

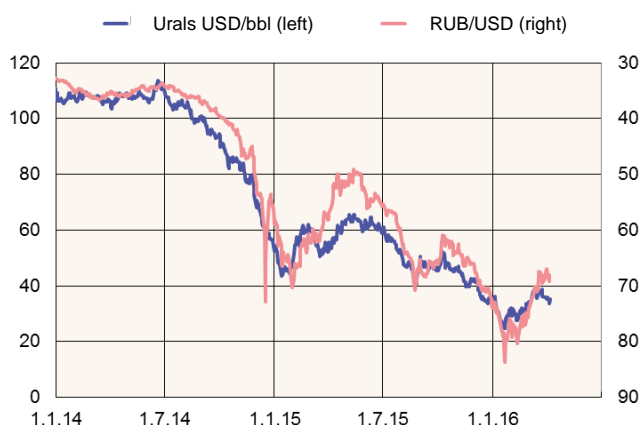
## Russia

**Higher oil prices lift ruble's exchange rate.** The rising price of Urals-grade crude oil since January has also boosted the ruble's exchange rate. On Thursday (Apr. 7) the price of Urals crude was \$36.5 a barrel (Brent \$38.7). Since hitting this year's low on January 21, the price of Urals crude has rebounded by 48 %. In the same period, the ruble has appreciated 23 % against the dollar. The ruble's appreciation has been further supported by the usual first-quarter effect of the large amount of corporate taxes coming due at the end of March. On Thursday (Apr. 7), one dollar bought 67.9 rubles and one euro 77.4 rubles.

Since July 2015, the Central Bank of Russia has avoided direct interventions in the currency market to influence the ruble's external value. The value of the CBR's gold and foreign currency reserves also climbed in January-March from \$368 billion to \$387 billion, mostly on the increase in the value of the CBR's gold reserves from \$49 billion to \$58 billion. The value of the CBR's foreign currency reserves also rose from \$320 billion to \$329 billion.

12-month consumer price inflation slowed to 7.3 % in March, due e.g. to the ruble's appreciation and the fact that March 2015 provided a high base level.

Urals oil price and ruble-dollar exchange rate



Source: Reuters.

**Russia's finance ministry issues 250 billion rubles worth of domestic bonds in first quarter.** For the first time since 2011, the latest government domestic bond issues have been almost fully subscribed. The popularity of bond issues at the moment reflects the rebound in oil prices, expectations of falling interest rates and significant improvement in the liquidity situation of Russia's commercial banks. The finance ministry says it now plans to issue 270 billion rubles (\$4 billion) in new paper during the second quarter of this year.

With about 150 billion rubles in old bonds maturing in the first quarter, the government raised about 100 billion rubles in net terms from the domestic market. For the remainder of the year, some 290 billion rubles in earlier bond issues come due. An annual average of about 550 billion rubles (\$8 billion at the current exchange rate) in government bonds are expected to come due during 2017–2019.

Federal domestic, ruble-denominated debt totals 7.24 trillion rubles, or nearly 10 % of GDP. Of that, 1.67 trillion rubles represents guarantees from the state, while about 1 trillion rubles consists of state bonds issued in December 2014 as part of an operation to inject capital into Russian banks. The 2016 budget projects net domestic borrowing of just 300 billion rubles.

Foreign investors hold about 20 % of outstanding ruble-denominated government bonds. When bonds issued to re-capitalise banks are not counted, that share rises to slightly over a quarter of domestic bond holdings.

**Revised figures show some shifts in Russian GDP components in the past few years.** Rosstat's revised annual data found no change in the GDP growth figures in 2012–2015. Compared to the previous data released early February, the import numbers have moved up and down for 2013–2014, although the reduction in the level of imports in 2015 was less than 1 %. Compared to earlier figures, private consumption showed a larger 2013 increase and a slightly smaller 2015 decrease. Revised fixed investments in 2014 fell considerably more than previously reported, lowering the level of investments by 2 %. The volume of exports increased in 2014–2015 slightly more than under the previous data.

Rosstat for the first time also now released revised quarterly GDP figures calculated according to newer international standards. In the fourth quarter of 2015, GDP contracted 3.8 % y-o-y, a drop very similar to that of the third quarter. The on-year drop of more than 12 % in private consumption was more severe than in the previous quarters. In contrast, the volume of exports in the fourth quarter rose 10 % y-o-y, due to large volumes of crude oil exports and a strong recovery in gas exports.

The latest growth figures may contain uncertainties as the work on revision of GDP data continues to move gradually backward in time (BOFIT Weekly Review 6/2016).

Changes in Russian GDP, imports and demand components, %

	2012	13	14	15
GDP	3.5	1.3	0.7	-3.7
Imports	9.7	3.6	-7.6	-25.7
Private consumption	7.4	4.4	1.5	-9.6
Public consumption	2.5	1.4	0.2	1.8
Fixed investments	6.0	0.9	-2.6	-7.6
Exports	1.4	4.6	0.6	3.6

Source: Rosstat.

