Weekly Review
28 • 12.7.2019

BOFIT

Russia

Russian economic growth driven almost exclusively by private consumption. Newly released Rosstat figures show that the slowdown in GDP growth to just 0.5 % y-o-y in the first quarter was due to simultaneous weakening performance of both domestic demand and exports. The value-added tax hike at the start of the year had a one-time impact on domestic demand.

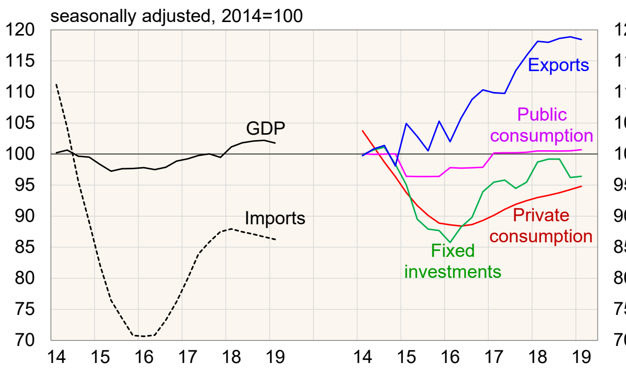
After several years of significant growth, the volume of exports stabilised last year and showed a small decline in the first quarter of this year. For the first time in three years, the volume of exports was slightly lower than in the same quarter a year earlier, but it was still up almost 20 % from the 2014 level.

Following a precipitous drop in 2015, private consumption gradually recuperated over the following two years. While continuing this year, the pace of recovery slowed in the first quarter. The slower growth picture for retail sales in recent months suggests that recovery in consumption may have cooled further. Private consumption in the first quarter was up about 1.5 % y-o-y, but still about 5 % below the level of 2014. Growth in public consumption in the first quarter remained at last year's very slow pace.

Fixed investments recovered for about two years after their 2015 collapse, but last year growth flattened. Even with some growth in the first quarter of this year, the very weak investment performance in the final months of 2018 meant investments in 1Q19 were lower than in 1Q18, which was the first on-year drop in three years. Investments were also a few per cent lower than in 2014.

Imports of goods and services to Russia have contracted slightly in several recent quarters. In volume terms, imports were down slightly on-year in the first quarter and off by about 14 % from 2014.

Performance of real GDP, imports and demand, 2014–2019



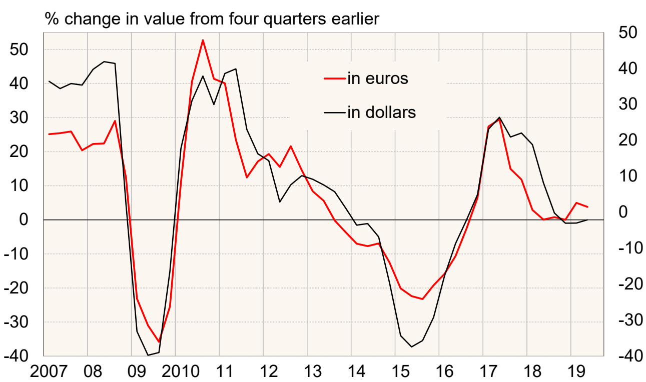
Source: Rosstat.

Russian foreign trade contracts slightly. Preliminary balance-of-payments figures released by the Central Bank of Russia show that Russian earnings from exports of goods and services fell in the second quarter of this year by a couple of per cent in on-year terms. The last such on-year drop was seen in autumn 2016. The contraction in export earnings arose mainly from developments in the energy sector, where export prices were lower than in 2Q18.

Russian spending on imports of goods and services, which since last summer has been running at about the same level as four quarters earlier, remained in the no-growth situation in the second quarter of this year. While this feeble track mainly concerned goods imports, growth has also been slow in imports of services such as Russian spending on tourism abroad.

Even if the slight drop in export revenues in the second quarter diminished Russia's current account surplus, the weak import performance meant that the current account surplus over the last four quarters still continued rumbling at nearly 7 % of GDP.

Russian spending on imports in euros and dollars, 2007–2019



Source: Central Bank of Russia.

Increase in outflows of private capital from Russia. Preliminary balance-of-payments figures show that Russia's net private-sector capital outflow went on in the second quarter. The net outflow from the private sector increased over the past four quarters to nearly 5 % of GDP. This was due mainly to capital outflows from the banking sector, while the net outflow of capital from the corporate sector remained at around the equivalent of 2 % of GDP.

The inbound flow of foreign direct investment from abroad to Russia's corporate sector has remained very small over the past four quarters (about 0.5 % of GDP). Although the figure for the outflow of capital from Russia's corporate sector in the form of outbound FDI has shrunk a bit, the four-quarter ratio was still about 1.5 % of GDP.

The other relatively significant capital flows for the corporate sector have involved foreign borrowing and lending. Russian firms generally have continued to pay down their foreign debt at a fairly steady pace, including the second quarter, while reducing their receivables related to foreign trade rather notably.

