Weekly Review
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Russia

Russia's foreign currency reserves swell to highest level in years. As of end-September, the value of Russia's foreign currency and gold reserves reached 531 billion dollars, its highest level since 2013. This year's gain of over 60 billion dollars has been largely due to Central Bank of Russia's forex buying on behalf of the finance ministry. Higher prices for gold, which constitutes about 20 % of Russia's reserves, have also helped.

First-quarter figures suggest the composition of Russia's forex holdings has remained largely unchanged this year. As of end-March, some 30 % of Russia's forex reserves were held in euros, 24 % in dollars, 14 % in yuan and 7 % in British pounds. During 2017–2018, Russia dramatically reduced the dollar component of its reserves, switching instead to euro and yuan assets. The change was apparently done in response to US sanctions.

Russia and Turkey want to increase bilateral use of their currencies. At the beginning of this month, Russia and Turkey signed an agreement that seeks, among other things, to increase the use of national currencies in their bilateral trade, expand possibilities to use the Russian MIR payment card in Turkey and connect Turkish banks with Russia's national SPFS payment system.

Use of the Russian ruble is currently mainly limited to CIS countries, which denominate over 60 % of their trade with Russia in rubles. Use of the ruble has increased in recent years in Russia's trade with India and China. About a third of Russia-India trade last year was denominated in rubles, and about 6 % of Russia-China trade. In addition, apparently over 10 % of Russia-China trade was denominated in yuan.

Three foreign banks, all based in the CIS region, currently participate in Russia's national SPFS payment system. The MIR payment card can now be used outside Russia in a few CIS countries and Turkey.

Russia ratifies Caspian Sea accord. The five littoral states of the Caspian Sea (Russia, Kazakhstan, Turkmenistan, Iran and Azerbaijan) negotiated for two decades on territorial demarcation and sharing of the natural resources of the Caspian Sea. In August 2018, the heads of the littoral states signed a convention on these issues. The Russian parliament ratified the convention by law on September 19 and Russian president signed the law into effect on October 1. Iran is the only state yet to ratify the convention.

The convention establishes that territorial waters extend to 15 miles from shore and fishing rights to 25 miles. The area in the middle of the sea is to be divided into sectors. These are to be determined with agreements among neighbouring countries. Russia, Kazakhstan and Azerbaijan have already earlier agreed on sector boundaries in the northern part of the Caspian. Azerbaijan, Iran and Turkmenistan still continue negotiations on the division of the southern end. These countries have asserted overlapping claims on a number of hydrocarbon deposits.

In addition to exploiting natural resources, the convention gives each state the right to construct gas pipelines running along the seabed in their own sector. While this has raised hopes for the proposed Trans-Caspian gas pipeline running from Turkmenistan to Azerbaijan, the matter is still far from settled. Both Russia and Iran oppose the plan and may still contest the pipeline on environmental grounds.

Monitoring of partially completed fixed investments in Russia is difficult. A recent study of Russia's Accounts Chamber notes that information about partially implemented fixed investment projects is collected by a variety of public agencies. Rosstat compiles comprehensive information on them for the national accounts, but announced that it has stopped processing this information as decided in spring 2018. Rosstat data suggests that the ratio of the value of investments in progress relative to the value of Russia's total stock of fixed capital has held steady throughout this decade (Rosstat adjusts both stock values each year to reflect changes e.g. in prices). The value of investments relative to the capital stock at the end of 2016 was 6–7 %.

The Accounts Chamber assessment of unfinished projects focuses on those that are financed from federal, regional or municipal budgets. Despite various information systems, comprehensive investment figures appear only in budget information. These data provide the basis for the Account Chamber's estimate of public sector investment projects in progress, i.e. an amount equal to just over 10 % of the public sector's capital stock. Nearly 30 % of investments in progress have been under construction for over five years, halted or abandoned.

The Accounts Chamber finds that data collection is generally adequate only for the Federal Targeted Investment Programme (FAIP). According to a presidential decree, there should have been an inventory of all federal projects by the beginning of 2016 and all regional projects by the beginning of 2017. The software for reporting and data management are still not ready, however, and data collection to date has been spotty. The reporting forms for the main reporting system were only provided to regions this year.

To reduce the number of unfinshed investment projects, the government gave local and regional governments a two-month deadline at the beginning of 2017 to provide development plans. As of this summer, most recipients of federal funds had submitted their plans, but only 23 of Russia's 80 regions. The Accounts Chamber gave recommendations on data collection and drafting of plans. It also recommended improving related laws and regulations, determining the responsible regional authorities, as well as providing technical assessments of the projects in order to decide on their continuation.

Bank of Finland • Institute for Economies in Transition, BOFIT
P.O. Box 160, FI-00101 Helsinki
Phone: +358 9 183 2268 • Web: www.bofit.fi/en

Editor-in-Chief Jouko Rautava• Email: Jouko.Rautava@bof.fi
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China

Contraction in capital flows in China's balance-of-payments reporting. The financial account (excluding foreign currency reserves) in January-June showed a 45-billion-dollar surplus, down from the 1H18 surplus of 129 billion dollars. However, the "net errors and omissions term" implied an overall net capital outflow from China. Revised first-half figures for the current account were lowered slightly to 88 billion dollars (BOFIT Weekly 35/2019).

