

## Russia

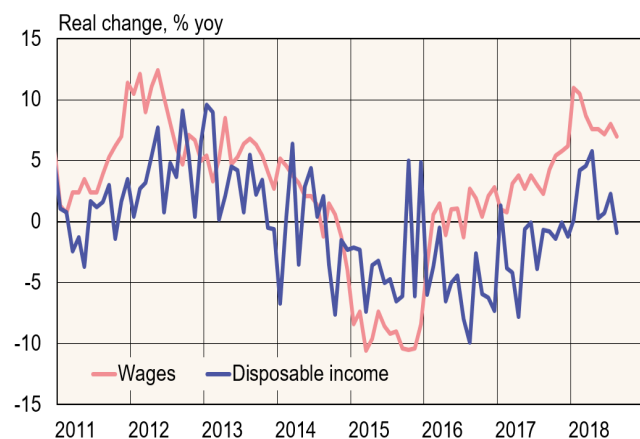
**Russian industrial output and retail sales continue relatively strong growth in August.** Industrial output in August rose by 2.7 % from a year earlier, whereas in July it grew by 3.9 %. The level of industrial output is now about 8 % higher than at the end of 2015.

The August industrial output figures were boosted mainly by activity in extractive industries, where output increased by 4.5 % y-o-y. Information from Russia's energy ministry shows a distinct increase in oil production in July and August, approaching the highest levels of output recorded in the post-Soviet era. Manufacturing industries have grown faster than extractive industries for most of this year. They grew slower only in August, when y-o-y growth dropped to 2.2 %. Notably, the August production of motor vehicles grew by 12.2 % and that of paper by 11.9 % from last year. In contrast, electronics production has declined over the past year.

Economic recovery is also visible in retail sales, which grew in real terms by 2.8 % y-o-y in August. The y-o-y growth of retail sales has fluctuated this year between two and three per cent. Volumes of retail sales and domestic consumption (as calculated in national accounts) have grown since early 2017. Growth in private consumption has been supported by growth in real wages. They were up by 7 % y-o-y in August, although real disposable incomes dropped by 1 % y-o-y in August, growth has been positive in all other months of this year. Differences in growth in wages and disposable income indicate the significance of pension and capital income for households.

Increased borrowing is also driving higher household consumption. Households piled on debt in the years before the 2014–2015 economic crisis. Much of that debt was used to buy consumer goods such as cars. The volume of new lending to households has been rising since the beginning of 2016, and growth this year has accelerated. Nominal y-o-y growth in ruble-denominated loans reached 37 % in July.

**Trends in real wages and real disposable income in Russia**



Source: Rosstat.

**Growth in Finnish-Russian trade subsidies.** Ruble depreciation has had a dampening effect on the growth of Finnish exports to Russia this year. While the value of Finland's imports from Russia has grown, this is mostly due to higher oil prices.

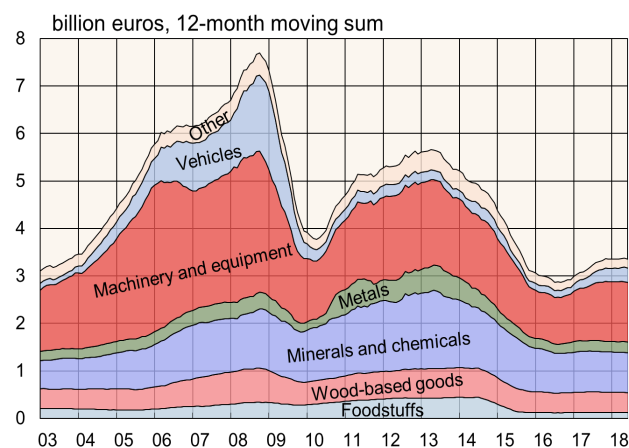
In the first six months of this year, Russians purchased in euro terms roughly the same amount of Finnish goods as in the same period last year. The annual value of Finnish goods exports to Russia is over 3 billion euros. Machinery and equipment account for about a third. Other significant export products include paper and chemical products.

Russians spent 5 % more on Finnish services in euro terms in the first half of this year than they did in the same period last year. Annually more than 1 billion euros are spent, with about half related to travel. Other important service export categories include construction, transportation and data services.

Finns purchased about 3 % more Russian goods in euro terms in the first half than in the same period last year. Due to the one-off delivery of a gas pipeline last year, the reference point is quite high. Without it, Finnish imports from Russia increased by over 10 %. Finns annually buy about 8 billion euros worth of Russian goods. About two-thirds of it comes in the form of fossil fuels, while the rest is mostly metal or wood products. Russia supplies Finland annually with roughly 10 million metric tons of crude oil, which corresponds to 2 % of Russia's crude oil production and accounts for about 90 % of Finland's crude oil imports. Finland also imports refined petroleum products and natural gas from Russia. At current prices, the value of Finland's annual fossil fuel imports is roughly six billion euros. However, this is not solely net imports, as a large share of crude oil is used as an input to make various export goods.

Finns spent about 10 % more euros on Russian services in the first half than in the same period of last year. Of the nearly 1 billion euros used annually on Russian services, about two-thirds goes to transportation services. Travel services account for about 10 %.