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China

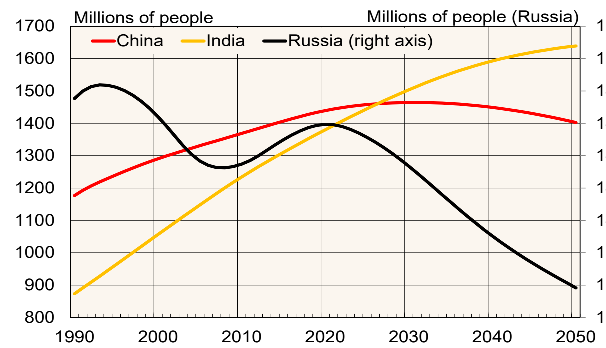
India set to surpass China as the world's most populous country around 2027. The UN's new population outlook, *World Population Prospects 2019*, released last month expects the global population to rise from its current 7.7 billion to 8.5 billion by 2030. The world population should approach 10 billion by 2050, but population trends will continue to vary radically across regions.

In coming decades, population increase in absolute terms will be largest in India, Nigeria and Pakistan. The UN estimates that India will surpass China as the world's most populous nation in 2027. At that time, China's population will peak at 1.46 billion people. China's population should begin to decline in the first half of the 2030s. The UN estimates that just over 1.43 billion people currently live in China and that just under 1.37 billion live in India. The UN estimates are higher than those of the national statistical agencies of those countries (1.395 billion at the end of 2018 for China, and 1.332 billion for India as of end-March 2019). The IMF's population estimate, which is based on national figures, has India's population exceeding China's already in 2023.

While the US population, currently 329 million, is expected to keep growing throughout this century, it will lose its third-largest status to Nigeria sometime around mid-century. Russia currently has the world's ninth-largest population, but is expected to drop out of the top ten in less than two decades.

Both China and Russia face huge social challenges from low birth rates and ageing populations. The dependency ratios (ratio of persons not of working age to those of working age) is rising rapidly in both countries. The pension and social security systems and their funding require reform in both countries.

Population trends for China, India and Russia, 1990–2050



Source: UN World Population Prospects 2019.

Coal continues to dominate China's energy palette, even as its relative contribution declines. At the end of June, oil giant British Petroleum released its annual *Statistical Review of World Energy* (production, consumption and trade flows). The BP figures show that China continued to increase its role as the world's biggest energy consumer in 2018.

China accounted for a third of total growth in global energy consumption last year. About a quarter of the growth in Chinese consumption was satisfied with oil, another quarter with natural gas and another quarter with renewables. The final quarter of growth was covered by increased use of coal, nuclear power and hydropower.

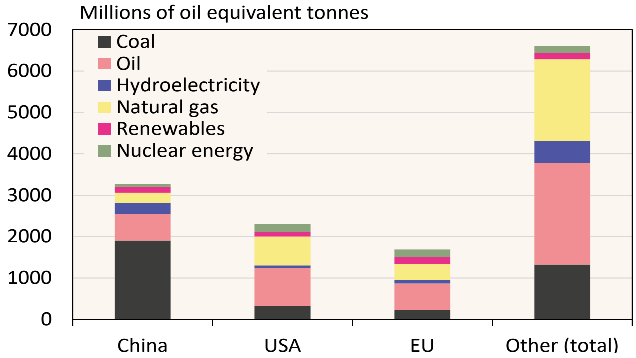
Coal remains China's single largest source of energy by far. China last year burned about as much coal as the rest of the planet. Even if new coal-fired power plants are still coming on line, the importance of coal is slowly waning. Coal-burning, which satisfied 72 % of China's energy demand in 2008, accounted for just 58 % last year. However, coal-burning is still the basis for two-thirds of China's electricity production. A big reason for China's coal dependence is that the country has large coal deposits. Despite an abundant resource base, however, China began to import more coal over the past decade. Even if the amount of imported coal is relatively small compared to domestic production (net imports were 7 % of 2018 production), China has become the world's biggest coal importer.

China is still the world's eighth-largest oil producer, even if its output has been declining since 2015. Oil consumption has increased rapidly, which has driven China to import large quantities of oil from abroad (BOFIT Weekly 15/2019). Domestic natural gas production doubled from 2008 to 2018, making China last year the world's sixth-largest gas producer. In 2008, China still produced about as much as gas as it used, but consumption has since far outstripped production growth and China is one of the largest gas importers. During the past two years, liquefied natural gas (LNG) imports have outstripped pipeline imports. Much of the LNG is imported from Australia, while most pipeline gas is brought in from Turkmenistan.

China is the biggest consumer of hydropower (using nearly 30 % of the world's hydropower) and renewable energy (25 % of world's consumption). It continues to rapidly roll out new wind and solar power capacity. Nearly half of all global growth in renewable energy production last year came from China.

While nuclear energy production has quadrupled in China over the past ten years, it still plays a fairly minor role. Nuclear accounts for 4 % of electricity production, as for example renewables already generate 9 % of China's electricity.

Energy use by category in 2018



Sources: BP Statistical Review of World Energy 2019 and BOFIT.

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