

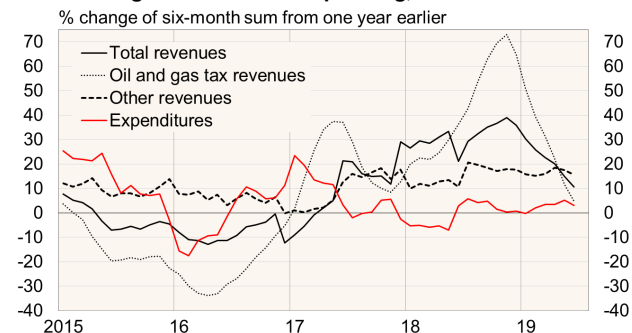
Russia

Russian federal budget produces strong first half surplus. Budget revenues in the first half of 2019 climbed 10 % y-o-y in nominal rubles, even when the high pace of growth that boosted tax revenues from oil & gas exports has settled. Oil & gas-related revenues in January-June increased by just 5 % y-o-y. Other budget revenues, however, climbed by 14 %, supported in part by the inclusion of revenues from the VAT increase at the start of the year in the second quarter budget.

Federal budget spending was up just 3 % y-o-y in nominal terms in January-June, i.e. lower than inflation. Defence spending declined slightly. The pace of budget spending is expected to pick up in the second half as the national projects delineated by president Vladimir Putin in May 2018 move further into the implementation stage. Total projected budget spending for this year includes a recently approved small supplemental budget and should raise spending growth to about 10 % from last year. Defence spending should rise by 3–4 %.

While growth in federal budget revenues was brisk in the first half, growth in spending this year has been slow. The disparity has created a booming budget surplus that as a sum over the past 12 months has exceeded 3 % of GDP in recent months. For all of 2019, however, the finance ministry only expects a surplus of 1.7 % of GDP as long as the price of Urals crude averages just over 63 dollars a barrel (Urals averaged 66 dollars a barrel in January-June).

Federal budget revenues and spending, 2015–2019



Source: Finance ministry.

Druzhba pipeline again operating at full capacity since July. Refinery-fouling oil was inadvertently mixed with other oil in the Druzhba pipeline in early April. The oil was contaminated with potassium chloride and other chemicals used in oil drilling ([BOFIT Weekly 21/2019](#)).

Pipeline operator Transneft estimates that oil exports transmitted by the Druzhba pipeline declined by 4.4 million metric tons in the first four months of this year compared to the same period last year. Nevertheless, Russia's total oil exports in the period were up by 2.9 million tons, thanks to an increase in exports via oil harbours of 6.5 million tons from the same period last year. While Transneft has promised to compensate its customers for their losses, no details on the damage settlements have yet been released.

Russia's contribution to global oil, gas and coal production held steady last year. British Petroleum's (BP) latest issue of its [Statistical Review of Global Energy](#) finds that Russia accounted for 13 % of world oil production, 17 % of natural gas production and 6 % of coal production in 2018.

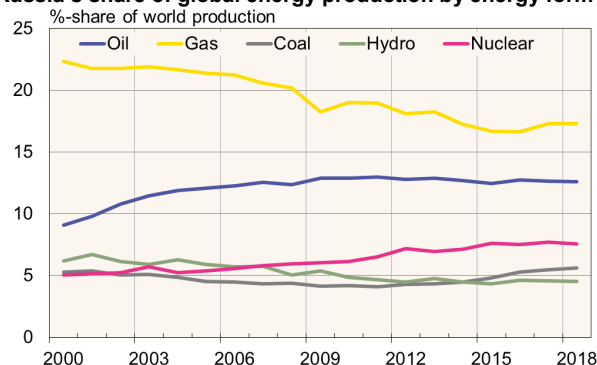
The volume of Russian oil & gas production has increased by about 10 % from the level in 2010, while hydropower production has grown by about 15 %, nuclear power 20 % and coal production 45 %. The rates of growth are roughly in line with average global growth in production, as Russia's share of the global production has remained roughly the same in recent years (see chart). Russia accounted for just 0.1 % of global renewable energy production last year.

Some 40 % of Russian energy production (oil equivalent) last year was in the form of natural gas, 39 % oil, and 15 % coal, with hydropower and nuclear power contributing 3 % each. Despite rapid growth, renewable energy production only accounted for a tiny fraction of Russian energy production.

In recent years, Russian natural gas companies have invested heavily in gas liquefaction facilities. There is high demand for LNG in East Asia, particularly Japan, China and South Korea. According to BP, Russia's share of global LNG exports was 6 % in 2018. However, Russian gas producers want to increase LNG production dramatically over the next decade. Around 70 % of Russian LNG exports went to markets in Asia and majority of the rest to Europe. UK and France together accounted for around half of the European exports. The first LNG shipment from the liquefaction plant on the Arctic Yamal peninsula via the Northeast passage to the Pacific Ocean departed on June 29. LNG carrier ships with ice-breaking ability can make the journey without the need for accompanying ice-breaker vessels. The Northeast passage is still only traversable in summer.

Russia accounted for 5.2 % of the world's primary energy consumption in 2018 and 4.6 % of carbon dioxide emissions. An average Russian consumed 210 gigajoules of primary energy last year. In per capita terms, it matches that of the average consumer in the West. 54 % of the energy used came from natural gas, 21 % from oil, 12 % from coal and 6 % from nuclear power. Russians get a disproportionate amount of their primary energy from natural gas. In most of Europe, gas accounts for about a quarter of primary energy consumption.

