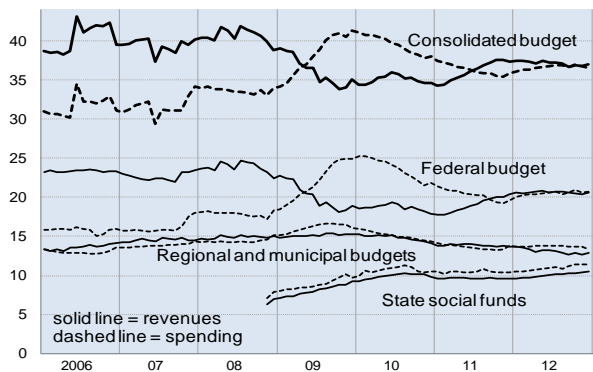


Russia

Economic growth helped public finances in 2012. The consolidated budget (combined federal, regional and municipal budgets, plus state social funds) was slightly in surplus, although the 2012 surplus was smaller (0.4 % of GDP) than in 2011 (1.5 %). Consolidated budget spending rose 14 % in nominal terms, keeping pace with 2011 and increasing in size to nearly 37 % of GDP. Revenue growth slowed to just over 10 %.

Federal budget revenues rose fast, and federal spending (excluding transfers to other budgets) rose faster than in earlier years. While federal spending was up about 25 %, some of this increase represented spending on police and law enforcement (once covered under regional and municipal budgets), which is now fully financed out to the federal budget. Revenues to regional and municipal budgets were up only 5–6 % as growth in tax revenues slowed and transfers from the federal budget declined. Growth in regional and municipal spending also remained below 10 %. The deficit for combined regional and municipal budgets last year was slightly larger than usual.

Government budget revenues and expenditures, % of GDP



Source: Ministry of Finance

Revenues to the consolidated budget from export duties and extraction fees on oil, petroleum products and natural gas fees continued to climb last year (up 14 %). Receipts from taxes and fees on oil and gas returned to pre-recession levels, accounting for 28 % of consolidated budget revenue and half of federal budget revenues.

The biggest spike in consolidated budget spending occurred in national security and law enforcement (up 27 %). Defence spending increased about 20 %, as did spending on healthcare. Spending was also up for infrastructure-related activity like road-building the transportation sector. Spending on education and social spending each rose about 14 %.

Social spending again accounted for about a third of total expenditures, while spending on national security, law enforcement and defence rose to over 16 % of total expendi-

tures. Both education and healthcare spending remained at 11 % each.

Russia's central government debt is low by international standards. As of end-2012, the combined domestic and foreign debt of the federal government amounted to just 8.5 % of GDP. In addition, the combined value of the two main national reserve funds are worth about 10 % of GDP, not to mention Russia's considerable reserves held by the central bank and state-owned commercial banks. Regional and municipal debt is just over 2 % of GDP.

Trends in gasoline prices carefully monitored in Russia.

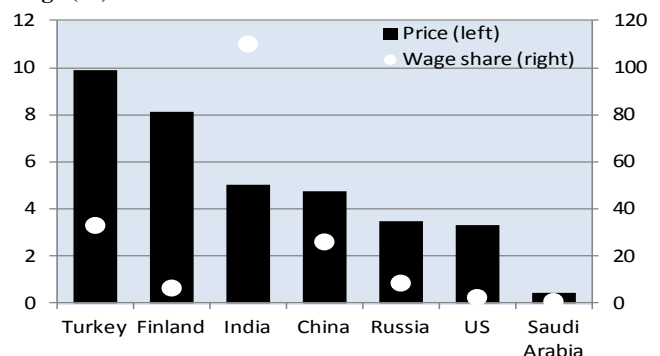
Gasoline prices have risen an average of nearly 10 % a year in recent years, and increased at nearly twice that pace in 2011. In February 2013, gasoline prices were up 9 % y-o-y. Part of the rise in the gasoline prices reflects booming domestic demand that occasionally outpaces local production causing regional gasoline shortages. To safeguard supply for domestic markets, government officials have resorted to temporary bans on gasoline exports or sharp hikes in export duties on gasoline. To temper the rise in consumer prices, oil companies are from time to time encouraged to "voluntarily" refrain from raising fuel prices. (see [BOFIT Online 2/2013](#))

Increased taxation undoubtedly adds to price pressures on the gasoline market this year. The excise tax on Euro-3 gasoline was increased at the start of this year and at the beginning of July the excise tax is set to be raised on other gasoline grades. Excise and value-added taxes account for about a third of the retail gasoline price.

Gasoline grades below Euro-3 grade were banned at the start of this year, i.e. the sale of Euro-2 was forbidden after a several reprieves. There were fears that the ban would exacerbate problems with gasoline supplies as some refiners have yet to modify their processes to produce higher octane gasoline. The shift has caused few problems to date, and official say that if there is a problem, gasoline can be imported from Belarus.

