Weekly Review
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BOFIT

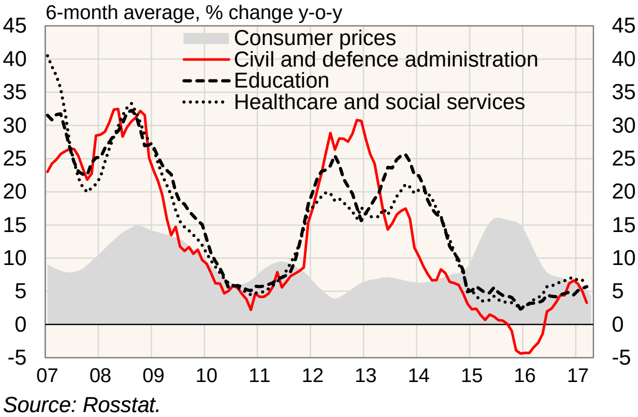
Russia

Russia prepares to raise public sector wages. President Vladimir Putin recently proposed that wages funded out of public sector budgets should be raised also for those public sector workers not included in the instructions issued in May 2012 in connection to his inauguration to a third presidential term. The proposed wage hikes would consider inflation and the condition of federal and regional budgets. Putin requested that the cabinet prepare options for the wage hikes in such a schedule that the increases could be included in the 2018 budget drafting process.

Labour and social protection minister Maxim Topilin said that the new wage hikes would at least compensate for inflation for all recipients, but that the increases would not necessarily be equal for all recipients. Topilin confirmed that the May 2012 instructions on increases will be implemented implying that in the beginning of 2018 the wages of several worker groups in the social, healthcare, education and culture fields should equal 100 % or 200 % of the administrative region's average wage. Putin acknowledged that certain regions have had trouble meeting these targets. To be able to fulfil the targets, regions will continue to be supported by transfers from federal to regional budgets as in previous years.

Putin drew attention to the fact that wages of public sector workers outside the scope of the May 2012 instructions have not been allocated additional budget money for wage increases for couple of years. High inflation and small wage increases have caused a significant decline in real wages in recent years in major branches of the public sector such as education, healthcare and civil and defence administration.

Average wage growth in major public sector branches, %



Source: Rosstat.

Car sales revive in Russia, while other sales remain weaker. Following three years of decline, sales of new cars have begun to rise in recent months. Sales of new cars in March-May averaged 130,000 units a month, or about 10 % more than a year earlier. Sales were still, however, only about half of the levels during the last peak in car sales in 2012.

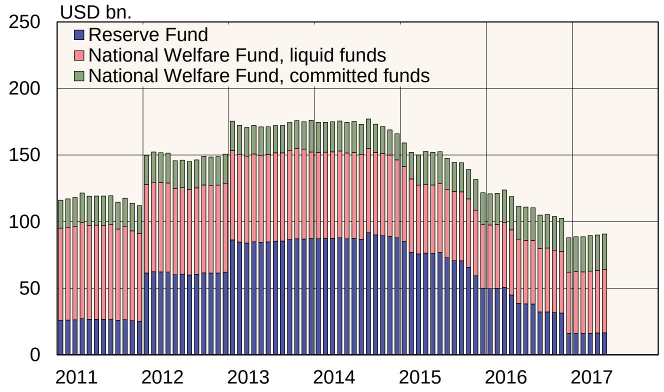
In addition to passenger cars, the sales volumes for many other durable goods such as home appliances and electronics have risen slightly. In contrast, sales of food items and clothing have declined and restrained the overall growth in goods sales because their share of sales is rather large. This year, for example, passenger cars and dairy products each accounted for just under 5 % of total retail sales. In the January-April period, the total volume of retail sales contracted by just over 1 % y-o-y. Food sales fell by 2.5 % and other goods by 0.3 %.

Russia has not yet dipped into its oil funds this year. Higher-than-expected oil prices have increased Russia's budget revenues and finance minister Anton Siluanov notes that the government has up to0 now been able to finance budget spending out of pocket this year without resorting to oil funds. Under the recently revised budget estimate, the plan this year still calls for withdrawing a total of about 1.7 trillion rubles to cover the federal budget deficit. The current plan sees draining the Reserve Fund entirely this year and funding most of the remaining deficit out of the National Welfare Fund. Siluanov expects the government to start dipping into fund assets sometime in the autumn.

As of end-May, the value of the Reserve Fund stood at 930 billion rubles (USD 16.5 billion), while the National Welfare Fund stood at 4.2 trillion rubles (USD 74 billion). Slightly over a third of the National Welfare Fund is invested e.g. in investment projects of Russian companies and long-term bank deposits. Thus, the total liquid assets of the oil funds correspond to about 4 % of GDP.

The budget framework for 2018–2019 calls for a large part of National Welfare Fund assets to be used to cover budget deficits in coming years. The fund is expected to hold about 2.8 trillion rubles at the end of 2019, of which 1.3 trillion rubles would be held as highly liquid assets.

Russia's oil funds



Sources: Russian finance ministry, BOFIT.

