

## Russia

**Russian fixed investment continue reasonable recovery, with further weight on oil and gas.** The volume of fixed investment in the first quarter, which rose by 3.6 % from the same period last year, was still about 5 % below the level of 1Q12. After falling severely for three years, investment last year revived and rose by 4.4 %.

Fixed investment of large and medium-sized firms as well as government sector fell about 1 % y-o-y in the first quarter. It implies that Rosstat found other investment rose very rapidly. The multi-year growth in investment in oil & gas production continued. Investment in manufacturing also returned to growth after a three-year decline.

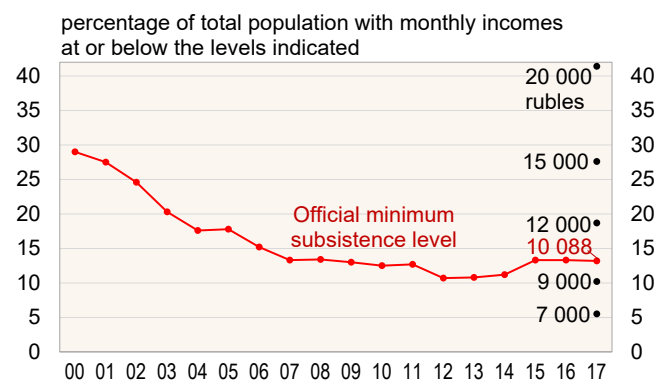
**Russia's goal of halving poverty would not require massive amounts of funds.** President Putin's inauguration Decree, issued on May 7, includes a goal of cutting Russian poverty in half by 2024. The Decree did not specify how to achieve this goal or how to estimate fulfilment of the target.

Definitions of poverty vary. In Russia, over 19 million people or 13 % of the population lived below the official subsistence minimum in 2017. The share was highest, about a fifth, among youths under the age of 16. The share of all those living below the minimum has shrunk considerably since 2000, although it rose in 2015 when inflation peaked. The subsistence minimum, which is a "minimum basket of consumer items", stood at a monthly income of just over 10,000 rubles in 2017 (less than 140 euros). For the entire population on average, the minimum basket last year contained over 45 % of food, with other goods and services each accounting for about a quarter.

Halving the number of poor would not appear very difficult as the share of people earning less than the subsistence minimum, but still more than 7,000 rubles a month, was over 7.5 % of the entire population last year. Lifting this group to the minimum would cost a couple of decimals of a percent of GDP or just over half a per cent of government consolidated budget spending (with several assumptions about the average income in the income groups). According to Rosstat's annual calculation, the cost of lifting all people living below the subsistence minimum to the minimum would have cost 0.8 % of GDP last year, or slightly over 2 % of government spending. With Putin in the lead, action was already taken before the May Decree by e.g. raising the minimum wage during the first months of this year to the subsistence minimum. Poverty diminishes naturally with economic growth. It will also get easier to deal with poverty if world oil prices stay high and thus support government budget revenues and the inflation rate of the minimum consumption basket remains reasonable.

Halving poverty would be harder with other criteria. For example, if the poverty line is defined as a widely used ratio to median income. 25 % of Russians last year had income at or below 60 % of the median income. The share is broadly the same e.g. in Serbia, and as regards the EU, basically in the lowest-income member countries, Bulgaria and Romania.

### Population living below the official subsistence minimum and other income thresholds



Source: Rosstat.

### Growth in Finnish-Russian trade cooled in 1Q18.

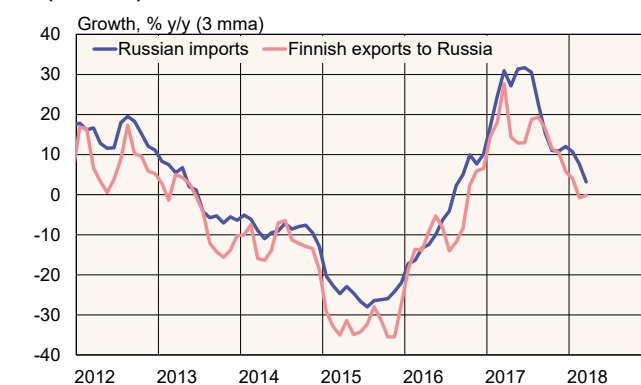
Finnish goods exports to Russia in the first quarter remained at roughly the same level as in 1Q17. The export trend was in line with Russian goods imports overall, with the euro value of imports rising by just 3 % y-o-y. Following strong growth in Russian import volumes last year, there has been a significant slowdown this year due e.g. to the weaker ruble. The development in euro terms has also been affected by euro appreciation against the USD from a year earlier.

Performance of Finnish goods exports to Russia varied significantly in the first quarter depending on the category. Exports of machinery, metals and paper rose, while exports of textiles, foodstuffs and chemical products fell.

Growth in Finnish services exports also appears to have slowed in the first quarter, as Russian overnight stays in Finnish inns and hotels increased only by 4 % y-o-y. Total Finnish services exports to Russia rose by 17 % last year.