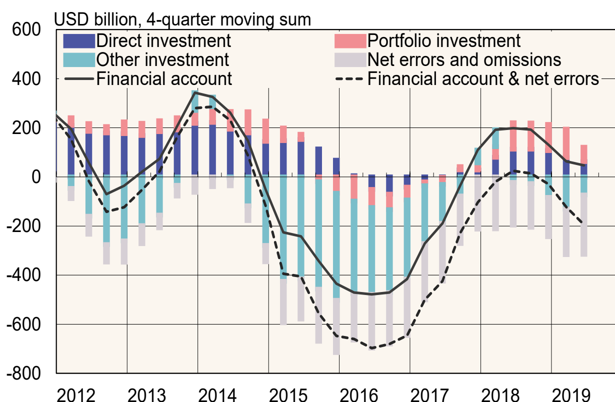
Two-thirds of the statistically recorded capital flows in 1H19 consisted of foreign direct investment. The net flow, however, was rather small as the flows of FDI into China recorded in the balance of payments contracted and the outward flow from China remained at last year's level. Portfolio investment in China was down considerably from 1H18, while portfolio investment flows out of China were unchanged.

Unlike the recorded flows in the financial account, the net errors and omissions term provides a ball-park figure for unrecorded forex flows. It suggests that the net capital outflow from China accelerated this year. The errors and omissions term for 1H19 suggests that 131 billion dollars in capital outflows circumvented official scrutiny (50 billion dollars in 1H18).

Using China's balance-of-payments methodology, foreign currency and gold reserves rose by 2 billion dollars in the first half (changes in valuations raised the final figure for China's reserves). The value of China's reserves slipped a bit in the third quarter, standing at 3.092 trillion dollars as of end-September.

China's net foreign asset position at the end of June was 2.025 trillion dollars, a 2 % decline from a year earlier. China had gross foreign assets of 7.443 trillion dollars (up 2 % y-o-y) and gross foreign liabilities of 5.417 trillion dollars (up 4 %). A quarter of gross receivables were FDI and over 40 % currency reserves. Over half of gross liabilities was FDI and nearly a quarter portfolio investment. The net foreign asset position weakened in 1H19 by 105 billion dollars as a result of capital flows and changes in exchange rates and prices.

Financial account net flows (excl. changes in reserves)



Sources: SAFE and Macrobond.

China establishes six new free-trade zones. New free-trade zones (FTZs) will be established in the Heilongjiang, Guangxi, Hebei, Jiangsu, Shandong and Yunnan provinces. The new FTZs have various branch-specific and geography-related emphases. For example, the northern Heilongjiang FTZ focuses on Russian trade and wood processing industries.

Companies in FTZs are subject to looser rules. They may get special foreign trade incentives, relaxed customs procedures, fewer barriers to currency exchange and establishing a business, lower joint-venture requirements, the possibility to recruitment foreign workers and reduced taxes and fees.

China has good experiences with its special economic zones established in the 1980s and 1990s. Many of these were used as pilot experiments for reforms that were eventually adopted nationwide. China has established more special economic zones than any other country. UNCTAD reports that China has over 2,500 special economic zones, which is more than half of all such zones globally. China only established its first true FTZ, however, in Shanghai in 2013. With the six new additions, China now has a total of 18 FTZs.

Special economic zones earlier served a useful pilot role, but in the current decade they are likely to provide little extra value and can perhaps be seen mainly as holdovers from the past. Now China should promote national-level reforms rather than increase the number of new local pilot projects.

Growth in the number of new Chinese industrial robot installations halted in 2018. The International Federation of Robotics (IFR) reports that about 154,000 new industrial robots were put into service in China last year, which was about 1 % fewer than the number of robots put into service in 2017. The country's continuing pre-eminence in the robotics market can, however, be seen in the fact that just 131,000 new robots were taken into service last year for all of Europe and the Americas combined.

China has been the world's biggest robot market since 2013. A decade ago the country accounted for less than 10 % of robot purchase globally but last year its share was 37 % (and 40 % in 2017). The IFR estimates that there are 649,000 industrial robots currently in use in China, i.e. 27 % of the global robot stock.

With the China's rapid adoption of robots, its robot density (140 robots per 10,000 workers) clearly surpasses the global average (99 robots) and is comparable to Finland's robot density. China still has a way to go to reach the level of the top users of robots, however. In terms of robot density, the leading countries are Singapore (831), South Korea (774), Germany (338) and Japan (327). US robot density is 217.

Last year about 422,000 new robots were installed at industrial facilities around the world, a 6 % increase from 2017. The stock of robots in use rose to 2.44 million units. Asia accounted for 68 % of new robot installations globally last year, followed by Europe with 18 % and North and South America with a combined total of 14 %.

Bank of Finland • Institute for Economies in Transition, BOFIT
P.O. Box 160, FI-00101 Helsinki
Phone: +358 9 183 2268 • Web: www.bofit.fi/en

Editor-in-Chief Jouko Rautava• Email: Jouko.Rautava@bof.fi
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