Weekly Review
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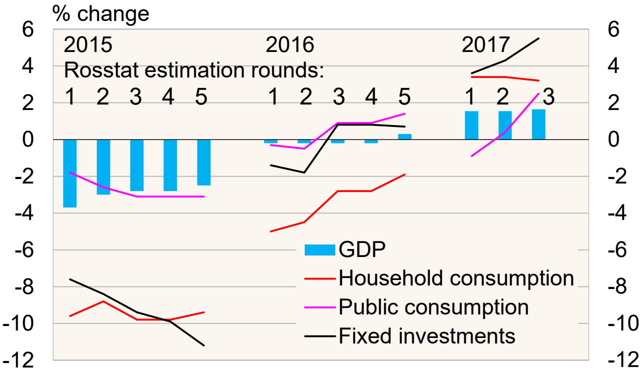
Russia

Rosstat released revised figures for GDP and domestic demand in 2016 and 2017. Rosstat's revised figures for 2017 GDP released in December slightly increase reported growth from 1.5 % to 1.6 %. In the case of 2016, however, the earlier assessment of a slight contraction in GDP was revised up to 0.3 % positive growth. As the fifth revision of the 2016 figure, it should be Rosstat's final estimate under its current statistical practices.

Rosstat data on domestic demand has seen some considerable changes. For example, growth in fixed investment in 2017 was revised up at the end of 2018 to 5.5 % (the figure in last spring was around 3.5 %). Such large adjustments in fixed investment figures were earlier seen in the revision of the 2016 figures. In contrast, Rosstat data on export and import volumes in 2015–2017 has remained unchanged throughout almost all of the estimation and revision rounds.

According to Rosstat's December revision, the 2017 data were adjusted, among other things, to include more precise statistical and accounting data on company operations and the state budget. The latest adjustments in 2016 figures are based e.g. on more accurate data on the use of production inputs and outputs, as well as census of the population involved in farming, which includes some production data.

Rosstat estimates: real GDP and domestic demand, 2015–2017



Source: Rosstat.

United States moves ahead on dismantling sanctions on aluminium giant Rusal. The US treasury department notified Congress on December 19 of its intent to lift sanctions on the energy company EN+, the aluminium producer Rusal and the energy company EuroSibEnergo. The latter two are partly owned by EN+. The companies were added to the US sanctions list last April due to direct or indirect ownership by Russian businessman Oleg Deripaska, who is connected to the Kremlin. The sanctions on Deripaska will not be lifted.

According to the US treasury, the targeted companies have made sufficient efforts to rearrange their ownership structures to warrant delisting. Deripaska already holds practically no direct stake in Rusal and his stake in EN+ declines from 70 % to 45 %. The stake is to be transferred to VTB, a Russian state-owned bank, and to Deripaska's charitable organisation. Deripaska's stake in EN+ will be further diluted by a swap of Rusal shares for EN+ shares by the mining and commodities multinational Glencore.

The US House of Representatives, now controlled by the Democrats, has until January 17 to block the sanction-lifting. However, scrapping the decision would also require Senate approval, a body with a Republican majority. Democratic politicians have provided most of criticism of the decision to selectively lift sanctions as Deripaska would still be left in control of a large stake in the companies and the connection of these firms to the Kremlin would hardly be reduced. Democrats have demanded postponing the deadline from January 17 but have yet to announce whether they will try to reverse the decision.

There have been pressures to lift the sanctions, because Rusal accounts for over 5 % of primary aluminium production globally. The April sanctions initially caused world prices for aluminium to spike by 20 %, although they have come down since. This may be due to the partial postponement of the sanctions.

The US treasury department also added more Russian individuals and Russian firms to the sanctions list on December 19. The newcomers are accused of a range of transgressions, including interfering with US elections, poisoning the Skripals and others in the UK and assisting Deripaska.

In Russian corporate debt increases have occurred in interfirm trade credits. Rosstat reports that trade debt of large and medium-sized firms to domestic suppliers of goods and services has edged up gradually in recent years. Overdue payments on the trade debt have levelled off this year at around 10 %, down slightly from levels in the wake of the 2015 recession.

The volume of interfirm trade debt now exceeds total corporate foreign debt, which is partly restricted due to sanctions on foreign financing. The trade debt, however, has also increased relative to domestic corporate bank debt, even if bank liquidity is good. The situation reflects weak interest among firms to borrow to finance fixed investments.

Main categories of Russian corporate debt

Sources: Bank of Russia and Rosstat.

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China

Glimmers of hope in China-US trade talks. In trade talks in Beijing held January 7–9, the two countries sought solutions to their inflamed commercial relations. The talks, originally intended to last two days, were extended a day.

