

## Russia

**Last year witnessed modest growth in Russia's oil and gas sector.** Rosstat reports Russia's crude oil production rose less than 1 % in 2012 to slightly over 517 million tons (an average production of about 10.4 million barrels a day). Just over half of production went to domestic refineries; the rest to export. Russia and Saudi Arabia are the world's top producers of crude oil.

Crude oil exports contracted about 1 % from 2011, reflecting largely a rise in domestic refining to meet growing domestic demand for oil products and take advantage of lower exports duties on refined products. Russia is the world's second largest exporter of crude oil after Saudi Arabia.

Transneft, which handles most of the shipping of Russian oil exports, reports that pipeline transmission of oil as a share of exports supplied to non-CIS customers continued to contract and accounted for only about third of the exports in January-October 2012. Oil tanker shipping activity increased, especially in the Baltic Sea, with Transneft launching oil transshipping at the Port of Ust-Luga last year. Russian seaports by the Baltic Sea overall, and most notably the Port of Primorsk, accounted for 40 % of Russian oil exports to non-CIS destinations. The other major export channel is the Black Sea, which features the massive Novorossiysk oil terminal. Transneft's exports via Novorossiysk were nearly unchanged from 2011 to 2012, while exports through the Black Sea Port of Tuapse contracted.

Natural gas production fell nearly 3 % in 2012 to around 653 billion m<sup>3</sup>. Russia is the world's largest producer of natural gas together with the United States.

Gazprom, Russia's largest gas producer, experienced a sharper drop in production than gas production overall. Gazprom's share of Russian gas production fell to around 75 %. In contrast, privately held gas producers such as Novatek saw their production levels rise. Russia's domestic gas consumption contracted more than 7 %. About 70 % of production went to domestic consumption.

Russian gas exports contracted nearly 9 % last year. Demand for Russian natural gas fell in its main export markets in Europe due e.g. to the relatively high price of Russian contract gas compared to spot prices.

With the inauguration of the Nord Stream gas pipeline in late 2011, an increasing amount of gas is reaching Europe via the Baltic Sea. Ukraine's gas pipeline operator Ukrtransgas reports the volume of gas transmitted via Ukraine to western Europe fell about 20 % last year. Even so, roughly half of all Russian gas exports still passes through Ukraine.

**Slight reduction in current account surplus and lower import growth in 2012.** Preliminary balance-of-payments figures released by the Central Bank of Russia indicate the

2012 current account surplus was slightly smaller than in 2011, but still significant. The 2012 goods trade surplus was almost unchanged from 2011, but still sky-high by international standards. Russia's services trade deficit continued to widen, due e.g. to increasing travel spending abroad. The "other items" category in the current account (which includes e.g. interest payments and remittances of foreign workers) showed a slightly larger deficit than a year before.

Russian export earnings increased 4 % last year in dollar terms, mainly on higher crude oil prices. Growth, however, slowed substantially near the end of the year. Growth in spending on imports slowed last year to around 10 % and in the final months of 2012 was only up about 2 %.

### Russia's balance of payments

	USD billions			% of GDP	
	2010	2011	2012 (preliminary)	2011	2012 (preliminary)
<b>Current account</b>	<b>71</b>	<b>99</b>	<b>81</b>	<b>4.8</b>	<b>5.3</b>
- exports (goods & services)	442	571	594	29.7	30.8
- imports (goods & services)	318	409	443	21.4	22.0
Trade balance (goods)	147	197	195	9.9	10.6
- exports	391	513	531	26.3	27.6
- imports	244	316	335	16.4	17.0
Services trade balance	-24	-35	-45	-1.6	-1.9
- exports	50	58	63	3.4	3.1
- imports	74	93	108	5.0	5.0
Other items	-52	-64	-69	-3.5	-3.4
<b>Financial account + e&amp;o*</b>	<b>-34</b>	<b>-86</b>	<b>-46</b>	<b>-2.3</b>	<b>-4.6</b>
State (excl. central bank)	3	-3	9	0.2	-0.2
Banks	16	-24	24	1.1	-1.3
Other private, incl. e&o *)	-50	-58	-82	-3.4	-3.1
- direct investments	-13	-19	-5	-0.9	-1.0
- to Russia	38	47	39	2.5	2.5
- from Russia	51	66	44	3.4	3.6
- portfolio investments	-5	-12	-9	-0.3	-0.6
- to Russia	-5	-6	-8	-0.3	-0.3
- from Russia	0	5	1	0.0	0.3
- illegal transactions	-31	-32	-35	-2.1	-1.7
- errors and omissions	-8	-10	-10	-0.6	-0.5
- other items	7	15	-22	0.5	0.8
*) errors and omissions					

Sources: CBR and IMF

**Corporate sector capital outflows up in 2012.** The balance-of-payments figures show the financial account deficit shrank substantially. This was partly due to state borrowing on international markets, but mostly to notable increases in banking sector capital imports and decreases in capital exports.

The corporate sector net capital outflow from Russia increased substantially. Illegal exports of capital (e.g. to evade taxes) remained high. Foreign direct investment in Russia and direct investment outflows from Russia fell, and the repatriation of portfolio investments from Russia continued. Furthermore, corporate borrowing on international markets evaporated almost completely.

