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Weekly Review
46 • 16.11.2018

BOFIT

Russia

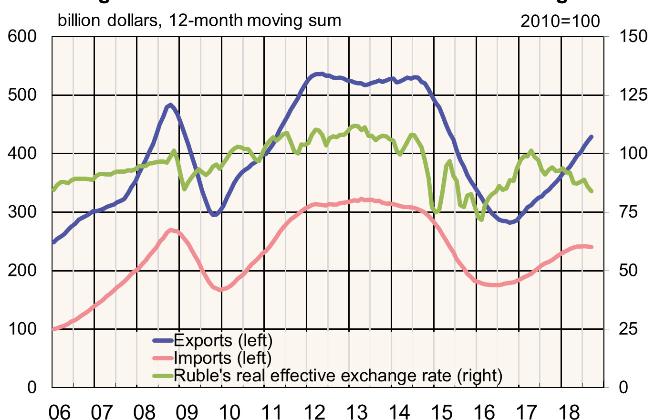
As the ruble weakens, Russian import spending growth lags export earnings growth. In the third quarter of this year, the total value of Russian goods exports in dollar terms was 31 % larger than in the same period last year, but the value of imported goods was 2 % smaller.

Export earnings were driven by sharp increases in oil prices. In volume terms, oil exports have remained rather stable. The impact of oil prices on Russia's export earnings is huge, because fossil fuels account for about two-thirds of the country's earnings on goods exports.

Until recently, Russian spending on imports has closely tracked the trends in export earnings, since higher oil prices have boosted the ruble's external value and thus Russians' purchasing power. This year, however, growth in spending on imports has faded even as oil prices have kept on rising. This is largely due to partial delinking of the oil price and the ruble's value. From March 2018, the ruble has depreciated by one-tenth against the CBR's basket of currencies both in real and nominal terms. The latest rounds of US sanctions are the most important reason for this depreciation.

In value terms, about half of Russian imports consists of machinery, equipment and vehicles. The EU supplies about 40 % of Russian goods imports, China about 20 % and the US about 10 %.

Russian goods trade and ruble's real effective exchange rate



Sources: Russian customs and Central Bank of Russia.

Significant drop in oil prices could lead to new production limits. The price of Urals-grade crude slightly exceeded 85 dollars a barrel in early October, its highest level this year. The Urals price has since fallen 22 % to around 67 dollars a barrel. The ruble-dollar exchange rate, however, only declined 3 % from the beginning of October (down 1 % against the euro) over the same period, i.e. the linkage between the oil price and ruble's exchange rate has been modest during last weeks.

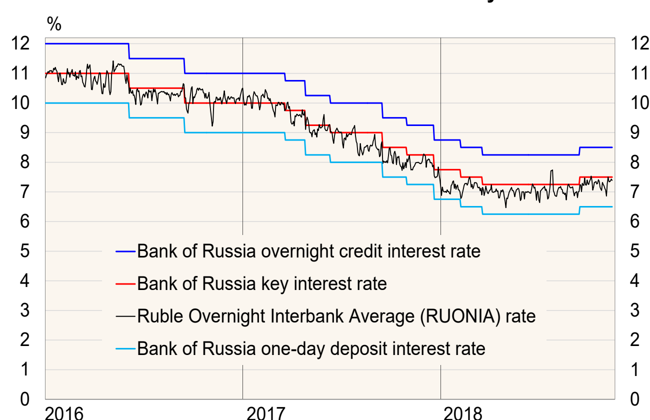
Substantial declines in crude oil prices may indicate concerns about a global glut or possible decline in overall demand. Russia, OPEC and a few other oil-producing countries met last Sunday (Nov. 11) to discuss, among other things, new production limits. While the parties did not made decisions about new production limits, Saudi Arabia announced that it would unilaterally reduce its oil exports by 500,000 barrels a day in December. Russian crude oil production is currently at a post-Soviet record level (BOFIT Weekly 2018/40). According to energy minister Alexander Novak, however, Russia is not ruling out the possibility of new production caps if the parties reach a consensus. By some estimates, the producer countries could reach an agreement on new production limits at their next meeting in a couple of weeks. The current agreement expires at the end of this year.

CBR's monetary policy programme for 2019–21 sees good bank liquidity ahead. The Central Bank of Russia notes that its operative monetary policy goal is to hold interbank money market overnight rates near its own key rate. To achieve this, the CBR has absorbed bank liquidity after liquidity in banks has increased over the past couple of years. For over a year the CBR has relied mainly on deposit auctions to soak up excess liquidity, but also on issuing its own debt securities especially from last spring onwards.

The CBR, based on its own economic forecast and the finance ministry's budget forecast, expects good bank liquidity in the next three years. It also plans to continue with its liquidity absorption operations.

The CBR notes bank liquidity will be partly supported by the CBR's forex purchases on Russia's domestic currency markets. The CBR makes the purchases using its discretion based on the finance ministry's long-standing order for steady forex supplies. The ministry wants to convert extra oil tax earnings from the relatively high oil price into forex. The CBR underlines that in its liquidity forecast the assumption about its forex purchases in no way signals any decision to resume forex buying, which it earlier suspended for the September-December period.