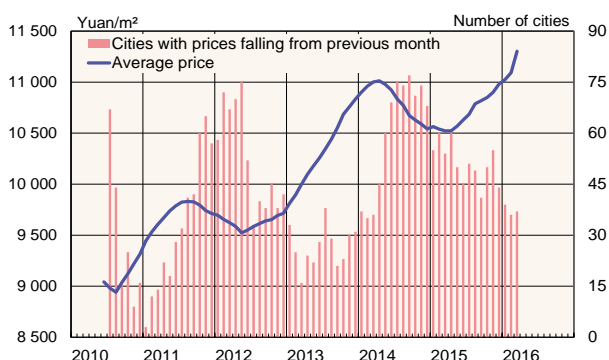
## China

**Housing prices soar in China's big cities.** The National Bureau of Statistics reports that prices of new apartments in February were up an average of 13 % y-o-y in Beijing, 21 % in Shanghai and 57 % in Shenzhen. The strong rise in prices in big cities has pulled up national housing market trends. The volume of new apartment buildings under construction increased 10 % y-o-y in the first two months of this year. On the other hand, the diverging trend between large and small cities has become sharper. There are still many unsold apartments in small cities and prices are falling or rising only slightly. The March figures of the real estate portal SouFun, which tracks average apartment prices in 98 cities, saw on-month declines in 37 cities. Compared with March 2015, prices were lower in 55 cities.

The government intervened with a variety of measures last year to prop up the real estate market, including a reduction in the downpayment requirements. Downpayment requirements have been further lowered this year in most cities, as well as certain taxes related to apartment purchases have been reduced. Shanghai and Shenzhen, however, in an effort to dampen the rise in apartment prices, have tightened rules on apartment buyers and raised the downpayment requirements. The revival of the housing market partly reflects the increased use of borrowed money to meet the downpayment requirement. Downpayment loans are provided e.g. by some housing developers or through a peer-to-peer lender.

Living costs in China's large cities have also risen rapidly. The latest survey of 133 cities of the Economist Intelligence Unit (EIU), found that all the eight cities in mainland China included (Beijing, Dalian, Guangzhou, Qingdao, Shanghai, Shenzhen, Suzhou and Tianjin) were among the world's 60 most expensive cities. The EIU survey looks at prices of over 160 goods and services. Living costs are measured in relation to New York, so the dollar's appreciation lifted US and Chinese cities in the rankings. The highest living costs were in Singapore, Hong Kong and Zürich. Shanghai was the priciest Chinese city, sharing 11<sup>th</sup> place with Tokyo. Shenzhen ranked 16<sup>th</sup>, making it slightly more expensive than Helsinki (17<sup>th</sup>).

### Trends in Chinese apartment prices (98-city survey)



Sources: SouFun, Macrobond

### Profits at China's biggest banks show little change.

The world's four largest banks (Industrial and Commercial Bank, ICBC; China Construction Bank, CCB; Bank of China BoC; and Agricultural Bank of China, ABC) released their 2015 financial results at the end of last month. While the profits of the four banks last year totalled about 900 billion yuan (\$140 billion), profitability growth was extremely thin. The interest margin (difference between interest rate paid on deposits and rate charged on loans), narrowed for all four banks. The average interest rate on loans fell to around 5 %. While banks said the reduced interest margin was mainly the result of loose monetary policy, ICBC and CCB noted increased rate competition since interest rate deregulation.

Despite hundreds of billions of yuan in profits, the big banks find themselves in a precarious situation. As they are largely state owned, they must participate in economic policy measures. The annual reports of these banks mention a range of government programmes, including the "One Belt, One Road" and the "Going Global". At the same time, the banks lack adequate risk-management mechanisms. Their log of non-performing loans is growing, even if they claim that NPLs only represent about 2 % of the loan stock. If loans likely to become NPLs are considered, the share of bad loans rises to 7 % according to the CBRC. Even higher figures have been suggested. In any case, the NPL stock is expected to increase as the government closes plants in its efforts to reduce overcapacity.

To cover potential losses, Chinese regulations require that banks set aside reserves equal to at least 150 % of their NPL stock. Previously actual provisions were much higher but last year the loan-loss reserve ratio for three big banks (ICBC, CCB and BoC) only barely exceeded the minimum requirement. Press reports indicate the government is considering lowering loan-loss provision requirement to 120 %.

### China and Russia see Panama Papers as Western attempt to destabilise their political systems.

The unprecedentedly large data leak on offshore companies released last week by the International Consortium of Investigative Journalists (ICIJ) revealed that people close to the Chinese and Russian presidents had used the services of a Panamanian law firm to set up firms in tax heavens. The Chinese government has tried to censor news and discussion concerning the involvement of China's leadership. The *Global Times*, which serves an international readership, suggested that the leaks were part of a Western disinformation campaign, noting that Western elites have gone largely unscathed. The paper highlighted suspicions concerning president Putin's inner circle, but did not mention suspicions on China's leadership. The Kremlin's press officer said the leak was an attempt to destabilise Russia before upcoming parliamentary elections.

The Panama Papers story has received considerable attention in the West. While setting up an offshore corporation in a tax haven is not illegal per se, it may be used to avoid taxes or hide illegally obtained assets and bribes.