By international standards, gasoline is still relatively cheap in Russia. In income-adjusted terms, however, gasoline is more expensive in Russia than in the US or Finland.

Retail gasoline prices (€/litre) and in relation to an average daily wage (%) in select countries



Source: Bloomberg

China

Few surprises in economic targets announced for 2013.

The nearly two-week long National People's Congress (NPC) convened on Tuesday (Feb. 5). In his address to the opening session of the NPC, outgoing prime minister Wen Jiabao announced the government's economic targets for the coming year. The 2013 targets were prepared in cooperation with the incoming leadership. The GDP growth target for this year was set at 7.5 %, the same growth rate target as in 2012. Wen emphasised the importance of private investment in sustaining high economic growth in the years ahead. The growth target indicates China's leaders see the current real growth of about 8 % high enough, and no major stimulus measures are planned to promote growth. Most observers see China's GDP growth coming in at 8–8.5 % this year, a bit higher than in 2012.

The inflation target was lowered slightly from 4 % in 2012 to 3.5 % this year. 12-month inflation in January was only about 2 %, but inflation is expected to pick up in coming months. The growth target for the broad money supply (M2) was also cut. It is currently 13 %, which is less than last year's 14 % target. The lower targets are seen as an indication that no major changes in monetary policy should be expected this year. Wen did note, however, that the ongoing deregulation of the financial sector and relaxation of capital controls will continue.

Prime minister Wen also reported that the government expects the state budget deficit to rise slightly, in particular, due to higher spending to improve social services. Other presented goals include a 10 % hike in pensions for those who have spent their careers in the service of a company. The government also wants to create 9 million new jobs and hold down the number of registered unemployed. In addition, the real incomes of both urbanites and rural-dwellers should roughly keep pace with GDP growth.

The agriculture sector will get special attention. Grain harvests will be boosted by providing farmers with information about the latest production techniques and increasing the area of land under cultivation. Although China has managed to increase its grain harvest in recent years, grain consumption has also increased and consumption patterns are shifting, which are forcing China to increasingly resort to food imports. One of China's core political goals for decades has been to remain self-sufficient in food production.

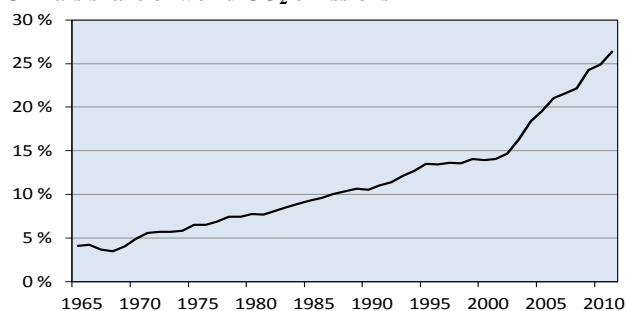
The National People's Congress comprises about 3,000 representatives. Although it is China's highest deliberative body under the law, it typically has done little more than rubber-stamp government proposals as submitted. During the current NPC, the representatives will endorse the new leadership, the economic targets laid out for the coming year, and approve the state budget and new laws.

Environmental issues underlie demands for a “beautiful China.” One notable aspect of Wen Jiabao address to the NPC was his take on China's serious environmental problems. He called for the incoming government is take concrete actions to safeguard the health and welfare of citizens. A work report released by the Wen administration defended the outgoing leadership's efforts towards protecting and improving environmental conditions. Many of the worst-polluting factories were shut down and water quality was improved through improvements in waste water treatment, sewage and drainage. China's energy consumption relative to GDP has improved due in part to stricter regulation and an emphasis on developing renewable energy resources.

During the outgoing administration's term in office, environmental degradation continued on a large scale. Now China's leaders face a backlash from average citizens, who have turned to expressing their dissatisfaction on the web and by staging demonstrations around the country. Anger and concern over the government's attempts to gloss over the issue was highlighted, when the environmental authorities pronounced a research report on soil pollution a state secret last week. The attempt to keep information from the public increased fears, that toxic soils constitute a threat to human health. Some researchers claim that about 10 % of rice consumed by people in China carries a risk of cancer due to high cadmium content. Cancer deaths in China are high by international standards.

Air pollution problems are apparent to the average person. Although small particle readings for Beijing air quality during the NPC were less than a third of the highs hit in January and February, they were still at health-endangering level. One of the more reliable measures of Beijing air quality is provided by air monitoring equipment at the US embassy, which tracks microscopic particles (the PM 2.5). The current reading indicates that Beijing air quality is extremely unhealthy. China's air pollution also affects other countries directly. Citizens of Kumamoto, Japan, which is located about a thousand kilometres from the Chinese coast, have been advised to avoid activity outdoors due to poor air quality caused by Chinese air pollution. China's contribution to global greenhouse gases increased sharply during the term of the outgoing leadership.

China's share of world CO₂ emissions



Source: British Petroleum