China

Officials reveal falsification of statistical reporting in two Chinese provinces. The Communist Party's corruption-fighting arm, the Central Commission for Discipline Inspection, announced that some officials in the Jilin and Inner Mongolia provinces have been charged with faking the data of local governments and businesses. No further details about the incidents have yet been released. A major fraud that had gone on for several years was uncovered in January in the Liaoning province. China's National Statistics Bureau subsequently revised down Liaoning province's GDP estimate by over 20 %. The economic growth figures reported by several other provinces, mostly located in the northern parts of China, have also raised suspicions.

Perverse incentives are the main driving factor for local authorities to distort their data. Regional officials can become obsessed with hitting established growth targets as their career trajectories depend on reporting consistently good economic performances. Changes in the incentive system has long been discussed, but in practice no significant changes to the system have been made.

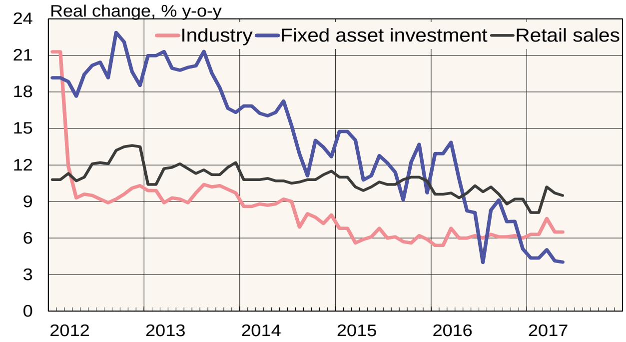
Reporting incorrect statistical data is especially problematic for China's decision-makers, because it creates a risk that economic policy will be based on inaccurate information. The task of correcting the long-recognised problems with provincial and local figures has fallen upon the central National Bureau of Statistics, which uses its own surveys and samplings to improve the accuracy of national figures. For example, the aggregate of GDP growth figures reported by regions typically indicate much higher growth than the official national figure for GDP growth. The Liaoning incident was so extensive, however, that it casts doubt on whether the NBS's measures to correct the figures go far enough.

China posts fairly stable growth numbers in May. NBS monthly figures show that industrial output continued to grow at over 6 % y-o-y in May. However, there was a slight slowdown of growth in output from April to May. Purchasing manager indices also show a similar pattern. Retail sales, in contrast, remained strong, with real growth of about 10 % y-o-y. Strong retail sales growth suggests China is making progress in structural reform of its economy.

Real growth in fixed investment descended to around 4 % y-o-y. Growth in public sector investment slowed in May to around 6 % y-o-y, while growth in private sector investment has remained relatively stable whole year at around 2–3 %. The pace of growth in public sector investment since the start of 2016 has clearly outstripped growth in private sector investment. Even so, about 60 % of total fixed investment is still made by the private sector.

In May, the rise in consumer prices accelerated slightly and inflation was 1.5 % y-o-y. Price pressures, however, appear to be subdued and inflation is well below the 3 % official target for this year. In contrast, the rise in producer prices slowed slightly in May to 5.5 % y-o-y. The rise in producer prices should continue to slow in coming months.

Real Industrial output, fixed investment and retail sales

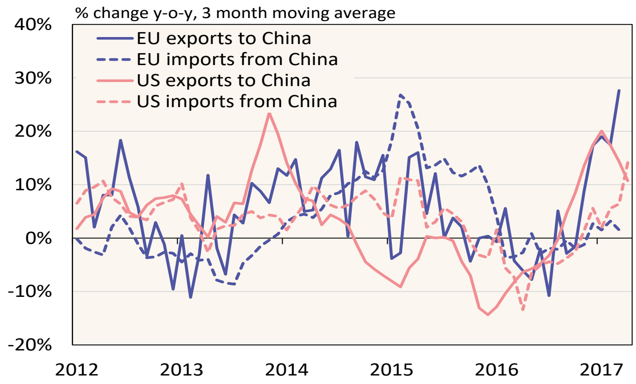


Sources: China National Bureau of Statistics and BOFIT.

Chinese foreign trade enjoyed buoyant growth in first five months of 2017. China Customs reports that the dollar value of goods exports rose 8 % y-o-y the first five months of 2017. The value of goods imports in the first five months of the year was up 20 % y-o-y. The last time the growth pace in January-May was this robust was in 2013. Strong export trends were supported by the yuan's weaker exchange rate against the dollar compared to last year. The volume of foreign trade has also grown rapidly as the volume of exports grew on average 8 % y-o-y and imports 13 % in the first four months of the year.

The value of Chinese goods exports to both the EU and the US grew by 10 % in the January-May period, and was slightly higher than the average growth of Chinese goods exports. The value of goods imports increased sharply for the United States (up 20 %) and the EU (up 16 %). The mirror trade figures from US and EU customs on goods trade with China largely confirm the robust growth in goods trade shown in the Chinese figures. The differences this year between the Chinese trade figures and the US and EU mirror figures have remained largely unchanged from previous years. Foreign trade can be considered as a tool to circumvent China's capital controls, which China has been tightening since last autumn.

US and EU goods trade with China



Sources: Eurostat and Fred.