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Russia

Central Bank of Russia takes over Otkritie Bank. The CBR announced on Tuesday (Aug. 29) that it had taken over administration of Otkritie Bank, Russia's eighth largest bank and second-largest privately held bank after Alfa Bank. The banking group's total assets at the end of 2016 amounted to 2.703 trillion rubles (about 43 billion euros).

Otkritie becomes the first Russian bank to enter receivership under new bank restructuring laws. The funding committed to the operation from a dedicated CBR Fund makes the Fund at least a 75 % stakeholder in Otkritie. The CBR says that Otkritie Bank will continue to meet all its obligations and that none of the bank's debt instruments will be converted to shares. Otkritie Bank suffered a large run on deposits all summer. In July alone, depositors withdrew over 6 billion euros worth of deposits.

Otkritie Bank in recent years pursued a very aggressive expansion strategy, acquiring the Rosgosstrakh insurance company and taking charge of restructuring National Bank Trust. Otkritie's balance sheet almost tripled in just a couple of years. The shift to public ownership of Otkritie Bank further increases the state's role in Russia's banking sector.

Market reactions so far have been subdued. The CBR has provided banks with additional liquidity to prevent problems in the interbank markets.

Recovery in Russian fixed investment. The volume of fixed investment rose by well over 6 % y-o-y in the second quarter. For the first half, growth was nearly 5 % y-o-y. Fixed investment was still down by 10 % from the first half levels in 2012 to 2014.

Rosstat reports that investments covered by within-year statistical recording increased by about 2.5 % y-o-y in the first half. These investments come basically from large and mid-sized firms and the state, which altogether account for three quarters of total investments. Instead, Rosstat estimated that other investments, which include those of small firms, grey-economy operators and most household investments, rose by more than 10 %. This is similar to the years of recovery and growth in the wake of 2009 recession, when these investment categories also experienced significantly higher growth than the core statistically recorded investments.

Regarding the investments by large and mid-sized firms and the state, investment in oil & gas production, after rising in the past couple of years, contracted in the first half by about 1 % y-o-y. Investment in oil refining remained at the same low level as in 2016. Investment in pipeline transmission of oil & gas, however, increased by 25 % after several years of decline. Investment in the electricity sector fell strongly for the fifth consecutive year. Manufacturing investment (excluding oil refining) contracted for the third year in a row.

The brisk recovery in fixed investment, especially in the second quarter, has drawn observer attention to the impact of investment waves caused by relatively one-time expenditures on large projects. The CBR, for example, noted spending on the Power of Siberia natural gas pipeline running in eastern Russia and to China, construction of Kerch Strait road-rail bridge to Crimea, and the 1 July deadline for companies to complete investments in new cash registers and related systems.

Among Russia's eight governmental areal subdivisions (Federal Districts), fixed investment recovered fastest in the Far East Federal District (up 20 %), as well as in the Central Federal District (15 %), e.g. in Moscow. In contrast, fixed investment continued to decline in the Volga and Siberia Federal Districts. In Russia's more than 80 administrative regions, investments in 36 regions increased substantially, while investment continued to decline in over half of the regions. Investment revival in Moscow contributed significantly to the recovery in Russian investment overall, as did investment in the commodity-producing regions of Tyumen, Sakha-Yakutia and Amur. Russian investment in Crimea, which rose by over 250 %, was largely financed with state budget funds and had a large impact on the statistical growth figure of Russia's total fixed investment. The increase in investment in these areas partly reflects the above-mentioned large projects.

Russia lowers import duties under its WTO commitments, while devising new barriers to imports. After years of negotiations, Russia became a WTO member in August 2012. Even if membership and free trade were largely seen in Russia to threaten domestic producers, Russia was not willing to remain outside the global organisation. In its first five years of membership, Russia has largely kept to its WTO commitments, but introduced other barriers to foreign trade to protect the most sensitive branches.

Soon after Russia's WTO accession, the country implemented e.g. an automobile recycling fee where only domestic producers are eligible of compensation, as well as restrictions on pork imports based on Russian veterinary and phytosanitary regulations. The WTO is still investigating the recycling fees, but the pork import restrictions have been deemed to violate WTO rules. Food imports to Russia are currently restricted mainly by Russian countersanctions. Russia has also introduced numerous measures that either restrict imports or favour domestic producers in public sector and state-enterprise procurements. Russia has not signed the WTO agreement on public procurements, but only committed to enter into talks on joining the agreement.

Russia's WTO membership terms commit it to gradually lowering its average import duties from 10 % to under 8 %. Most of the remaining duty reductions enter into force today (Sept. 1). Russia has also committed e.g. to opening up of some service branches to foreign firms, as well as restricting agricultural and industrial subsidies. During its membership, Russia has faced seven complaints against it for violation of the WTO framework, as well as filed six complaints of its own against other WTO members.

