

Russia

Russian economic growth slows. Preliminary figures from the economy ministry show GDP grew at below 4 % y-o-y in the January-September period, with growth falling to 2.5–3 % in August-September. In the first half of 2012, GDP grew at 4.5 % y-o-y. The slowdown had been expected as prices of Russian's main export goods had fallen for several consecutive months. Growth was further hurt by this summer's poor grain harvest. In their latest forecasts, Russia's economy ministry, the IMF and the World Bank expect Russian GDP to grow 3.5–3.7 % this year.

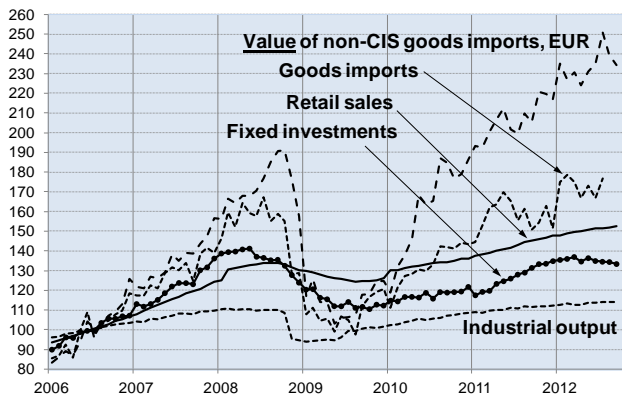
The growth in private consumption, however, has remained strong. Growth in the volume of retail sales accelerated in August and September (seasonally adjusted). The rise in real household incomes still remained strong despite a pickup in inflation. Growth in household credit also remained rapid. For on-year growth, retail sales slowed in January-September to just over 4 % y-o-y, down from 7 % y-o-y in the first half.

Fixed capital investments remained weak. The volume of investments has contracted for several successive months (seasonally adjusted), with the level of investment in August-September basically unchanged from a year earlier. Corporate borrowing from banks slowed considerably.

Industrial output has fluctuated in recent months; seasonally adjusted output in September matched the July level. Industrial output growth in the third quarter was 2.5 % y-o-y, with manufacturing up 4.5 % and mineral extraction (including oil & gas) about 1 %.

Growth in the volume of imports slowed to 3 % y-o-y in the second quarter from 10 % y-o-y in the first quarter. Preliminary data suggest a weak trend for imports in recent months.

Seasonally adjusted supply and demand indicators for Russian economy (volume, if not otherwise noted), indexes, 2006=100



Sources: Rosstat, Russian customs, BOFIT, World Bank

Gazprom brings northwestern Siberia gas field on stream. Production at the massive Bovanenkovo gas field

located on the Yamal Peninsula will be ramped up gradually to a level of 115 million m³ a year in 2017, an amount that corresponds to 23 % of Gazprom's current annual gas production. Bovanenkovo is one of Russia's largest gas fields. In the long run, Gazprom hopes to increase Bovanenkovo production to 140 million m³ a year.

A gas pipeline running from Bovanenkovo to Ukhta on the European side of Russia is under construction. From there the gas will be transmitted via Russia's growing pipeline grid into the Nord Stream pipeline, which runs under the Gulf of Finland to Germany.

Bovanenkovo production will make up for the loss of production in maturing gas fields. Observers are somewhat sceptical, however, as to whether there is enough demand in the near future to meet the increasing supply. Gazprom had to cut production 6 % in January-September on reduced exports to Europe and increased domestic competition from independent producers.

At the opening of the Bovanenkovo gas field, president Vladimir Putin noted that the structure of international natural gas markets is shifting. He mentioned the rapid increase in shale gas and fracking, wider use of LNG and changing EU energy policy. The president then tasked Gazprom with formulating a new export policy to reflect changing market conditions. Putin said the policy should take into account e.g. the use of gas as a transport fuel, expanding export markets to Asia and new shipping formats for gas such as LNG.

State hospitals and clinics to charge for certain procedures. A law passed by the Duma a year ago and a cabinet decree at the start of October set forth the types of medical procedures that should be billable to patients. The decree enters into force at the beginning of 2013.

Under the government decision, medical procedures not covered by mandatory health insurance would be billable. These include procedures not covered by basic medical standards such as special treatments, special tests and imaging, as well as nonessential dietary and medicinal treatments. Treatment of anonymous persons will also be billed as will be the treatment of foreigners unless they are covered by Russian mandatory health insurance. Special medical treatments without a referral will also be billed.

Despite criticism that the reform puts an end to free medical care, reform defenders note that high-quality health care for all has not been achieved under the system with free care. Informal payments to medical staff have become increasingly common in recent years. Patients also increasingly turn to the many private polyclinics that have been founded in Russia in recent years.

