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BOFIT Weekly

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Russia

Banking sector growth remains robust. Total assets of the banking sector reached 44 trillion rubles (€1.07 trillion) at the end of June, an increase of about 25 % from a year earlier. The value of total assets to GDP at the start of the year was 76 %, strong evidence of just how small Russia's banking sector is by international standards. The same ratio for Finland, for example, approached 300 % in 2011, which was close to the EU average.

Much of the recent growth in the Russian banking sector has come from a rapid expansion of credit. In the first half of this year, the stock of corporate loans increased 25 % y-o-y, well above the 16 % increase of 1H2011. Household borrowing was up 44 % y-o-y (compared to 24 % growth in 1H2011).

Household deposits climbed 22 %, lagging growth in bank lending. The lower growth in deposits forced banks to seek other sources of funding and increased the importance of the Central Bank of Russia as a source of financing. The share of central bank financing to total bank assets rose from 3 % in January to 6 % in July.

At the request of the CBR, the finance ministry increased the amount of available budget funds to banks through deposit auctions. The CBR noted that the recent tight market liquidity reflects to some extent the fact that the bulk of budget spending takes place in the second half of the year, even if tax revenues are collected at a fairly stable rate throughout the year. As a result, part of the budget funds is unavailable to markets during the first half of the year. During the 2008 financial crisis, the government initiated deposit auctions of budget assets to deal with this imbalance. Since then, deposit auctions have become an important tool in managing seasonal variation in banking system liquidity.

Due to the rapid growth in the loan stock, the banking sector's capital adequacy ratio (capital to risk-weighted assets) fell in the first half by a percentage point to just under 14 %. The banking sector's overall capital adequacy ratio was still well above the CBR minimum of 10 %. The CBR allows a looser definition of certain indicators in calculating the capital adequacy than in the methodology applied under the internationally recognised Basel II framework (used e.g. in the EU). At the beginning of July, the CBR tightened up its own methodology to bring it more into compliance with Basel II rules. By the CBR's own estimate, the change should cause a drop of about 0.5 percentage points in the banking sector capital adequacy ratio. Basel II demands have been incrementally implemented in Russia; their full implementation is expected to lower the banking sector's capital adequacy ratio even further.

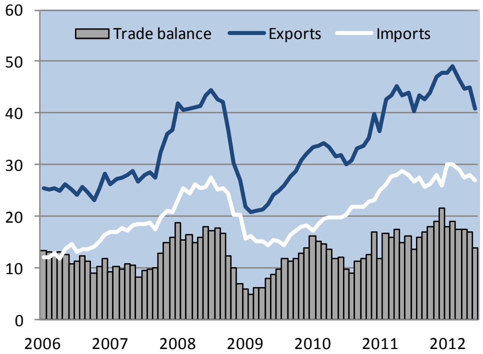
At the end of June, Russia had 1,102 operating credit institutions, of which 965 were banks. The figure showed a reduction of ten credit institutions from the start of the year. In the first half of 2012, the CBR cancelled the licences of 13 credit institutions, twice the number as in 1H2011. Most banks lost their licences because of financial problems, such as failing to meet mandatory capital requirements or repay their debts.

Russia's foreign trade showed modest growth in the first half of 2012. The goods trade surplus hit a record $109 billion in 1H2012. However, the pace of growth of both goods exports and imports has slowed in recent months, and in June their values even contracted slightly from a year earlier. According to preliminary data, imports returned to positive growth in July.

The value of Russian goods exports in the January-June period was $263 billion. The value of exports grew nearly 7 % y-o-y, thanks to higher export prices. The volume of exports, in contrast, fell by nearly 1 %. Russia's biggest export destination by far was the Netherlands with a 15 % share, followed by Germany and China. The structure of goods exports continued to be dominated by oil, petroleum products and natural gas, which together accounted for over 70 % of Russian exports. Metals and chemicals were the other major export items. The CBR preliminarily estimates that the value of Russian services exports in the first half amounted to $30 billion, a 20 % increase from 1H2011. Transport services accounted for about a third of services exports.

The value of goods imports rose in the first half to $154 billion. The value of imports grew 4 % y-o-y due to higher import volumes; import prices fell slightly. China remained Russia's main source of imports, accounting for 16 % of all Russia's imports. Half of goods imports consisted of machinery, equipment and transport vehicles. Other major import goods were chemicals and foodstuffs. The value of Russian services imports rose by about 20 % in the first half to $47 billion. The biggest imports category in services was tourism, which accounted for about a third of all Russian service imports.