Bank of Russia interest rate corridor and money market rate



Source: Central Bank of Russia.

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China

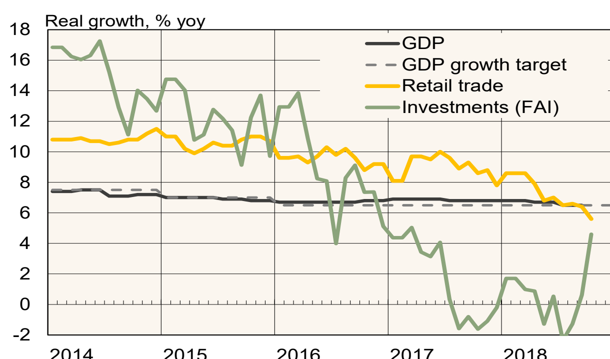
Retail sales in China slide below GDP growth target. Retails sales, considered the most important indicator of private consumption in China, grew by less than 6 % y-o-y in real terms in October. The growth figure includes the booming online shopping trade, which now accounts for over 17 % of all sales of consumer goods. A year ago, growth in retail sales was close to 9 % y-o-y.

On-year growth in fixed asset investment (FAI) in urban areas instead accelerated on revived growth in public and private investment. This is partly the result of orders from the central government that local governments complete unfinished infrastructure projects. The apparent recovery also reflects the modest basis for comparison at the end of last year.

FAI and retail sales are the most important indicators of current domestic consumption available as the National Bureau of Statistics publishes figures on fixed investment and consumer demand consistent with its GDP methodology only on the annual level. According to official figures, Chinese GDP grew in July-September 6.5 % y-o-y. Notably, slowing growth in both FAI and consumer demand appear to be running lower than GDP growth. Moreover, the shrinking of the foreign trade surplus suggests that net exports depress rather than fuel growth at the moment.

China's official GDP figures seem not to be troubled by movements in the core demand indicators, however. They merely track growth targets laid out by the party.

China's GDP and major demand indicators



Sources: Macrobond and BOFIT.

Stock of Chinese bank loans soars. The stock of yuan-denominated loans increased in October by 13.1 % y-o-y. In the first ten months of this year, new bank lending valued at 13.8 trillion yuan (2 trillion dollars) was issued, up from 11.8 trillion yuan in the same period in 2017. Foreign-currency-denominated lending represented only about 4 % of China's bank lending stock overall.

Official efforts to improve corporate access to financing this year are only evidenced in bank lending figures in the explosive growth in "bill financing." In January-October, banks granted nearly 1.3 trillion yuan in this form of short-term credit. Bill financing is usually used for trade financing, so its risks are more limited than traditional bank loans. Such lending can easily be used to boost overall lending when authorities ask banks to do so. In the first ten months of this year, the volume (5.1 trillion yuan) of new long-term lending to firms and state organisations contracted by 12 % from last year and the volume (600 billion yuan) of other forms of new short-term credit than bill financing was less than half that granted in the same period last year. In addition, the stock of lending off bank balance sheets, i.e. shadow banking sector instruments (trust and entrusted loans, or banker's acceptances) has decreased this year.

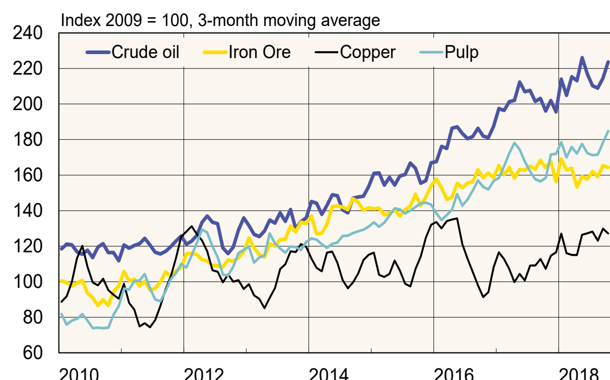
While the growth of new loans granted to households this year has decelerated, the stock of loans continues to grow at 18 % a year. The popularity of short-term loans has increased this year, while long-term lending (mostly housing loans) to households has declined from last year. In the January-October period, households accounted for 45 % of new bank lending.

Robust growth in Chinese commodity imports continues. China customs reports that the country's foreign trade continued to grow briskly in October, with the value of goods exports climbing by 16 % y-o-y and goods imports by 21 %. Both growth rates are at roughly the same levels as in previous months. Roughly half of the growth in value of imports and exports reflects price changes, while the other half reflects increased volumes.

Measured in terms of volume, China imported 8 % more crude oil, 11 % more coal, 7 % more pulp and 17 % more copper in the first ten months of this year than in the same period in 2017. While the volume of iron ore held steady, steel output continued to rise despite a campaign to reduce overcapacity in the industry.

Unlike many other indicators, the relatively stable growth in commodity imports does not suggest weakening economic conditions. This view is possibly distorted by the fact that China does not report its commodity inventories. Moreover, reduced imports of recycled metals due to restriction on such imports have had to be substituted with other imports.

Volumes of select Chinese commodity imports



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