Public health care costs now equal nearly 5 % of Russian GDP. In addition to that, citizens themselves pay for health care a sum amounting to about 3 % of GDP. In developed economies, public and private health care costs are typically around or above 10 % of GDP.

China

HSBC flash PMI for October finds firms more optimistic about outlook for Chinese economy. The latest reading of HSBC Bank's manufacturing purchasing managers' index rose to 49.1 in October, the highest reading since July. While it would be unreasonable to make major conclusions on the direction of the Chinese economy based on a single indicator, it is noteworthy that the economic sentiment correlates with national accounts data released last week that included somewhat surprising evidence that output accelerated in the third quarter. International markets are keeping a careful eye on the Chinese economy as the European debt crisis creates drag on the world economy.

China's foreign currency reserves up slightly. China's foreign currency reserves rose by \$50 billion in July-September to \$3.29 trillion, but reserve growth has clearly moderated compared to earlier years.

Growth was supported above all by the increase in the trade surplus for goods. The January-September surplus climbed to \$150 billion, or \$40 billion more than in the first nine months of 2011. In the same period, foreign direct investment inflows into China declined. January-September FDI inflows into China amounted to \$83 billion, a 4 % drop from a year earlier. The fall is in line with global trends, as investment flows have decreased all over the world due to the financial challenges facing firms and uncertainty related to the economic development. Detailed information on the current account and capital account balances has yet to be published.

Rapid rise in incomes continues. China's National Bureau of Statistics reports that per capita real incomes for people living in cities rose 10 % y-o-y in the first nine months of this year to an average of 2,050 yuan (€253) a month. There are considerable variations in average wage levels and their rates of increase across provinces, however. In fact, wage differences across provinces have continued to increase this year. Real incomes rose faster (12 % y-o-y) in rural areas than in urban areas, but the average monthly income of a rural resident was only a third of a city-dweller's.

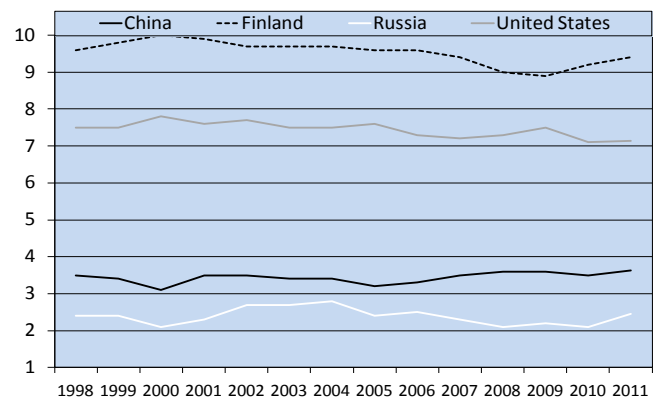
Over the past ten years, the average nominal income has more than tripled in cities and quadrupled in rural areas. With the rise in incomes, household purchasing power has grown, the middle class has increased and consumption patterns have shifted. Income distribution is still quite uneven, however, with income disparity constantly rising. Nevertheless, the improvement in rural living conditions is indisputable. Nearly every rural home now has a television and at least one mobile phone, and washing machines and

refrigerators have become standard home appliances. Ten years ago, home computers were nonexistent in rural homes, but now over 20 % have computers and internet connections.

Chinese focus turns to corruption ahead of leadership change. As part of its global attitudes project, a new Pew Research Center poll finds that half of Chinese see corruption as a very big problem in their country. There has been a fairly sharp jump in concern over corruption this year. Just a year ago, only 39 % of survey respondents considered corruption a very big problem. According to some estimates, the growing Chinese concern over corruption reflects the high-profile prosecution of Bo Xilai, Chongqing's former communist party chief and former commerce minister, as well as growing dissatisfaction among average citizens with China's growing income disparity. China's central administration reacted to the research findings quickly by releasing information on punishments meted out to corrupt officials. According to the communist party's Central Commission for Discipline, 3,578 party officials were punished for corrupt acts during 2010-2011. A total of 83,195 officials reportedly confessed to taking bribes and surrendered them.

International researchers find no evidence that corruption in China has increased significantly in recent years. In fact, the latest Transparency International survey found that China has made modest progress in fighting corruption and improved its ranking relative to other countries. TI's Corruption Perception Index ranks corruption with a value of 1 signifying most corrupt and 10 least corrupt. China's overall CPI value in 2011 was 3.6. In 2004, when the Hu Jintao administration took office, the CPI for China was 3.4. China ranked 75th in TI's international corruption comparison, high enough to break into the least corrupted half of countries evaluated.

Perceived Corruption Index values for China, Finland, Russia and US (high PCI indicates low perceived corruption)



Source: Transparency International