Monthly Russian exports, imports and goods trade balance, US$ billion (seasonally adjusted)



Source: Central Bank of Russia

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China

China's July economic numbers unnerve global financial markets. China's foreign trade became an international cause for concern when announced July growth figures came in far below expectations. China's imports increased just 5 % y-o-y in July and exports rose only 1 % y-o-y. China's trade surplus for the month also fell by 20 % to $25 billion. It would be unreasonable to read too much into one month's data, however, as monthly fluctuations in trade figures are often quite large. A better overview of current trends in export markets can be gleaned from examination of the economic data for the first half of the year.

In the first half of 2012, Chinese exports remained fairly robust but there was a change in the structure of exports reflecting impacts from Europe's debt crisis. While China's exports overall grew almost 10 % y-o-y, exports to Europe were up just 1 %. Exports to the fiscally stable Nordic countries grew, while exports contracted for countries in southern Europe struggling with the debt crisis. For example, exports to Italy fell by 25 %, while exports to Portugal and Greece were off about 10 % and exports to Spain were down 4 %. The big surprise, perhaps, was a 4 % drop in exports to Germany.

China's imports grew in the first half about 7 % y-o-y. Although imports from Europe increased only 3 %, Chinese demand had a positive effect on some European countries struggling with debt. In particular, Greece and Portugal got a shot in the arm from their China trade. In the first six months of this year, Chinese imports from Greece rose 68 % y-o-y, while imports from Portugal rose 64 %. Economic relations between China and Greece have improved during the financial crisis, with China investing actively e.g. in the Greek food sector. Not all European countries, however, have benefited from China trade. For example, Chinese imports from Spain fell by nearly 25 % and imports from Italy were down almost 10 % in the first half of the year. Partly these figures reflect the weakened euro.

July industrial output of 9 % growth was also below forecast. Real growth in both retail sales and capital investment held steady, while inflation slowed to an 12-month rate of 1.8 %. The main measure of broad money supply growth (M2) was up 14 %, slightly exceeding expectations. As growth in export demand and industrial output fades, and inflation falls, Chinese officials are expected to relax economic policy further in coming months.

China's highest value brands are almost unknown outside the country. China Mobile is China's most valuable brand according to MillwardBrown's latest *BrandZ Top 100 Most Valuable Brands* report. The report mentions 50 Chinese brands according to their calculated values. Brand value is calculated in dollars, and considers e.g. the growth potential in demand for the product and results of customer satisfaction surveys. The survey covers brands of firms producing consumer goods or services directed towards consumers, which is why companies like telecom giant Huawei do not appear on the list.

State-owned enterprises dominated the list − only two of the China's top ten most valuable brands were privately held. The success of state firms reflects the fact that their brands have greater recognition and better placement in markets with high demand and low competition. In addition, large state-owned enterprises have succeeded better at creating and shaping brand images than their private counterparts.

Compared to the previous BrandZ report, published in December 2010, the brand showing the biggest value gain was Web portal Sina, which provides Weibo, China's social media answer to Facebook and Twitter. Sina's value grew an impressive 244 %, increasing its ranking to 25th place. In addition, Baidu, the company that operates the world's second largest search engine, saw its brand value surge to China's sixth highest value brand. China's rise as the world's largest Internet user has opened vast markets to Chinese firms. Tight censorship has also kept most of the Chinese user base in domestic forums.

Many of the newcomers to the list of high-value brands are airlines and tour operators, both indicators that Chinese society is getting wealthier and adopting middle-class consumption patterns.

Chinese brands are high value by international standards: the latest global BrandZ report ranks China Mobile as the 10th most valuable brand in the world. In addition, twelve more Chinese brands make it into the top 100 most valuable brands in the world. However, the high valuation simply reflects the vast purchasing power of 1.3 billion Chinese, as most Chinese brands with multi-billion-dollar valuations are unfamiliar to wider international audiences.

China's highest value brands

Ranking	Brand	Valuation
1	China Mobile	$ 53.6 bn.
2	Industrial and Commercial Bank of China	$ 43.9 bn.
3	China Construction Bank	$ 22 bn.
4	Bank of China	$ 18.6 bn.
5	Agricultural Bank of China	$ 17.3 bn.
6	Baidu (Internet search engine), privately held	$ 16.3 bn.
7	China Life (Insurance)	$ 15.3 bn.
8	Sinopec	$ 13.8 bn.
9	PetroChina	$ 13.8 bn.
10	Tencent (Web portal), privately held	$ 12.6 bn.

Source: MillwardBrown

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