Weekly Review
42 • 18.10.2019

BOFIT

Russia

IMF lowers growth forecast for global economy. The latest World Economic Outlook from the International Monetary Fund (IMF) sees growth of the global economy slowing this year to 3 % and then accelerating next year to 3.4 %. The 2020 pick-up in growth should come from EU countries and accelerating growth in certain emerging economies such as India and Brazil. This suggests that the trough of slowdown in global growth should be seen this year. Global growth is forecast to hold at around 3.6 % p.a. from 2021 to 2024.

The IMF expects that Russian economic growth will accelerate in 2020, before stabilising at or just below 2 % a year through 2024. Also the latest BOFIT forecast sees growth of the Russian economy to accelerate from around 1 % p.a. this year to 1.8 % in 2020, mainly due to increased public investment. In the following years, however, growth subsides to around 1.5 %, which is close to what most observers consider Russia's long-term growth potential. The World Bank's latest forecast for the economies of Central and Eastern Europe expects Russian economic growth of 1.7 % next year and 1.8 % in 2021. Forecasters hold differing views on how long the phase of faster growth in Russian public investment will last.

IMF estimates that Russia's GDP per capita adjusted for purchasing power parity (PPP) is about 28,800 dollars this year. The average for EU member states is 43,200 dollars, while it is e.g. 32,000 dollars for Poland, 32,400 dollars for Portugal and 34,200 dollars for Estonia. Among Eastern European countries, the comparable GDP per capita is 9,300 dollars for Ukraine and 7,300 dollars for Moldova.

IMF GDP growth forecasts for select economies, %

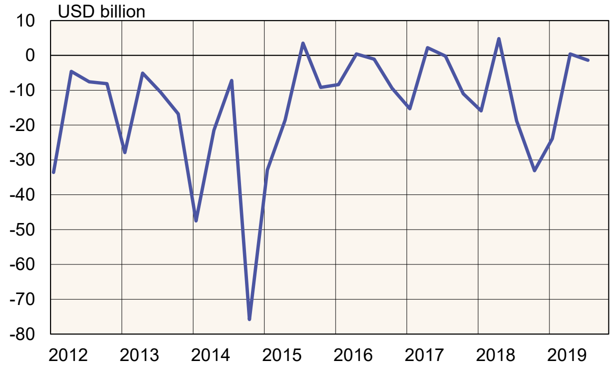
	2018	2019F	2020F	2021F
Global economy (PPP- weights)	3.6	3.0	3.4	3.6
Russia	2.3	1.1	1.9	2.0
Ukraine	3.3	3.0	3.0	3.1
Turkey	2.8	0.2	3.0	3.0
China	6.6	6.1	5.8	5.9
India	6.8	6.1	7.0	7.4
Brazil	1.1	0.9	2.0	2.4

Source: IMF.

Russian imports on the rise; modest capital flows. Preliminary balance-of-payments figures from the Central Bank of Russia show that the value of Russian imports of goods and services in dollars rose in the third quarter by 4 % y-o-y. In the first half of this year, the value of imports still contracted slightly. The value of exports of goods and services shrank slightly in the third quarter by 7 % y-o-y on lower oil prices. This caused the current account surplus to contract on-year in the same period. The total current account surplus for the latest four-quarter period was 96 billion dollars (nearly 6 % of GDP).

The net flow of private sector capital turned slightly negative in the third quarter, amounting to just 1.4 billion dollars. Most capital outflows came from the banking sector as Russian banks e.g. further trimmed their foreign debt. For the rest of the private sector, the net flow of capital was positive, supported in part by inward FDI flows. The net outflow of private sector capital in January-September amounted to 25 billion dollars declining to some extent from the same period in 2018.

Quarterly net flow of Russian private sector capital, 2012–2019



Source: Central Bank of Russia.

Report finds that one in three Russian workers involved in informal employment. A just-released survey from the Russian Presidential Academy of National Economy finds that about 25 million Russians participate in the grey labour market (i.e. work without an official labour contract, receive part of their salary under the table or moonlight). The survey finds that the share of persons participating in the grey labour market contracted sharply over the past two years, largely because of a decline in moonlighting. Russians now engage much less in off-the-books extra work as the opportunities for such arrangements have become scarcer. Due to country's modest economic development past years, Russian households have needed to cut also from buying informal work and services. In contrast, the number of people who work full-time in the informal market has hardly changed in recent years. Moreover, the survey suggests that the attitude of Russians towards moonlighting has become more positive.

A World Bank report published this summer found that the share of Russians working without an official contract has risen steadily throughout the 2000s. The share is estimated to be in the range of 15–20 % of the employed. This percentage is not particularly high compared to other countries with similar income levels. Growth in informal employment in Russia's case is driven largely by the fact that there has been almost no net job creation in Russia's formal sector for the last decade. The report said that grey labour markets could be reduced through such measures as easing labour mobility between regions, relaxing labour market regulations and raising the education level of the workforce.

