregulate yuan use. Consequently, the liberalisation of markets with Japan suggests that authorities have already prepared for further opening-up steps. Along with increased international acceptance of the yuan, China needs to implement reforms of its domestic financial markets and increase transparency.

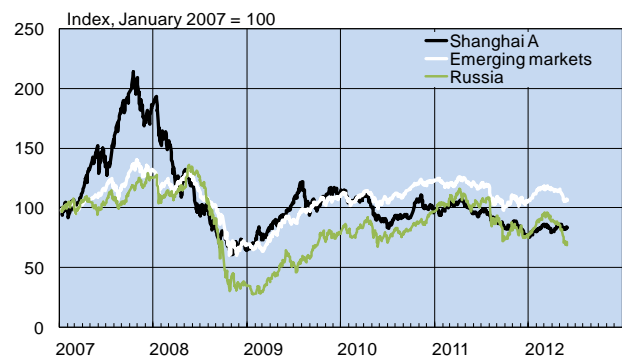
### Slowing economic growth not reflected in share prices.

Despite lower economic growth and lower corporate profitability in China this year, the A-share indexes of both the Shanghai and Shenzhen stock exchanges were still up about 10 % from the start of the year as of end-May. Chinese exchanges largely avoided the big drop seen on many emerging market exchanges in May. China's unconventional stock index trend reflects the fact that Chinese stock exchanges are still undeveloped and not yet fully integrated with global markets.

Several new reforms are planned for China's financial markets. The hope this year is to launch trading in crude oil futures in Shanghai which may open to participation of foreign investors. In addition, China plans this year to begin

national trading with shares of companies outside the stock exchange (OTC markets) to improve the access of small firms to market financing. China's pilot OTC launch in 2006 involved the trading with shares of companies in Beijing's Zhongguanchun Science Park, sometimes called China's "Silicon Valley."

### Stock market trends, 2007–present



Source: Bloomberg

### Hong Kong still China's most competitive city; Inner Mongolia coming on strong.

The latest urban competitiveness survey by Chinese Academy of Social Sciences (CASS) ranks Hong Kong as China's most competitive city. The CASS study also covered Taiwan, whose capital Taipei rose to number-two in the rankings, noting that Taipei's competitiveness has improved as a result of the rapid growth of trade between Taiwan and mainland China, an outcome of the Economic Cooperation and Friendship Agreement (ECFA) between the two states in 2010.

The survey released on May 21 evaluates the competitiveness of 294 Chinese cities using criteria such as the size of the local economy, growth rates, productivity, investment in human capital and the quality of life for residents. At a national level, the competitive differences among Chinese cities are shrinking.

Shanghai came in fourth and was outranked for the first time by Beijing. Shanghai's lower ranking reflects a number of trends, including the city's explosive population growth and structural changes that have hurt the region's economic growth.

The report notes that the competitiveness of east coast cities improved more slowly last year than inland regions. The Inner Mongolian cities of Erdos and Baotou have seen their competitiveness improve over the past decade faster any other Chinese cities.

The CASS survey findings comport with those of the World Economic Forum's global assessment of national competitiveness, which currently ranks Hong Kong 11<sup>th</sup> place, Taiwan 13<sup>th</sup> and mainland China 26<sup>th</sup> in terms of global competitiveness.