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Russia

Russia's economy ministry cuts its GDP growth forecast significantly. The economy ministry's latest forecast still sees GDP growth picking up in the second half of this year, but now expects overall growth for 2013 to come in at 2.4 %. In its previous forecast for 2013, the ministry expected growth to hit 3.6 %. The ministry cut its growth forecast even as it boosted its average oil price assumption for the year from $97 a barrel of Urals blend to $105.

The new forecast cuts growth projections across the board. Even so, retail sales and fixed capital investments are now expected to rise about 4.5 % this year. Wages are expected to rise more than 10 % and thereby support consumption growth − especially if inflation slows to around 5–6 % this year as projected. For the ministry's projected consumption scenario to materialise, however, deputy economy minister Andrei Klepach noted that households will have to refrain from rushing excessively to saving and spend instead. With regards to investments, Klepach said it was important that Gazprom and other state monopolies not go through with planned investment cuts. Corporate borrowing also needs to start growing again.

The export volume is expected to remain at last year's levels, because crude oil exports should decline slightly. The volume of natural gas exports will only increase about 2 %, much lower growth than earlier forecast. Lower prices for exports would reduce export earnings by 4–5 %.

The economy ministry estimates industrial output will rise 2 % this year and that the volume of imports will increase over 5 %.

Realised and forecast GDP growth (on-year change), %

Sources: Rosstat (2003–2012), economy ministry forecast (2013–2017)

Economy minister Andrei Belousov noted that the economy could even slide into recession this autumn if no stimulus measures are applied. His assertion made president Putin's GDP growth target of 5–6 % a year seem increasingly remote.

Some observers interpret the economy ministry's exceptionally pessimistic forecast as a marker in the ongoing economic policy debate. The economy ministry favours traditional expansionary policies to deal with low growth, including higher public sector investment and increasing corporate credit.

On the other side of the fiscal and monetary policy debate are the finance ministry and the central bank. Both assert that stimulus would just add to inflationary pressures without increasing investment. Criticism of this has risen as domestic and global growth have slowed. President Putin's adviser Elvira Nabiullina, who takes over in June as CBR chairman, reiterated in her recent public comments that the central bank's biggest commitment is to fight inflation, i.e. that the current fairly tight monetary stance will continue. Nabiullina mentioned, however, that the CBR also needs to consider economic growth in its policy-setting.

Russia's WTO membership stumbles on lack of relevant expertise. In its just-released audit, the Accounts Chamber of Russia finds that Russian officials have been slow to implement measures to bring Russia into compliance with its WTO commitments.

Companies have failed to take full advantage of Russia's WTO membership as they have yet to use export and agricultural subsidies that in theory are available to them. A big obstacle here is the lack of public experts familiar with how the WTO operates. Russia has yet to set up its permanent mission to the WTO in Geneva, as well as organise and finance the handling of the complex legal issues related to WTO membership.

Major business organisations proclaim that domestic producers will suffer if cheap imports flood the market. Public discussions usually treat Russia's WTO membership as a negative factor for the economy.

Economy ministry department chief Maxim Medvedkov, who led Russia's WTO accession talks, notes that it is easier for lobbies to ask the government to protect non-competitive industries than to become fluent in WTO rules or push for specific interests in official negotiations.

Russian pork production is widely seen as one victim of WTO membership. The branch has seen the complete elimination of duties on pork products within the import quota, along with a reduction in import duties for pork exceeding the quota. Wholesale prices of pork products in Russia have fallen 30 % since the change, even though feed prices have risen considerably due to last year's poor grain harvest. Many producers have seen their businesses crippled financially, which has made the government increase subsidies to producers.

Consumers, however, have hardly seen any decline in pork prices at the retail level; sellers are keeping the benefit of lower producer prices. Prime minister Dmitri Medvedev said he would look into the possibility of changing in the law to remedy the situation.

