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BOFIT Weekly

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Russia

Russia's banking sector reflects economic uncertainty. Total assets of the Russian banking sector at the end of last year amounted to 77.663 trillion rubles, an increase of 18 % y-o-y (all figures reported here are adjusted for the ruble's decline). While the overall rate of growth was similar to previous years, growth accelerated late in the year, particularly in December.

Banks increasingly relied on financing from the Central Bank of Russia to support this growth, with CBR participation in total assets rising from 9 % to 12 % just in the fourth quarter. CBR support last reached such levels in 2008 during the financial crisis. The CBR stepped in to support banks after access to other sources of financing had become more difficult (e.g. due to economic sanctions).

Uncertainty surrounding the ruble's weakening caused households to pull their deposits out of banks, causing the deposit stock to shrink by 2.5 % last year. Although deposit rates were hiked to more than 14 % in the second half of December, deposits still dwindled 1 % a month in December (m-o-m). This was actually less than most observers expected, and the stabilisation may reflect the government's decision in December to raise deposit insurance coverage from 700,000 rubles to 1.4 million rubles (nearly €20,000). Household forex deposits continued to increase, following standard Russian protocol during a crisis. As of end-2014, forex deposits represented 26 % of all household deposits, a nearly 10-percentage-point increase from January 2014.

Corporate deposits rose 24 % last year, outpacing their growth in recent years, including 2008. Deposits accounted for nearly 22 % of the banking sector's total assets, an increase of two percentage points from the end of 2013. The rise could signal that large state-owned enterprises increased their deposits in line with the government's recommendation.

Borrowing of both firms and households increased about 13 % last year. The pace of growth in corporate borrowing was about the same as before, while growth of household borrowing slowed significantly. The total stock of loans granted to households actually shrank in December, while the amount of non-performing loans increased. Non-performing household loans made up nearly 6 % of the loan stock at the end of the year. Non-performing corporate loans also jumped by about a third last year. Given the weak economy, the stock of non-performing loans is expected to rise significantly this year. Higher financing costs will further slow growth of the loan stock.

The capitalisation of banks worsened last year. The capital adequacy ratio slid from 13.5 % at the start of last year to below 12 % by the end of November. The government decided in December to provide 1 trillion rubles in capital support to 27 banks via the Deposit Insurance Agency. The amount equals 15 % of banking sector aggregate capital.

Russia's banking sector is in different shape than during the 2008–2009 financial crisis. Banks are struggling with larger portfolios of non-performing loans and capitalisation is weaker. Economic sanctions and higher interest rates have cut off the access of banks to affordable credit and hurt their ability to intermediate credit to the wider economy. The banking sector is also more concentrated than in 2008, when the five largest banks held 43 % of total assets. Today they hold 54 %. All five banks are state-controlled, so the state's role in the banking sector has grown further.

Stricter supervision has caused over 100 small and mid-sized banks to lose their licences since summer 2013, and more banks are expected to lose their licences this year. Some 835 banks operated in Russia at the end of 2014.

Russian foreign trade contracted sharply in the fourth quarter. Russian customs reports the value of goods exports and imports in the fourth quarter of 2014 were down nearly 20 % y-o-y, and that in December they fell 25 % y-o-y. Trade with CIS countries contracted more strongly than trade overall, due largely to the collapse of trade with Ukraine. Russian imports from Ukraine fell by half in the fourth quarter, while exports to Ukraine were down nearly 70 % y-o-y. While Russian trade was down generally, imports from Kazakhstan and Switzerland rose some 20 %.

The value of Russian exports shrank mainly on lower oil prices and reduced export volumes of crude oil and natural gas. The average price of Urals crude in October-December was down by nearly a third from 4Q2013. The volume of crude oil exports also slid nearly 7 %, while the volume of gas exports was down by nearly a third. In contrast, export volumes of petroleum products climbed 9 % y-o-y, even if they had lower value due to lower export prices. Export volumes for many metals were up, e.g. copper exports nearly doubled on year. Export volumes of coal and grain were also higher than in 2013.

The value of imports fell sharply in the fourth quarter in nearly all product categories. Imports of machinery, equipment and transport vehicles were down about 20 % y-o-y. Imports of many consumer goods fell also significantly. For example, imports of foodstuffs, textiles and passenger cars were each down over 20 % y-o-y. The slide in imports reflects e.g. the weak ruble and food import bans.

