Weekly Review
6 • 12.2.2016

BOFIT

Russia

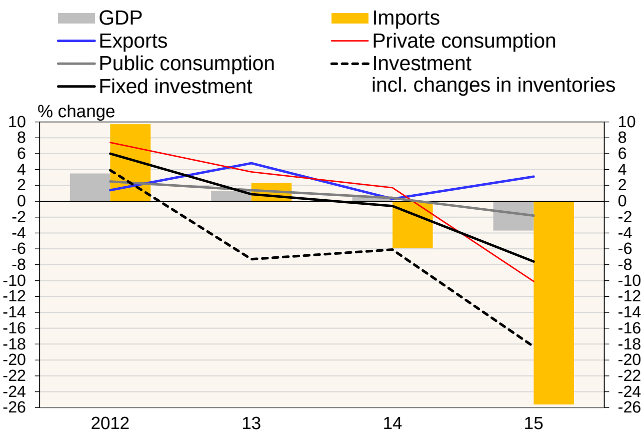
New calculation of statistics increases size of Russian economy. Applying international accounting standards of 1993 and 2008 for calculating GDP, Rosstat has adjusted Russia's 2014 GDP measured in rubles up by 9 %. The GDP figures for 2011–2013 were also raised by about 7 %. Russian 2015 GDP under the new approach is estimated at around 80.4 trillion rubles. 2015 GDP measured in euros (1,190 billion) or dollars (1,320 billion) showed a decline, however, due to the ruble's fall. GDP per capita in 2015 was just over €8,000 (€10,500 in 2014).

The new GDP figures include estimates of gains from living in one's own home, labour employed by households, capital consumption based on the market value of capital, as well as revised estimates of grey wages. The reassessed GDP 2014 data also provide wider coverage of R&D activity and defence spending.

While the biggest upward impact to the new 2014 GDP estimate came from a revised private consumption figure, the largest relative increase occurred in the value of fixed capital investment. Fixed investment accounted for over 21 % of GDP in 2014 and 22 % in 2015. On the supply side, the real estate branch's added-value had the largest impact as it soared by 50 %. State administration and defence sector lumped together were also up 45 %.

Real GDP growth figures for 2012–2014 only changed slightly. On the other hand, practically all GDP categories (consumption, fixed investment, exports and imports, as well as production branches) saw adjustments of growth rates to a varying degree. It is unclear whether inclusion of Crimea data impacted the 2014 growth figures. Crimea accounts for about half of a per cent of Russian GDP.

Changes in supply and demand components 2012–2015



Source: Rosstat.

Profitability of Russia's banking sector weakens. Growth of Russia's banking system largely stopped last year and profitability fell significantly. The Central Bank of Russia reports the banking sector's total assets increased by about 7 % last year, but due to exchange rate shifts, total assets of the sector were down 2 % from the end of 2014. The contraction reflects a stoppage of growth of the credit stock and growth in loan-loss reserves. The stock of credit granted to households contracted sharply (-7 %), while the stock of corporate credit grew by about 3 %. The share of forex credits grew slightly. Forex loans at the end of December accounted for just under 3 % of the household credit stock but about 40 % of corporate credit stock.

Total banking sector profits in 2015 contracted to 192 billion rubles (€2.6 billion), about a third of the 2014 level. When the profits of Sberbank, Russia's largest bank, are excluded, the sector showed virtually zero profits last year. Bank solvency ratios are still generally healthy, though with huge variations among individual banks. Weak results of banks raise expectations that consolidation in the sector and CBR revocation of banking licences will remain strong this year.

Minor shifts in the structure of Russian foreign trade. Measured in US dollars, the value of both goods exports and goods imports contracted by 30 % y-o-y in the fourth quarter of 2015. The rate of contraction for both imports and exports, however, slowed slightly as the end of the year approached. Most of the drop in the value of exports reflected low commodity prices. The fall in imports came mainly from lower import volumes.

For 2015 overall, Russian goods exports contracted a bit over 30 % and had a value of about $340 billion. Crude oil, oil products and natural gas accounted for 64 % of total goods exports (a slight drop from earlier due to the sharp decline in oil prices). The volume of crude oil exports rose 9 %, oil products 4 % and natural gas 8 %. Export volumes were also up for certain metals, fertilisers and wood products. Metals accounted for nearly 10 % of exports, while chemical products and machinery & equipment each accounted for over 7 % of exports.

The value of goods imports was $190 billion, down nearly 40 % y-o-y. Again, the largest import category (45 %) was machinery, equipment and transport equipment, even if imports in this category have fallen dramatically for a while due to weak investment demand (e.g. the volume of imported passenger cars fell by half last year). As a result, pharmaceuticals became the largest single import category, and chemical products overall accounted for nearly a fifth of all imports. Foodstuffs rose slightly to nearly 15 % of imports.

EU countries saw their share of Russian foreign trade shrink slightly last year. Just under half of Russian exports went to the EU and just under 40 % of imports came from the EU. Asian countries, in contrast, saw slight increases to nearly 20 % of exports and 30 % of imports. China accounted for over 8 % of Russian exports and nearly 20 % of imports. The shares of Eurasian Economic Union countries rose slightly (due in part to the accession of Kyrgyzstan) to about 8 % for both exports and imports.