No breakthrough was announced. The US reported that the talks had reviewed potential measures to create a level playing field for trade, increased reciprocity and reduced trade imbalances. Topics covered included mandatory technology transfers, intellectual property issues, various trade barriers and cybersecurity. China's propensity to not act on promises made on paper was also raised. The Chinese just said that the discussions were positive and should continue.

If the talks fail to resolve the trade impasse by early March, the US has threatened to raise the level of punitive tariffs from 10 % to 25 % on Chinese products added to the 10 % tariff list last September. The value of imports affected by the hike were worth roughly 200 billion dollars in 2017, or about 40 % of US goods imports from China. In addition, the US last summer imposed a 25 % punitive tariff on imported Chinese goods with estimated value of 50 billion dollars in 2017. China has responded to the additional tariffs by imposing its own counter-tariffs on American products.

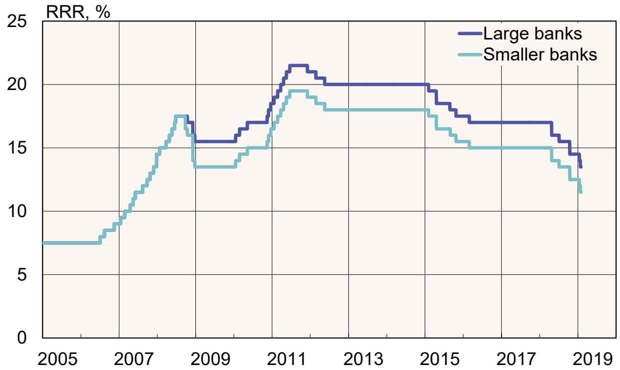
China eases monetary stance. The People's Bank of China announced last Friday (Jan. 4) it was lowering bank' reserve requirements by one percentage point. The cut will be accomplished in two rounds on January 15 and 25. While the easing frees up roughly 1.5 trillion yuan (220 billion dollars) in bank reserves, only about half will be available to boost banking sector liquidity. The remainder will go to servicing repayments of maturing central bank MLF loans. The PBoC usually tries to increase liquidity ahead of the Chinese Lunar New Year celebrations.

The general level of the reserve requirement ratio (RRR) for large banks falls to 13.5 % and for smaller banks to 11.5 %. China sets RRRs for each bank separately, so they can diverge from the general level. For example, banks whose loan portfolio consists a lot of so called small corporate loans are entitled to a lower RRR than other banks. At the start of this year, the PBoC changed its definition of small corporate loans to loans less than 10 million yuan (1.5 million dollars) per firm. The earlier ceiling was 5 million yuan.

China has sought to refocus monetary policy to ease the access of small firms to financing. At the end of December, the PBoC launched a new targeted credit instrument that allows large banks the seek long-term central bank financing at slightly cheaper rates. The banks entitled to cheaper financing and how much were not specified.

It is difficult to monitor Chinese monetary policy, which is implemented through a variety of targeted monetary instruments for which exact information is not released. The PBoC sought to head off any speculation of a broad-based stimulus by stressing that a drop in the reserve requirement does not signal a shift in monetary policy, even if the measure was said to aim to support growth.

Reserve requirements for China's large and small banks



Source: Macrobond.

China implements fiscal stimulus measures. The slowdown in economic growth has forced China's top decision-makers to implement further stimulus measures on the fiscal front. The budget deficit will be raised and local governments given access to additional off-budget debt financing.

According to media reports, China plans to raise this year's budget deficit target at the March meeting of the National People's Congress from last year's 2.6 % to 2.8 % of GDP. Much of the burgeoning deficit is due to increased budget spending on stimulus measures and tax cuts. Official figures for realised public sector budget deficits in recent years have been running in the range of 3–4 % of GDP, while the IMF estimates that China's actual budget deficit is somewhere around 10 % of GDP. Public sector debt is currently estimated to be around 70 % of GDP, so additional debt-fuelled stimulus carries serious risks.

As part of the stimulus programme, local governments will be allowed to increase the amount of bond issues and accelerate their timing so that construction of infrastructure projects can get underway and support economic growth. The *South China Morning Post* reports that local governments have already been granted permission to issue new bonds with a total value of 1.39 trillion yuan (200 billion dollars). The value of the total bond quota this year is estimated to rise to about 3 trillion yuan (up from 2.18 trillion yuan last year). Most of these local government bonds are "special purpose bonds," where repayment of the bond is based on revenue generated by the financed project's profits. Such projects and their financing are not included in local government budgets. The remainder of the bond quota consists bonds meant for normal budget financing.

Due to worsening debt problems, it is unclear whether commercial banks have any appetite for further increasing their local government bond portfolios. The unwillingness reflects the large number of projects financed with special bonds that have failed to generate enough revenue to pay back the bond. As economic growth slows, such problems are likely to increase.

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