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Russia

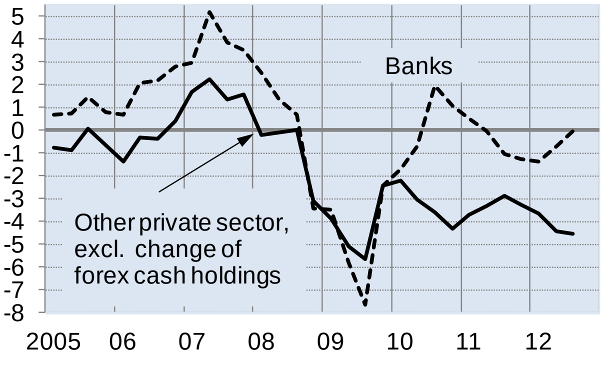
Capital outflow from Russia's non-banking corporate sector increased. Preliminary balance-of-payments figures from the Central Bank of Russia suggest the overall outflow of private-sector capital abroad declined slightly in the third quarter relative to 3Q2011. During last four quarters, the net outflow of private capital from Russia hit $93 billion, which corresponded to nearly 5 % of GDP.

Net banking sector capital flows this year have turned back to Russia as banks' foreign debt rose slightly. Part of the shift also reflected the CBR's divestiture in September of its majority stake in Sberbank, Russia's largest bank, with some of the assets going to foreign investors. Some of the sales impact was offset last month when Sberbank paid about $3.5 billion for Denizbank (Turkey's sixth largest bank), owned by the French-Belgian Dexia Bank. Otherwise, stocks of foreign assets and liabilities of Russian banks have risen more modestly than last year.

Capital outflows from the non-banking corporate sector have increased. Over the last four quarters, the net amount exceeded 4.5 % of GDP, the largest amount since the 2009 recession. The CBR estimates that grey capital export, i.e. illegal transactions like tax evasion, continued to increase. In the last four quarters, this outflow abroad equalled nearly 3 % of GDP.

Direct investment from Russia abroad began to rise again (even with the acquisition of Denizbank) after contracting slightly relative to GDP in the previous two years. This also applies to direct investment flows from abroad into Russia. In the last four quarters (as in previous years), direct investment outflows from Russia ($69 billion for the period, or over 3.5 % of GDP), have exceeded direct investment flows into Russia ($48 billion or 2.5 % of GDP). Foreign currency held as cash by the non-bank private sector increased for the first time since the winter months of the 2008–2009 recession.

Net capital flows abroad for Russia's banking and non-banking corporate sector, % of GDP, four-quarter average



Source: Central Bank of Russia

Large part of direct investment into Russia still channelled via Cyprus. CBR figures show that as of end-2011, $129 billion of the $456 billion in foreign direct investment inflows into Russia, i.e. almost 30 %, were channelled via Cyprus, where corporate taxation is significantly lower than in Russia and many other countries. Part of the investment from Cyprus and other countries with lower taxation is of Russian origin. Of Russia's $362 billion outbound foreign investment stock at the end of 2011, $122 billion (30 %) resided in Cyprus. The amount of direct investment from Cyprus to Russia has been on the decline, however, as Cyprus earlier provided more than a third of all foreign direct investment in Russia.

Observers offer differing assessments on the effects of adoption of the Russia-Cyprus Double Tax Treaty (signed in 2010 and ratified this year) on the role of Cyprus in Russian investment. The tax treaty improves information exchange and transparency for officials in both countries.

In recent years, some European countries have increased their importance as sources of direct investment into Russia, most notably the Netherlands, Ireland, France and Luxembourg, as well as some small island countries, like the British Virgin Islands, Jersey and the Bahamas. Direct investment outflows from Russia have increased especially to the Netherlands, British Virgin Islands and Jersey.

Inflows of direct investment into Russia, stock at year's end, US$ billion (rankings based on 2011 figures)

	2009	2010	2011
Total	**378.8**	**489.3**	**455.9**
1. Cyprus	129.9	179.2	128.8
2. Netherlands	33.6	40.0	59.7
3. British Virgin Islands	36.6	51.0	56.4
4. Bermuda	27.2	49.8	32.5
5. The Bahamas	18.7	24.6	27.1
6. Luxembourg	14.4	19.7	20.3
7. Germany	15.3	23.1	18.7
8. Sweden	11.7	18.1	16.1
9. France	9.0	11.5	15.4
10. Ireland	0.2	3.8	8.9
11. Jersey	0.3	0.4	8.7
12. Austria	7.4	7.8	8.3
13. UK	6.5	7.8	6.3
14. Switzerland	5.7	6.5	6.3
15. Gibraltar	10.2	5.8	5.9
16. Finland	5.5	6.6	5.4
17. US	13.9	5.4	3.4
18. St. Kitts and Nevis	0.1	0.2	2.8
19. Belgium	1.9	2.6	2.2
20. Japan	1.2	2.0	2.0
21. China	1.3	2.0	1.4
22. Italy	1.1	1.3	1.2
23. Denmark	0.9	1.4	1.1
24. South Korea	1.2	1.9	1.0
Others	25.1	16.8	15.9