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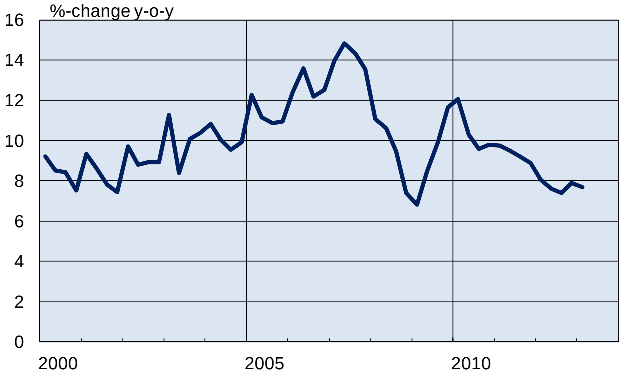
China

First-quarter GDP growth fails to meet expectations in China. The National Bureau of Statistics reports GDP grew at 7.7 % y-o-y in the first quarter, a slight slowdown from 7.9 % posted in the fourth quarter of 2012. China's low GDP growth figure was disappointing to stock and commodity markets in Asia, Europe and North America. The disappointment was also reflected in forecasts. Eager forecasters that had raised their forecasts for the year during January and February have been forced to revising their earlier projections downwards. BOFIT forecasts 8 % growth for 2013.

China's GDP growth



Sources: NBS and BOFIT

Much of the slowdown in growth was due to low growth in demand for capital investment. There were signals, however, that several major investment projects were launched in March, which are expected to revive investment growth in the coming months.

Over half of GDP growth in the first quarter was generated by domestic consumer demand. Growth in disposable household income slowed slightly, which might affect consumer demand in the near term. The combination of low investment activity and strong consumption growth has caused the structure of the Chinese economy to become a bit more consumption-driven. Reduction of China's extremely high investment ratio will take time, however. It will be years before the ratio falls even close to usual international levels.

In addition to domestic consumption, economic growth has been supported somewhat surprisingly by rising global demand. China's export growth was robust in the first quarter, and import growth was modest.

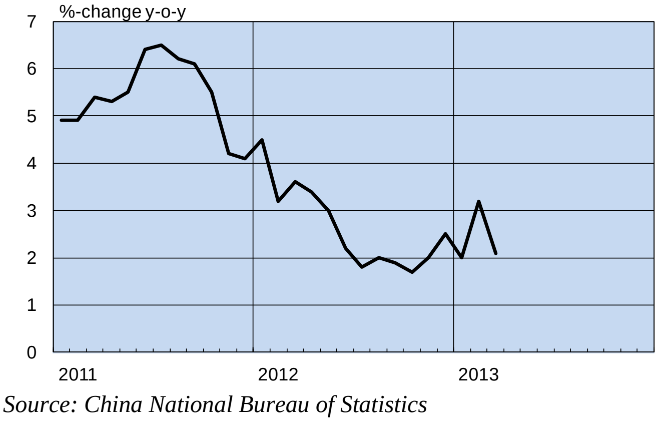
Despite lower economic growth, capital investment flows have once again turned to China. Capital inflows, combined with a large foreign trade surplus in the first quarter, have forced the People's Bank of China to purchase considerable amounts of foreign currency in its reserves to stave off excessive yuan appreciation. As a result of these actions, China's foreign currency and gold reserves increased by over $100 billion in the first quarter, standing as of end-March at $3.44 trillion, roughly 40 % of GDP. By any measure, China's foreign currency reserves are enormous.

China's inflation slows sharply in March. Consumer prices were up just 2.1 % y-o-y in March, a percentage point less than in February. The March inflation numbers came as a relief to China's monetary policymakers, who had worried that February's spike in inflation augured a rise in underlying inflation pressures. The latest figures affirmed the view that inflationary pressures in China remain modest, allowing the policy focus to remain on supporting economic growth.

Much of the volatility in the inflation rate in the first quarter reflected changes in food prices. Growth in food prices slowed to 2.7 % y-o-y in March, about half of the February on-year rate. The March drop seemed to indicate that the February spike in food prices was transitory and most likely reflected the Chinese New Year holidays rather than longer-term supply issues related to pollution or avian influenza. Prices of non-food items have developed more steadily since the start of the year. Inflation in the prices of industrial products slowed, while growth in prices for services and housing picked up in the first quarter.

Growth accelerated in March for key financial indicators associated with creation of inflationary pressure over the long term. Growth in M2, the main broad measure of the money supply, accelerated by more than a percentage point to 15.7 % y-o-y. The stock of new loans issued in March reached one billion yuan, well exceeding expectations.
A rise in the figure for social financing, a broader indicator of financing availability than bank lending alone, suggests that access to finance rose faster than anticipated.

Growth in consumer prices



Source: China National Bureau of Statistics

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