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China

China's housing markets may be cooling. Many cities have sought since last autumn to rein in soaring housing prices through various restraints on apartment sales, including limiting the number of apartments private investors can own, changed rules on resale, increased downpayment requirements and tougher rules on house loans. Even so, the National Bureau of Statistics reports that July prices in 70 cities surveyed rose at 9 % y-o-y, matching the June pace of growth. The skyrocketing prices of China's biggest cities showed signs of cooling, however.

The volume of housing sales also slowed significantly. In terms of liveable floorspace, the volume of housing sales rose 12 % y-o-y in the first seven months of the year. Sales during summer 2016 were up 27 %. Officials have sought to calm housing markets also by increasing supply. In January-July, the volume of new housing construction starts, again measured in m^2 of floorspace, rose by 12 %. Sales of rights to land use zoned for construction were up 9 %. While supply by these measures rose at least as fast as a year ago, the volume of completed apartments in January-July was only about the same level as in the same period in 2016. Over 80 % of building construction involved residential housing. Less commercial and office space was completed in January-July than in the same period in 2016.

In any case, huge regional differences and spotty statistical data make it difficult to get a clear picture of what is happening in Chinese housing markets.

Chinese firms get new guidelines on investment abroad. China's government updated in August its catalogue on guidance in outbound foreign direct investments. Investment is classed into three categories: "encouraged," "restricted" and "prohibited." FDI in infrastructure projects that are somehow associated with president Xi's One Belt, One Road initiative are "encouraged." Other types of FDI abroad likely to get green-lighted are those directed at high-tech industries, agriculture or the energy sector.

Firms investing in the restricted category (e.g. real estate, hotels, entertainment and sport) need special permission from officials. Officials say that these industries have suffered in recent years from "irrational" investments which are directed outside of the firm's core business area and used as a means to move money out of the country. Concerns over the financial wisdom and risk involved have also increased in recent years, and in practice officials have already cracked down on such investment by late last year. In particular, large private firms have faced heavy scrutiny over their overseas dealings, with some foreign acquisition projects abandoned altogether.

The prohibited are e.g. investment in the gambling industry and projects that may compromise national security.

Figures from China's commerce ministry show that outbound FDI (excl. finance sector) fell in the first seven months of the year by over 40 % from the same time in 2016, when a record amount of foreign investment occurred. The Rhodium Group analysis show that this year state-owned enterprises, unlike last year, accounted for the majority of foreign acquisitions. ChemChina, which embarked on its acquisition of the Swiss firm Syngenta in 2016, completed the deal in July. ChemChina now controls over 98 % of the company's share capital. The deal, valued at about 43 billion dollars, accounts for about a quarter of all Chinese FDI abroad last year. It is still unclear how the Syngenta FDI flows are allocated in official statistics, but the deal definitely has a large impact on FDI flows. If the investment is allocated to 2017, China's overall FDI outflows have not fallen from the 2016 level.

Summer harvest of China's grain crops better than last year. The summer harvest this year was about 1 % larger than last year's harvest, which was about 1 % smaller than the record 2015 harvest. The summer harvest, which typically accounts for less than a quarter of China's annual crop harvest, consists largely of rice, maize, wheat, beans and root vegetables such as potatoes. The summer harvest was larger than in 2016 even with the smallest area of land under cultivation since 2009. Accordingly, yields per hectare hit an all-time high.

China began to increase subsidies to domestic farm production in 2003. Yields of summer crops have since increased by nearly 40 % per hectare and the size of the annual harvest by about 45 %. Besides increased use of fertilisers and irrigation, the government set guaranteed support prices at which it promised to purchase crops for its reserve stocks to assure national food security. The price guarantees were originally intended to stabilise producer incomes, but reserve stock purchases gradually evolved into the main sales channel for selling agricultural produce. As world commodity prices have declined in recent years, China's higher guaranteed prices have caused reserve stocks to balloon at great cost to the state, especially when those stocks eventually spoil or have to be sold at a loss. High support prices erode production competitiveness. For example, the price floor for maize led to lower consumption of domestic maize and increased imports.

First efforts to address the problem included the phasing out of the support price for cotton, soybeans and maize during 2014–16. Price guarantees still apply to wheat and rice, despite speculation this summer that these guarantees might also end. Wheat is a particularly thorny issue. Forecasts suggest that ratio of wheat reserves, which includes the portion unusable due to spoilage, to China's annual consumption should climb next year to around 110 % (the global average is about 20 %). China's wheat supply (reserve stock and production) accounts for about half of the wheat available on global markets. Other countries are concerned that China's decision to end price guarantees will cause more of China's overproduction to flood onto the world market, inducing sharp price declines. For the time being, however, China's decision to deregulate prices of maize and cotton has had barely any impact on their exports, which remain minuscule on a global scale.