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Russia

Russian ruble gets its own currency symbol. The Central Bank of Russia announced on Wednesday (Dec. 11) the official graphic symbol for the ruble. The Cyrillic “R” letter, which looks like a Latin P is dashed mid-section to get the double-bar configuration found in the e.g. yen and euro symbols.

₽

In an online crowd-sourced vote on the CBR website last month, over 60 % of voters picked the winning symbol from five alternatives. About 280,000 people participated in the vote.

CBR to beef up supervision of insurance sector. The Federal Financial Markets Service was last summer integrated with the central bank. Since then, the directors of the Service have mentioned publically on several occasions that the insurance sector needs cleaning up. The officials note that Russia’s insurance sector is still rife with companies engaging in questionable practices. Some simply collect premia and then vanish; others fail to maintain sufficient assets to cover their liabilities.

Russia currently has about 440 insurance companies, most of which are only minor players in the industry. Nearly all insurance companies in Russia at the moment are privately held. In the first half of 2013, almost 60 insurers had no income from premium payments and over 200 collected premium payments of up to 120 million rubles (€2.7 million). The 20 largest insurers together controlled about 73 % of the market.

The CBR and finance ministry are planning to raise the capital requirements for insurance companies. Capital requirements currently vary from 60 million rubles to 480 million rubles (from €1.3 million to €10.5 million) depending on the types of insurance offered by the company. Capital requirements were last raised at the start of 2012. That change caused about 120 insurers to exit the market. The minimum capital requirement for insurance companies operating for instance in Finland is €2–3 million depending on the types of insurance offered.

The CBR and the finance ministry decided that before raising capital requirements this time the quality of insurance companies’ stated capital should be investigated, as in some cases the capital is highly suspect. To support prudential supervision, proposals of the Financial Markets Service include the introduction of regulations on quality of assets and an assets-to-liabilities ratio similar to that used for the banking sector. In addition, generally agreed measures for winding down troubled insurers should be established.

Russian students show improvement in latest PISA round. Despite better results, Russia still ranked below the OECD average in all three PISA categories (mathematics, natural sciences, reading comprehension). Russia’s latest performance shows considerable improvement from the first PISA round in 2000. At that time, Russia scored near the bottom of all the 32 countries participating in the survey (including 28 OECD members). The latest PISA study includes 34 OECD countries and 31 other countries and regional economies (a total of 65 countries and economies).

Russia’s scores in the PISA 2012 round were highest in math, with the country ranking 34th. Russia ranked 37th in natural sciences and 42nd in reading comprehension. Russia’s performances in math and science were on par with students in Portugal, Sweden and Hungary. In reading, Russian 15-year-olds did about as well as their peers in Greece, Lithuania and Sweden.

Russian students ranked well below the OECD average when measuring the share of top performers among students.

Finnish exports to Russia sustain growth in consumer-driven branches. Modest growth in private consumption in Russia held up throughout the autumn, supporting Finnish exports to Russia. Although the value of goods exports overall contracted 4 % y-o-y in January-September, the value of exports of consumer goods such as foodstuffs and textiles still recorded an increase of a few percents.

The total value of exports was driven down by lower exports in the largest product categories of chemical products and machinery & equipment. Exports have been hampered by a contraction in demand for capital goods in Russia due to weak development of fixed investment. Finland’s goods exports to Russia in January-September were about €4 billion and goods imports from Russia nearly €8 billion.

Continued growth in Russian consumption apparently helped support the export of Finnish travel services to Russia. The numbers for Russians crossing the border into Finland, overnight stays in Finnish hotels and inns, as well as tax-free purchases continued to rise, even if growth was lower than last year.

The traditional spike in Russian consumption is approaching as the Russian New Year’s holiday season gets under way. Despite weakened economic performance in Russia, a Deloitte survey found that Russians plan to spend more money this New Year’s season than last year. The survey covered Russia’s largest cities and found the average budget for New Year’s celebrations was €440, about the same as the average European’s Christmas budget. Russians spend most of that money on food and gifts, of which the most desired are electronics, trips abroad and jewellery.

Surveys of firms, in contrast, show no signs of a significant recovery in investment demand. Most firms said they had no plans to increase investment in near term.

Bank of Finland • Institute for Economies in Transition, BOFIT
P.O. Box 160, FI-00101 Helsinki
Phone: +358 10 831 2268 • Web: www.bof.fi/bofit

Editor-in-Chief Seija Lainela • Email: Seija.Lainela@bof.fi

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China

China moves ahead on deregulation of interest rates and preparations for launch of deposit insurance scheme. The People's Bank of China announced on Sunday (Dec. 8) that trade in certificates of deposit (CDs) will be permitted on the interbank market. The SHIBOR rate will be used as a benchmark for CD rates. Although officials last week said that the reform would first be piloted in the newly created Shanghai free-trade zone, it now appears the central bank will fall back to its original plan to allow trade on the interbank market announced earlier this autumn. Liberalisation of CD trading gives banks an additional avenue for arranging finance and the reform is considered an important step in ending state regulation of deposit rates. The central bank will still strictly regulate bank deposits rates, however. During recent years China gradually relaxed regulation of lending rates and last summer final regulations were removed.