Source: Central Bank of Russia

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China

Quarterly data show surprising signs of pickup in GDP growth. China's National Bureau of Statistics reports the Chinese economy grew 7.4 % y-o-y in real terms in the third quarter, only slightly off the 7.6 % growth pace of the second quarter and 8.1 % in the first quarter. Although on-year growth has slowed over the past three quarters, the more sensitive measure of on-quarter growth has risen since the first quarter of this year (see chart below). The on-quarter growth figures indicate that on-year GDP growth should pick up in the fourth quarter of 2012 and the first quarter of 2013.

The implied pickup in economic growth suggested in the quarterly growth figures has come as a pleasant surprise to many as most economic indicators, including company surveys, failed to capture any acceleration in economic growth in the third quarter. Retail sales, a indicator of domestic consumer demand, have continued to rise steadily all year. Growth in fixed capital investment, a measure of investment demand, has fluctuated month to month, but no significant change in the growth trend is detectable. In addition, the trend in foreign trade volume in July-August did not indicate net exports had risen enough to support significantly higher economic growth.

Real quarterly GDP growth, seasonally adjusted change from previous quarter, %

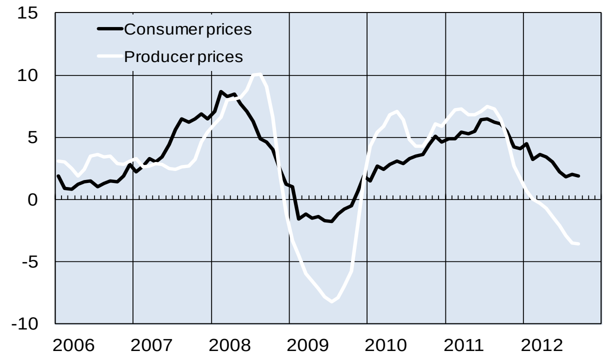
Sources: NBS (2011–2012) and BOFIT estimates (2005–2010)

Consumer prices up 1.9 % y-o-y in September. Inflation appears to have stabilised at around 2 % this autumn after declining for over a year. Food prices in September were up 2.5 % y-o-y, clothing prices 3.6 % and home appliances 1.6 %. The modest gain in food prices was welcome news for economic policymakers, who were struggling with food prices rising faster than 10 % y-o-y just a year ago. The slide in producer prices quickened in September, declining 3.6 %.

Inflation in China has fluctuated quite bit in recent years, largely in response to the global business cycle and shifts in Chinese monetary policy. The low economic growth in developed economies this year has put a drag on world commodity prices for petroleum products, food and metals on the world market, which in turn has lowered pressure to raise prices in China.

As inflationary pressures have abated, China's central bank has been able to relax its monetary stance gradually to encourage economic growth. Since July the PBoC has not announced any further measures to ease monetary policy. The financial data suggest, however, that banks have been instructed to gradually ease their lending policies. Growth in the loan stock accelerated in September to 16.4 % y-o-y, closely tracking growth in the broad money supply (M2) of 14.8 % y-o-y.

Consumer and producer prices, % change y-o-y



Source: NBS

Foreign trade surplus remained large in September. September was an active month from the standpoint of foreign trade as international deliveries were pushed out the door ahead of the week-long National Day celebrations at the start of October. Following the typical September trend, China customs reports that the value of goods exports hit a record high on the month. Exports to some developing economies grew rapidly, while exports to Europe continued to decline. Corporate surveys, however, indicate the outlook for the export sector weakened overall as new export orders have fallen since June. To revive exports, China moved at the beginning of October to permanently or temporarily eliminate customs fees for monitoring, inspection and quarantine.

The value of good imports rose slightly in September. China has benefitted substantially from the decline in global commodity prices as it has slowed growth in the value of imports and thus boosted the trade surplus. China's trade surplus was $28 billion for September and $150 billion for the January-September period − an amount nearly the total surplus of 2011.

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