

## Russia

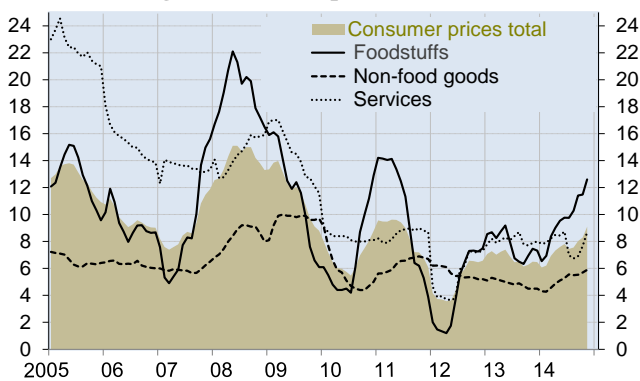
**Russian on-year inflation accelerates towards 10 %.** The rise in consumer prices picked up throughout 2014, with 12-month inflation running above 9 % at the end of November. In particular, November food prices were up 12.6 % y-o-y. Inflation for non-food goods also rose to nearly 6 %.

At his meeting this week with the cabinet, president Vladimir Putin said it was clear that higher prices for imported goods, due to the weakened ruble, and Russia's ban on imports of certain foodstuffs were fuelling inflation. Economy minister Alexei Ulyukayev further clarified that about 4 percentage points of the rise in food prices came from the ruble's fall and about 2.5 percentage points from the import bans. Deputy economy minister Alexei Vedev said the overall impact of the ruble's weakening this year would be 2.4 percentage points to the consumer price inflation rate.

The Central Bank of Russia, the economy ministry and the finance ministry currently expect 12-month inflation to accelerate to nearly 10 % this winter. Inflation should begin to subside during the second quarter of 2015.

The ruble has lost almost 9 % of its value against its currency basket since the start of December. The CBR has staved off a deeper drop in the ruble by buying rubles in the currency market on six days this month, spending a total of €1.1 billion. The CBR also granted banks over €0.5 billion in additional forex repo credits (mostly 28-day repos).

### 12-month change in consumer prices, %



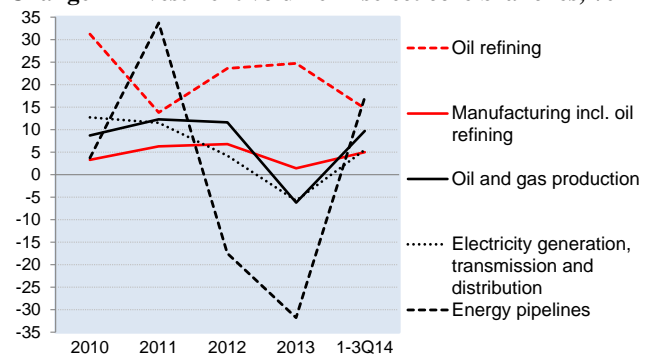
Source: Rosstat

**Russia's big firms increase their investments.** Total fixed capital investments fell a couple of per cent in both the January-September period and the third quarter of the year. The drop in investments was considerably smaller than what has been projected in forecasts. As in the first half of the year, investments of small firms and the grey economy contracted substantially. In contrast, investments by others (mainly large and medium-sized firms) increased by a couple of per cent in January-September.

Since last year's drop, investments of large companies in the energy sector have recovered rapidly. Although growth in investments in oil refining slowed, it remained rapid and accounted for the lion's share of total investment growth in the manufacturing sector. Investment growth also remained good in the food industry. Particularly fast growth was posted by the transport vehicle industry, which may reflect a boost from the sharp growth of defence spending. Moreover, the contraction in total investments in machinery & equipment of large and medium-sized firms came to an end in the third quarter. Growth in housing construction remained brisk.

Growth in investments of large firms reflects the government's goal, reinforced at the start of this year, of getting large state-owned enterprises to increase investments despite the hard times. The economy ministry indicated in November that investments of so-called natural monopolies, which represent some of the biggest state-owned enterprises, will grow even more notably next year.

### Change in investment volume in select core branches, %



Source: Rosstat

**Economy ministry sees GDP contraction next year, imports to be hardest hit.** In its revised forecast prepared last week, the economy ministry now sees GDP contracting next year by 0.8 %, assuming the price of Urals oil averages \$80 a barrel. The ministry expects private consumption and fixed investment to fall about 3.5–4 % next year. The ruble should recover slightly from its current low (around 55 rubles to the dollar) to 49 rubles to the dollar – a level still about 25 % below this year's average exchange rate. The economy ministry further estimates that good imports to Russia will decline in value terms about 10 % this year and as much as 15 % next year. The cabinet has yet to review the forecast.