The PBoC is making progress on other fronts, too. *Caixin Media* reports the central bank is preparing to introduce a deposit insurance scheme. Deposits would be fully insured up to 500,000 yuan (about €60,000). As reference, deposit protection in EU countries extends up to €100,000 per depositor. Chinese depositors now rely on the implicit guarantee of the government, which owns most of the banking sector and is expected to protect its banks from insolvency.

Liberalisation of interest rates and the deposit insurance scheme are key factors in developing the domestic financial sector and preparing for liberalisation of capital movements.

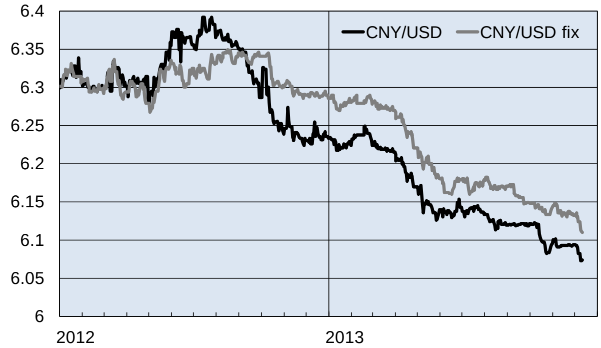
China's stable economic conditions create a window of opportunity for reforms? Economic growth in November remained stable as in previous months. After a relatively weak second quarter, over the past five months industrial output rebounded to around 10 % y-o-y. The situation in the service sector has also been quite stable. There were no big shifts in private consumption, as growth in retail sales remained strong. Moreover, the rise in market interest rates does not appear to have significantly curtailed investment.

While monthly foreign trade figures fluctuate significantly, the fact that exports rose 13 % y-o-y in November suggests a pick-up in export growth and recovery in China's export markets. Exports to Europe and the United States rose 18 %. The high export numbers, however, have again raised suspicions that companies are artificially exaggerating the value of their exports to import foreign currency. A similar phenomenon was seen last spring and now officials repeat they will investigate the matter. China's imports, which reflect trends in domestic demand, rose 5 %, a rate of growth nearly matching the previous three months.

Due to rapid export growth (and possible capital imports included in the export figures), China's trade surplus jumped to over $33 billion in November. Faced with so much upward pressure on the yuan, the PBoC this month has allowed the yuan to appreciate. Yuan trade is currently conducted at levels stronger than the PBoC's daily reference rate, indicating the markets expect further yuan strengthening.

With 12-month inflation slowing slightly to 3 %, the stars seem aligned for moving ahead with reform policy. No exceptional measures are demanded by the current overall economic situation or employment conditions, so the government is free to focus on limiting the growth of credit and implementing its announced reforms.

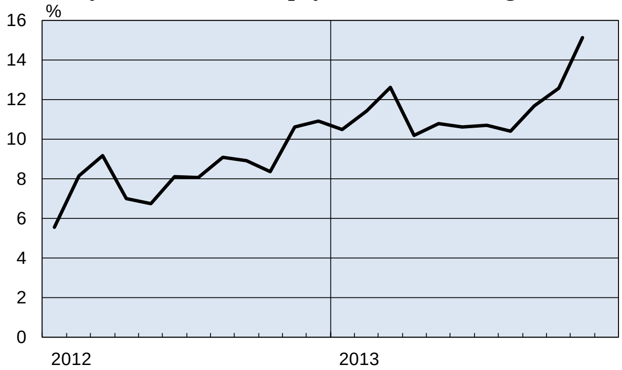
Yuan-dollar market rate and central bank reference rate (fix)



Source: Macrobond

International yuan use increasing in many areas. Renewed appreciation of the yuan has helped propel strong growth in yuan-denominated deposits in Hong Kong. Use of the yuan in pricing of China's goods exports and imports has risen sharply during the autumn and now exceeds 15 %. SWIFT, the association overseeing international bank communications, reports the yuan has already overtaken the euro to become the world's second most used currency in trade finance based on letters of credit with a nearly 9 % market share. The yuan's share of all international payments, however, remains below 1 %, making it the 12th most-used currency in world payments. China's tight capital controls hinder the expansion of yuan's international use.

Share of yuan-denominated payments in China's goods trade



Source: Macrobond

Editor-in-Chief Seija Lainela • Email: Seija.Lainela@bof.fi

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P.O. Box 160, FI-00101 Helsinki
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