Figures for the first half of 2012 suggest that direct investment of the banking and the corporate sector especially to Cyprus has been active, mainly through loans to subsidiaries. The repatriation of assets, i.e. FDI inflows from Cyprus to Russia, declined.

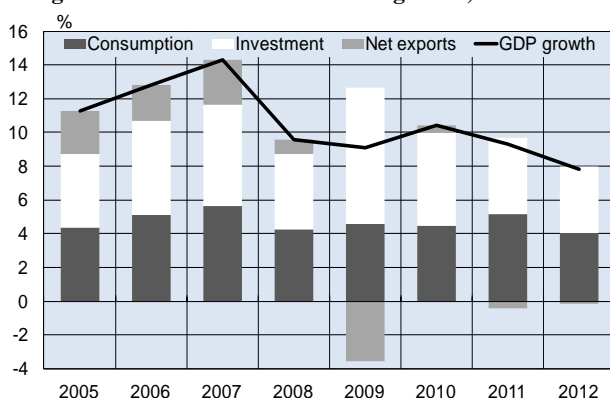
## China

**China's GDP up 7.8 % in 2012.** China's gross domestic product last year slightly exceeded the official target of 7.5 %. The growth was slowest in the first quarter, after which it accelerated. In the fourth quarter of the year growth was 7.9 % y-o-y. Chinese GDP for 2012 was 52 trillion yuan (\$8.23 trillion), solidly establishing China as the world's second largest economy after the United States. GDP per capita hit \$6,080, putting China on par with countries like Peru, Serbia and Belarus.

Chinese economic growth last year was driven mainly by domestic markets. The increase in domestic consumer demand accounted for about half of all growth, with the rest coming from investment growth. In consequence, there was little evidence of structural changes in the economy to suggest a more consumption-driven system; investment still corresponded to nearly 50 % of GDP. Despite growth in the value of foreign trade surplus, the volume of exports increased slower than the volume of imports (i.e. the net exports declined). Thus, net exports made no positive contribution to the growth.

While economic growth is expected to remain strong throughout 2013, no substantial pick-up is expected; recent economic forecasts see GDP growth this year coming at around 8–8.5 %. If China sustains high economic growth, it may surpass the US economy already by 2017 when adjusted for purchasing power parity (PPP).

### GDP growth and main contributors to growth, %



Sources: NBS and CEIC

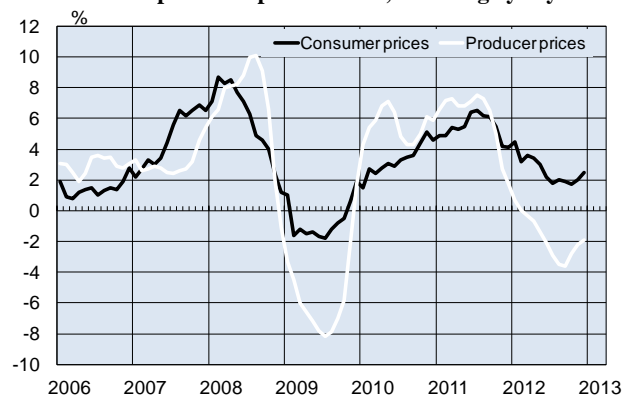
**Inflation accelerated in December; M2 growth remained moderate.** China's National Bureau of Statistics reports consumer prices rose 2.5 % y-o-y in December. Inflation remained well below the 4 % target announced by the People's Bank of China.

Inflation spiked in December on higher food prices, while prices for non-foods rose moderately. Food accounts for about a third of purchases by the average Chinese consumer, and any shift in food prices has a substantial impact on the consumer price index.

The upward pressure on food prices is expected to continue this year, which would accelerate inflation. On the other hand, prices of non-food goods and services do not face similar pressures. Producer prices, in fact, have been sliding for a while, reflecting declines in world commodity prices.

The broad measure of money supply (M2) was up nearly 14 % y-o-y at year's end, hitting the official M2 target for the year.

### Consumer and producer price indices, % change y-o-y



Sources: NBS and CEIC

**China releases first official estimate of income disparity in 12 years.** A new estimate from China's National Bureau of Statistics puts China's Gini coefficient, a rough measure of income disparity in a society, at 0.47. At the same time, the NBS also released Gini estimate of 0.49 for 2008, and thus it claimed that income disparities have actually become smaller during recent years. The release of official Gini estimates surprised observers as China had not released an official Gini estimate since 2000.

The suggestion that income inequality has been decreasing in China in recent years defies anecdotal evidence and contradicts the NBS' own comments made in 2011 that income disparity was increasing. Moreover, all unofficial surveys of income disparity suggest a widening income gap. The release of official figures was most likely a response to the headline-grabbing 0.61 figure published by the Survey and Research Centre for China Household Finance in December.

A Gini coefficient of zero would indicate a society with perfect income distribution, while a society with a value of 1 would have one person taking all income in the society. The average Gini value for EU countries is around 0.30.