**Finnish goods exports to Russia**



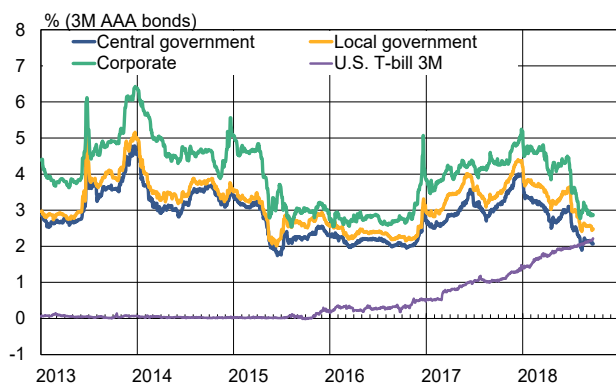
Source: Finnish Customs.

## China

**US-China interest rate spread narrows.** At a time when China is applying economy stimulus through monetary easing, the United States continues to tighten its monetary stance. The US Federal Reserve raised rates yet again on Wednesday (Sept. 26). Thus, the interest rate spread between China and the US has practically vanished.

While China continues to apply stimulus measures on worries over slowing growth, monetary easing fuels China's debt problems and adds to capital flight and yuan's depreciation pressures.

### 3-month rates of various Chinese bonds and US treasuries



Source: Macrobond.

**UnionPay launches European expansion; foreign card issuers still find access to the Chinese market difficult.** China's state-controlled payment card company UnionPay is launching its initial foray into European markets by providing electronic mobile payment cards to corporate customers in the UK who plan to visit Asia. As the rollout progresses, UnionPay also plans to offer its credit cards in Europe through third parties such as banks. UnionPay has in recent years expanded internationally mainly in Asia as well as developing markets outside Asia.

Over 7 billion UnionPay payment cards have been issued, making UnionPay the world's largest payment card issuer. Nearly all of its cardholders live in mainland China.

China announced already in 2014 that it was opening its credit card market to foreign companies and would permit them to establish their own clearing companies. Guidelines to credit card companies on applying for operating licences were published only last year after China promised to open its financial sector to foreigners as part of negotiations with the US. Not one foreign payment card issuer has yet been granted permission to operate independently in China. The *Wall Street Journal* last spring reported that American Express will be the first foreign card company to receive an operating licence from the People's Bank of China. A licence was granted to a joint venture that includes Chinese mobile payments provider Lianlian Group.

Despite the rapid increase in mobile payments in China, growth remains robust also in its payment card markets. In January-June, the value of card payments grew by 37 % y-o-y. In addition to payment cards, China had 638 million credit cards on issue. At the end of June, credit card debt was up about 33 % y-o-y to 6.3 trillion yuan (USD 950 billion).

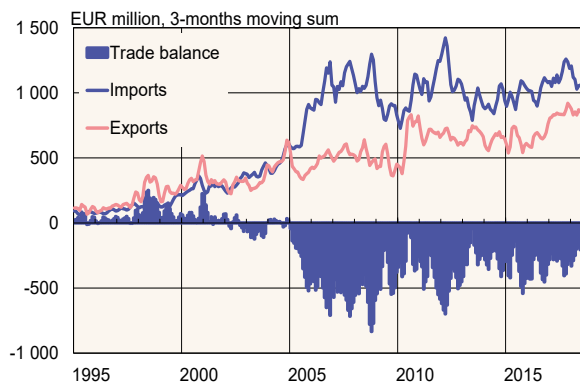
**Finnish first-half goods trade deficit with China balanced by services trade surplus.** While Finnish Customs reports that Finland's overall goods trade turnover grew at an average pace of 6 % y-o-y in January-June, Finnish trade with China hardly grew at all. Finnish goods exports to China amounted to 1.71 billion euros (up 2 %), while imports were valued at 2.16 billion euros (down 1 %). The overall goods trade deficit was 450 million euros, which was smaller than the 1H17 deficit.

In the first half of this year, 5.4 % of Finnish goods exports were destined for China, while 6.6 % of goods imports came from China. China is thus Finland's fifth-most-important export market after Germany, Sweden, the US and the Netherlands, and Finland's fourth-largest import provider after Germany, Russia and Sweden.

Finnish imports from China declined slightly or remained unchanged in the main broad categories (machinery & equipment, basic and other manufactured articles) compared to 1H17. There was more volatility in exports, however. The value of exports of Finnish machinery & equipment, as well as chemicals, declined substantially, while exports of raw materials and basic and other manufactured articles were up.

The services trade balance between China and Finland has been positive since 2016. Statistics Finland reports that the value of services exports to China in 1H18 was 650 million euros against services imports of 420 million euros (resulting in a surplus of 230 million euros). While Statistics Finland does not publish a breakdown of the structure of services trade by country monthly or quarterly, its figures for tourism show clear declines in the numbers of Chinese arriving in Finland and spending the night in Finnish lodgings during the May-July period compared to a year earlier. Last year tourism accounted for 14 % of Finland's services exports to China.

### Finnish goods trade with China



Sources: Finnish Customs and BOFIT.