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China

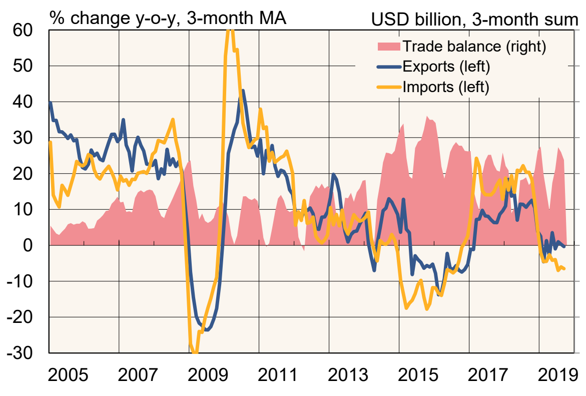
Negligible results in latest round of China-US trade talks. Face-to-face trade negotiations between China and the United States took place on October 10–11 in Washington, DC. The parties said they had reached agreement in principle on a temporary arrangement ("phase one"), but the details of the deal remain open. Nothing was signed and there was no clarity on how the talks would proceed. Most of the thorny issues remain unresolved or have been intentionally excluded from the negotiations.

One concrete achievement of the latest round of talks was a promise from China to annually purchase 40–50 billion dollars in agricultural products from the US. The parties have apparently also reached agreement on dispute resolution and implementation mechanisms. The resumption of talks was sufficient for the US to call off its planned tariff hikes set to go into effect in mid-October. Trade negotiations, however, are still clouded by, among other things, US tariff hikes scheduled for December.

China's sluggish foreign trade trend continued in September. China Customs reports that the value of goods imports in September contracted by 9 % y-o-y, while exports were down by 3 %. The goods trade surplus rose to 40 billion dollars in September, bringing the surplus for this year to 300 billion dollars, an increase of 80 billion dollars for the year.

Due to the trade war, goods imports from the United States contracted by 26 % y-o-y in the first nine months of this year. In recent months, imports from the EU and Africa have also started to decline. Chinese imports from Australia have increased, averaging growth of 25 % y-o-y in recent months. China mainly buys commodities from Australia.

Chinese goods trade and trade balance



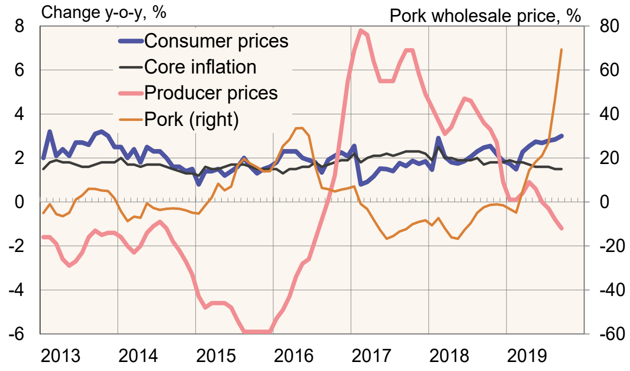
Sources: China Customs, CEIC and BOFIT.

Pork prices drive up consumer price inflation in China; decline in producer prices accelerates. Chinese consumer prices in September rose by 3.0 % y-o-y, up from 2.8 % in August. The acceleration in inflation was driven by a nearly 70 % jump in pork prices from September 2018. Core inflation, which excludes food and energy prices, remained at 1.5 % as in previous months.

Even if inflation has yet to exceed the government's target ceiling of "about" 3 %, soaring pork prices are a major headache for decision-makers. Just over a year ago, China suffered an outbreak of African swine fever virus that spread more quickly than elsewhere due, at least partly, to systemic and policy errors on China's part. Pork is a key component of the traditional Chinese diet. To make up for the shortfall, imports have climbed 70–110 % in recent months. The impacts have been far reaching, with pork prices spiking in Europe and elsewhere. Despite increased imports, the rise in pork prices in China continues. On Friday (Oct. 18), wholesale pork prices were up 24 % from the end of September.

China's producer price inflation sank deeper into negative territory in September, falling by 1.2 % y-o-y. Declining prices erode corporate profitability and make companies reluctant to invest.

Price trends in China



Sources: CEIC and Macrobond.

China eases rules for foreign firms operating in the financial markets. The China Securities Regulatory Commission (CSRC) announced last week (Oct. 11) that limits on foreign ownership in mainland-based futures firms, mutual fund companies and securities firms would be phased out during 2020. The decision allows completely foreign-owned companies to operate in these branches of the finance sector.

While China already earlier promised to scrap ownership restrictions, the trade war with the US seems to have provided incentive to accelerate the process and declare a clear timetable for implementation. The restrictions on futures firms will end next year on January 1, those on mutual fund companies on April 1 and those on securities firms on December 1.

For the moment, foreign firms must still be part of a joint venture with a Chinese partner to operate in the above-mentioned branches. Given the deregulation over the past couple of years, some foreign giants in the financial sector have already acquired majority stakes in their joint ventures. Western firms, however, represent only a tiny share of the Chinese market, and that share is not expected to increase rapidly despite huge interest of Western players in China.

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