The value of Finnish goods imports from Russia fell by 3 % y-o-y in 1Q18. Most of the contraction reflects last year's high reference point caused by a large one-off gas pipeline delivery. Finland's main imports from Russia – oil & gas – were up largely due to higher prices.

### Russian total goods imports and Finnish goods exports to Russia (in euros)



Sources: Central Bank of Russia, Finnish Customs.

## China

**Yuan appreciation continues this year.** As of the first week of June, the yuan's nominal effective (trade-weighted) exchange rate, or NEER, had increased about 3 % in value since the start of the year. The appreciating trend now extends for over a year, during which time the yuan's NEER has climbed by nearly 6 %.

The US dollar has appreciated about 4 % in trade-weighted terms (NEER) since mid-April. In some emerging economies the strengthening dollar and rising interest rates in the US have hurt the domestic currency, fuelled inflation and added to capital flight pressures. In China's case, however, the yuan has remained relatively stable against the dollar, depreciating since mid-April by just over 1 %.

On the other hand, the weakening of the euro, especially on Italy's attempt to form a government, lifted the yuan-euro rate at the end of May by nearly 4 % from its mid-April level. In all, the yuan barely showed any overall appreciation in NEER terms in May.

### Yuan exchange rate against US dollar, euro and basket of currencies of main trading partners (NEER)



Sources: J.P. Morgan, ECB and Macrobond.

### PBoC extends range of acceptable collateral from banks in medium-term borrowing.

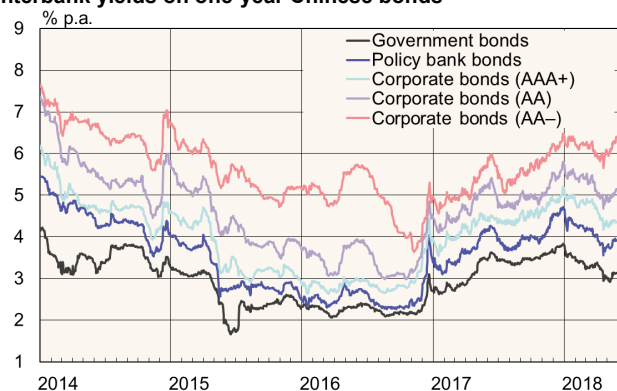
In reaction to increased uncertainty in China's bond markets, the People's Bank of China moved last week to allow corporate loans and bonds carrying lower credit scores to be used as collateral to banks using its medium-term lending facility (MLF). Many firms have recently found it difficult to find buyers for their debt. The MLF funding earlier required central government, local government, policy bank or domestically AAA-rated corporate bonds as collateral. The PBoC says it will now accept collateral such as corporate bonds rated AA or higher, green bonds and high-quality small- and micro-enterprise loans.

The move is intended specifically to improve small firms' access to finance and improve the access of smaller banks, which typically hold less high-grade collateral, to central bank lending. The interest rate spread between high-grade and lower-grade corporate bonds has widened since April. In

China, bonds rated AA- are already treated as speculative grade in most cases.

On Wednesday (June 6), the PBoC lent commercial banks 463 billion yuan (USD 72 billion) in one-year MLF loans at a rate of 3.3 % p.a. The issuance compensated the 260 billion yuan of maturing MLF credits.

### Interbank yields on one-year Chinese bonds



Source: CEIC.

### Sluggish first-quarter growth in Finland-China trade.

Finnish Customs figures show that Finland exported roughly 850 million euros worth of goods to China in the first quarter of this year. Finland imported 1.1 billion euros of goods from China. The value of goods trade in 1Q18 was only slightly larger than in 1Q17, with imports up just 1 % and exports 2 %. The growth of trade with China was also sluggish compared to growth in Finnish trade overall (exports up 7 %, imports up 5 % y-o-y in 1Q18). Finland's trade deficit with China fell by 4 % to 250 million euros. Finland's overall goods trade deficit was 670 million euros.

Paper pulp, ore, scrap metal and specialised machinery for various branches accounted for half of Finnish exports to China. All of these exports groups continue to gain share. The much-traded goods categories suffering share losses were sawn timber and electrical machinery & equipment. As in 1Q17, the dominant good categories for imports from China in 1Q18 were telephone and radio equipment, office equipment, other electrical devices and clothing. The imports of telephone and radio equipment noticeably increased, while imports of office equipment fell.

According to Visit Finland records, nearly 67,000 Chinese tourists visited Finland during the first three months of this year, giving the Chinese a 9 % share of all foreign visitors to Finland. The number of Chinese tourists and overnight stays increased by more than 20 % y-o-y in January-March.

Statistics Finland figures for 2017 show that Finland's total services exports rose by 8 % and imports by 3 % y-o-y. Service exports to China fell by 4 %, while services imports dropped by 16 %. With the larger contraction in imports, Finland's services account surplus with China rose to 480 million euros in 2017 (up 26 % y-o-y). Large fluctuations in the bilateral services trade of China and Finland are normal.