For 2014 overall, the value of Russian goods exports fell by 6 % to $500 billion. The value of goods imports was down 10 % y-o-y to $290 billion. Although slightly decreasing, the EU still accounted for nearly half of Russia's trade. CIS countries made up about 12 % of trade, while APEC's share rose to 27 %. Russia's largest single trading partner is still China, which saw its share of trade rise to over 11 %. The product structure of foreign trade remained practically same as before. 70 % of Russian exports consisted of oil and gas, and the other major export items were metals and chemicals. About half of imports consisted of machinery, equipment and transport vehicles. Chemicals and foodstuffs each accounted for about 15 % of imports.

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China

Drop in imports pushes foreign trade surplus to record levels. The value of Chinese goods exports in January was $200 billion, or 3 % less than in January 2014. Imports in January, however, were worth just $140 billion, or 20 % less than a year earlier. As a result of the import drop, the goods trade surplus ballooned to a record $60 billion. China's trade surplus for the past 12 months exceeded $400 billion. This figure includes bilateral trade imbalances of $240 billion with the US and nearly $130 billion with the EU.

While the feeble trend in imports is symptomatic of China's slowing economy, it may not be wise to extrapolate from the January figures. The halving of global oil prices, the 20 % drop in metal prices and depressed prices for farm products over the past year partly explain the drop in the value of imports. While also import volumes of certain raw materials have fallen in the last months, e.g. crude oil imports held at the same level in January as a year earlier.

Commodity price trends are also evident in Chinese exports, particularly in cases of lower export growth to many commodity-producing countries. This trend is strengthened by the fact that the currencies of many commodity producers have weakened relative to the yuan. Chinese exports to the United States, however, continued to improve in January, even if exports to EU countries went into the red and the decline in exports to Japan steepened. While Chinese exports reflect conditions in the global economy, special factors that come into play around the year shift tend to obscure deeper trends in exports as well as in imports.

Yuan appreciates in both real and nominal terms. Discussions on trends in the Chinese currency typically focus on the exchange rate between the yuan and the US dollar due to the dominance of the dollar in international payments and its use as the reference currency for Chinese foreign exchange policy. However, just tracking one currency pair gives a limited picture of what is actually happening in the forex world and more generally in trends in China and the global economy. For example, since the start of the year the yuan's exchange rate relative to the US dollar has weakened nearly 1 %, but appreciated 7 % against the euro.

The trade-weighted "nominal effective exchange rate" (NEER) provides a broader overview of exchange rate trends. In 2014, the yuan's NEER rose about 6 % relative to the currencies of China's main trading partners. The "real effective exchange rate" (REER), in contrast, also takes into account differences in China's inflation rate relative to those of its main trading partners. Thus, the REER provides a clearer assessment of shifts in price competitiveness. The yuan's REER appreciated also about 6 % last year.

Over the past ten years, the yuan's NEER and REER have appreciated about 50 % due to China's robust economic growth and increased international use of the yuan. With gradual liberalisation of exchange rate policy in recent years, the yuan has seen wider swings in its external value, as last spring's weakening episode demonstrated. Pressures driving yuan appreciation such as significantly higher growth of the Chinese economy relative to other large economies and a booming goods trade surplus have lately been moderated by the services trade deficit, rising capital exports and increased risk in China's financial markets.

Real and nominal effective exchange rates of the yuan

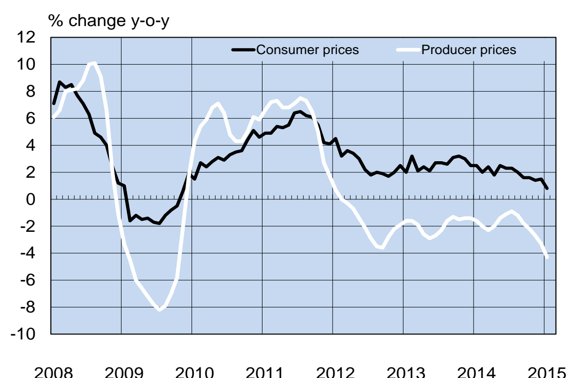
Source: BIS

Chinese inflation falls further. Consumer price inflation dipped to 0.8 % y-o-y in January, down from 1.5 % in December. China's inflation rate has not been this low since 2009. Factors driving down inflation include lower fuel prices and slowing food price inflation. When food and energy prices are removed, the slowing in the inflation rate was more modest, dropping from an on-year rate of 1.3 % in December to 1.2 % in January.

Producer prices in January fell 4.3 % y-o-y. Drops in commodity prices, along with overcapacity in some industrial branches and weak domestic demand continued to underlie the long deflationary slide in producer prices.

Concerns have increased in recent months over the slowdown in inflation and economic growth. While many expect further monetary easing, the PBoC has to take into account that this may exacerbate China's growing debt problems.

Consumer and producer price inflation in China, %



Source: Bloomberg

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