Russia's share of global energy production by energy form



Source: British Petroleum.

China

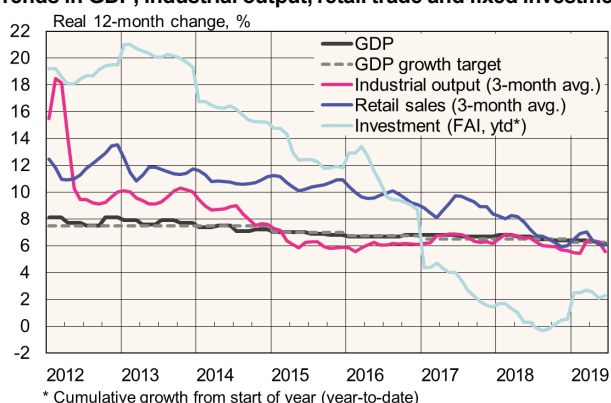
Slowdown in China's economic growth continued in the second quarter. Official figures show GDP growth holding at 6.2 % y-o-y, down from first quarter growth of 6.4 %. China's National Bureau of Statistics (NBS) attributes the continued strength in growth to the trend in net exports, which contributed by around 20 % of the growth. In the first half, average real disposable incomes were up 6.5 % y-o-y, slightly outpacing GDP growth.

Growth in retail sales and industrial output accelerated in June with both growth measures exceeding 6 % y-o-y in real terms. NBS retail sales figures show that value of car sales rebounded by 17 % y-o-y in June after declining in January-May. The pick-up in car sales may be explained by a change in emission standards in many provinces that forced dealers to reduce stocks by offering cars at substantial discounts ahead of the change. However, the China Association of Automobile Manufacturers (CAAM) observed that the volume of car sales was still down by 10 % y-o-y in June. CAAM said that car sales were down 12 % y-o-y in the first half.

Growth in fixed investment has revived a bit this year on increased public investment. While monthly figures for China's investment trends only give a rough idea of what is actually happening, the real increase in fixed asset investment (FAI) in the first half was around 2 %. Investment of state-owned enterprises has risen this year by about 3 % y-o-y in real terms. In the 1H18, FAI of state companies declined.

The rise in food prices continues to be driven by the African swine fever virus. Even so, consumer price inflation in June was unchanged from the May reading of 2.7 %. Core inflation (food and energy prices excluded) remained at 1.6 %. Producer price inflation fell to zero in June.

Trends in GDP, industrial output, retail trade and fixed investment



Sources: Macrobond, CEIC and BOFIT.

Alternative measures point to lower Chinese GDP growth than official figures suggest. The pace of GDP growth carries huge political gravitas in China. The growth target this year, 6–6.5 %, is fulfilling president Xi Jinping's goal of doubling real 2010 GDP by 2020.

Official GDP growth has been remarkably steady, hitting annual growth targets even as other measures of economic activity suggest the deteriorating economic conditions in recent years, not to mention the increase in economic uncertainty from e.g. trade disputes. Official figures also fail to reflect normal business-cycle fluctuations.

The deficiencies in China's GDP statistics and criticism of China's reported growth figures is hardly new. Alternative indicators that might provide a more honest picture of growth have been suggested for years. Many of these other measures suggest that growth is currently lower than official figures. For example, the US-based Conference Board releases its own alternative GDP growth estimates for China. According to it, Chinese growth in recent years has been lower on average by about 2.5 percentage points from the official figures. The Conference Board put 2018 GDP growth at 4 % and sees it falling to 3.8 % this year.

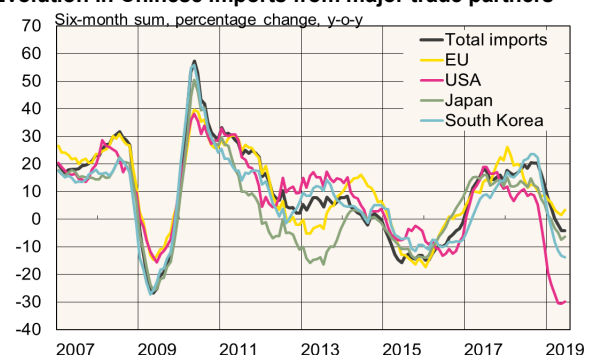
A [BOFIT Discussion Paper](#) released last December also noted that actual Chinese GDP growth has run on average at more than 1 % below the official numbers since 2014. The assessment considers alternative methods of estimating the GDP deflator. China does not disclose the deflator it uses to describe price trends in determining real GDP growth. Specifically, the deflated real growth figures in official statistics are astonishingly consistent. The use of an alternative deflator also reveals business-cycle variations as one might expect to see. Using the average alternative deflator from the study, GDP growth in the first quarter was below 5 %.

China's imports fell in the first half. China customs reports that the value of goods imports measured in US dollars fell by 4 % y-o-y in the first six months of this year. The value of imports fell by 7 % in June. Imports were down for all of China's key markets, except the EU. The value of imports from the US was down by 30 % y-o-y in the first half.

The dollar-value of goods exports in 1H19 was unchanged from 1H18 and fell by 1 % y-o-y in June. Exports to the US fell by 9 % in the first half, while the value of exports to the EU rose by 5 %. The first-half goods trade surplus overall climbed to 181 billion dollars. The trade surplus with the US increased to 140 billion dollars, up from 134 billion dollars in 1H18.

In yuan terms, China's foreign trade rose slightly in January-June, with the value of imports up 1 % and exports 6 %.

Evolution in Chinese imports from major trade partners



Source: Macrobond.