Maxim Oreshkin, head of the finance ministry's department for strategic planning, said the ministry largely agreed with the economy ministry GDP forecast. However, the ministry expected the ruble's exchange rate next year to average around 45 rubles to the dollar. Finance minister Anton Siluanov noted the largely shared views of the finance ministry and the central bank with respect to the situation in the domestic currency markets.

## China

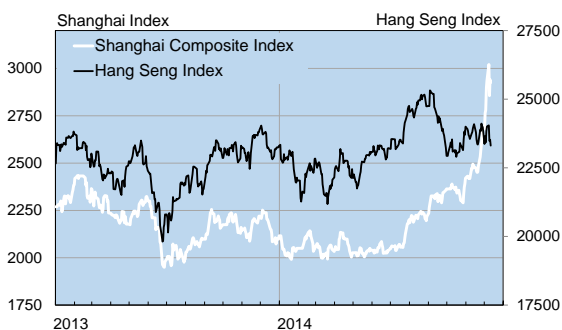
**Chinese inflation cools on lower food and commodities prices as well as lower economic growth.** Consumer price inflation in China slowed from 1.6 % y-o-y in October to 1.4 % in November. Producer prices continued their third consecutive year of decline, with the rate of fall increasing from 2.2 % in October to 2.7 % last month. Drops in prices of various foodstuffs, energy, and commodity prices have driven much of the recent overall slowdown in inflation. Moreover, overcapacity in many branches is a major driver of the slide in producer prices.

Lower economic growth has fuelled fears of a deflationary spiral. Expectations of a looser monetary policy stance are reflected in the yuan exchange rate. The yuan has lost nearly 1 % of its value against the US dollar over the past month. On Friday (Dec. 12), one dollar bought 6.19 yuan.

**Shanghai stock exchange volatility underscores developing state of Chinese financial markets.** On Monday (Dec. 8), the Shanghai stock index soared to its highest point in four years. The next day witnessed a major pullback, the biggest drop since 2009 when officials imposed collateral requirements for traders buying on margin. The sharp rise in share prices of recent months may come from increased investing appetite among private investors; a view backed by the sharp increase in the number of new stock trading accounts opened this autumn. Investors seem to be betting continued government willingness to provide economic stimulus and relax monetary policy further. Falling real estate prices have also forced investors to seek better returns in equities.

The recent share price volatility highlights the dependence of China's stock markets on exceptional factors created by economic reforms. The unsophistication of Chinese financial markets was also on display during the recent stampede to buy shares, driving share prices of certain Chinese firms on the Shanghai exchange considerably higher than prices of the same shares on the Hong Kong exchange.

### Shanghai Composite Index and Hong Kong Hang Seng Index



Source: Macrobond

**China's ranking in TI Corruption Perception Index drops sharply.** China fell from 20<sup>th</sup> place to 100<sup>th</sup> in Transparency International's rankings of 175 countries and territories in this year's [Corruption Perceptions Index](#). As a country's score rises in the Corruption Perceptions Index (CPI), the amount of perceived corruption falls. The country with the highest CPI score is thus seen as the "cleanest" or least corrupt by its own residents and the rest of the world.

The Nordic countries and New Zealand again topped the CPI rankings as least corrupt in the world. There was also little change in the worst performers, with Somalia, North Korea and Sudan retaining their places as the most corrupt countries surveyed. China's overall CPI score fell four points, the second-largest drop of all countries surveyed (Turkey suffered a five-point decline). Russia fell nearly ten notches to 136<sup>th</sup> place. The rankings of Ukraine and Belarus were roughly unchanged from 2013. Notably, India and Kazakhstan made substantial gains in the rankings. Ivory Coast and Egypt posted the biggest improvements.

The index is based on the combined scores from twelve distinct surveys. The data are compiled from country-level surveys of experiences and views of corruption. As it would be challenging to determine corruption in absolute terms, the most reasonable approach is to measure relative differences through multiple studies. In the case of China, findings of eight studies were used. Respondents to all studies in China noted the overall increase in perceived corruption.

China's severe drop in the rankings provoked officials to comment on TI's findings and cast doubt on their reliability. The decline was surprising given that president Xi Jinping has actively pursued an anti-corruption campaign launched last year. The campaign has enjoyed a high profile in the media and rule of law was the central theme at this year's party congress. Corruption investigations have concerned a high number of officials. Several high-level bureaucrats, protégés of previous leaders, have been charged with corruption. The way the campaign has raised awareness of corruption may well have affected survey respondent perceptions on corruption in China.

### Select countries from TI 2014 corruption perception rankings

Country	CPI score (0-100)	Ranking 2014	2013
Denmark	92	1	1
Finland	89	3	3
United States	74	17	19
Turkey	45	64	53
India	38	85	94
China	36	100	80
Belarus	31	119	123
Kazakhstan	29	126	140
Russia	27	136	127
Ukraine	26	142	144

Source: Transparency International