Bank of Finland • Institute for Economies in Transition, BOFIT
P.O. Box 160, FI-00101 Helsinki
Phone: +358 10 831 2268 • Web: www.suomenpankki.fi/bofit_en

Editor-in-Chief Jouko Rautava• Email: Jouko.Rautava@bof.fi

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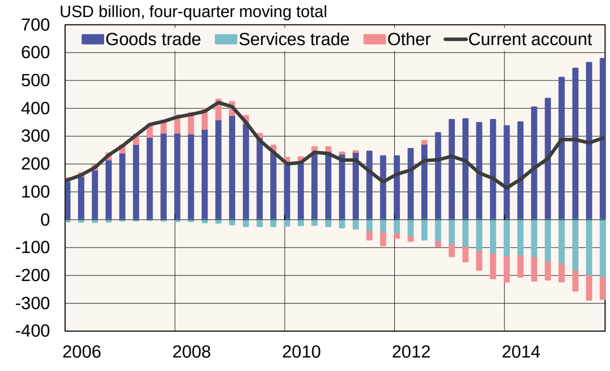
China

China's current account surplus grew last year. Preliminary balance-of-payments figures show China's 2015 current account surplus amounted to $293 billion, or 2.7 % of GDP. The goods trade surplus of $578 billion was partly offset by deficits in the services trade balance and income transfers. The services trade deficit of $209 billion was generated almost entirely by Chinese travellers, who spent $253 billion abroad last year compared to $165 billion in 2014.

The counterpart of the current account in balance of payments includes the capital account, financial account and the net errors and omissions term. Taken as a whole, they indicate that net capital outflows continued last year through both official and unofficial channels. Preliminary figures do not break out the net errors and omissions term from the rest of the financial account balance, however. Some capital outflows reflect normal business activity such as Chinese direct and portfolio investment abroad. Moreover, firms worried about currency risk and yuan depreciation seem to have accelerated payments on principal of their loans denominated in foreign currencies.

The value of China's foreign currency reserves shrank by $513 billion last year. Some $170 billion of that reflected shifts in exchange rates and asset valuations. The value of currency reserves fell $99 billion last month to $3.231 trillion. Total reserves (including gold, SDRs and reserves held by the IMF) were worth $3.308 trillion as of end-January.

Trends in Chinese current account components



Source: Macrobond.

Chinese apartment prices continue to rise. Based on private real estate portal SouFun's tracking of average apartment prices in 99 Chinese cities, the price of square meter rose by more than 4 % y-o-y in January. The average apartment price has risen from last spring and currently stands at 11,030 yuan per square metre of floorspace ($1,670/m^2).

In January, SouFun tracking found apartment prices still falling from a previous month in 36 of its cities, while the figure was over 70 cities in late 2014. The price development is uneven even within provinces. For example, January housing prices were down slightly in Guangzhou, but up significantly on-year in Shenzhen. The price of a square meter of apartment floorspace was up 15 % y-o-y in Shanghai and 8 % in Beijing. In certain cities, prices were down 10 % y-o-y.

The overall situation for real estate construction remains problematic. The volume of new construction starts measured in floorspace is still showing a distinct downward trend, and the situation is unlikely to be resolved quickly as the stock of unsold apartments continues to rise. Besides heavily indebted construction firms, local governments are also struggling. The biggest buyers of land rights are building companies and land right sales of local governments last year were down nearly a third from 2014.

Growth in volume of new apartment building construction

Sources: Macrobond and BOFIT.

As domestic demand wanes, Chinese steel exports rise. China last year produced 800 million metric tons of steel, or about half the world's steel output. As the construction industry is one of the biggest steel consumers, demand for steel falls when the volume of new construction declines. Last year, China produced 2 % less steel than in 2014. With the domestic steel prices nose-diving, China's top-100 steel producers last year posted collective losses of 65 billion yuan ($10 billion).

In reaction, steel producers have sought out demand in foreign markets. Cheap Chinese steel has succeeded in gaining market share elsewhere, with steel exports nearly doubling over past two years. The rest of the world's producers have accused the Chinese of dumping. The EU, United States and Japan have all imposed protectionist tariffs on certain Chinese steels within the framework of their WTO commitments. The EU and the US are currently considering expanding their anti-dumping tariffs to cover additional Chinese steel products.

China's steel production capacity is about 1.170 billion tons a year and new capacity is still coming on stream. At the same time, demand for steel is expected to decline as services increasingly become the main economic engine. The government has repeatedly said that it intends to shutter mills until the industry's overcapacity problems are under control. The current target calls for cutting output by 100–150 million tons by 2020. China's central government has declared similar initiatives many times before with little effect because local governments fiercely defend their producers.

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P.O. Box 160, FI-00101 Helsinki
Phone: +358 10 831 2268 • Web: www.suomenpankki.fi/bofit_en

Editor-in-Chief Jouko Rautava• Email: Jouko.Rautava@bof.fi