



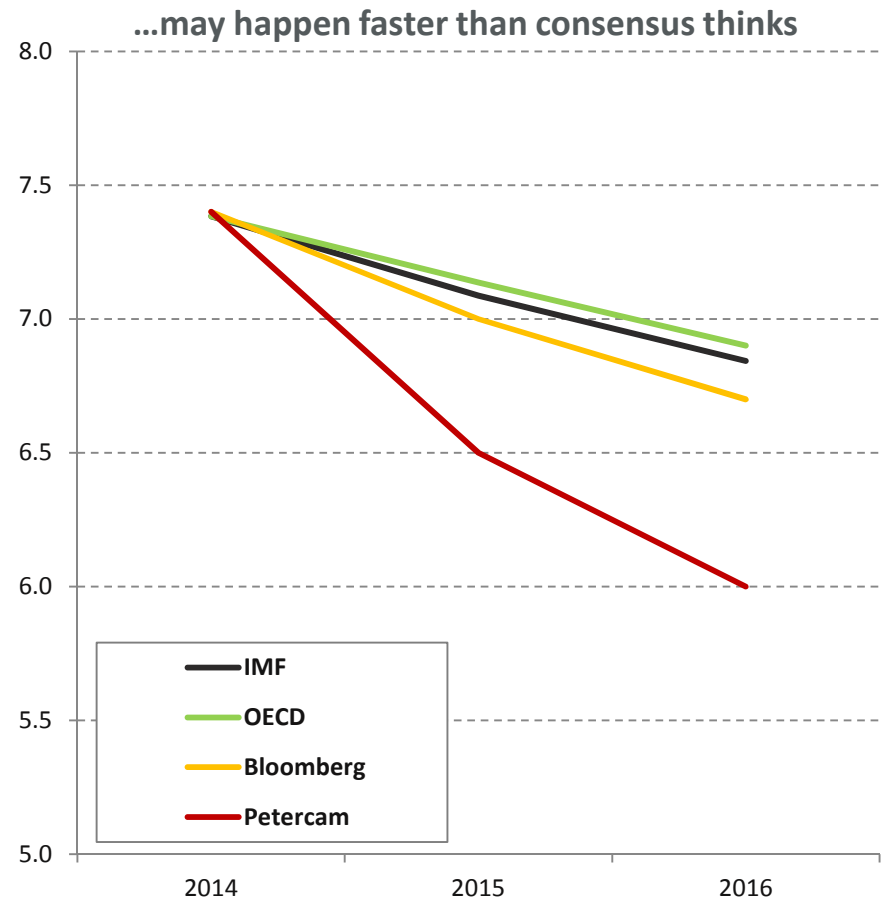
WHAT'S UP FOR CHINA IN 2015?

Hans Bevers

January 2015



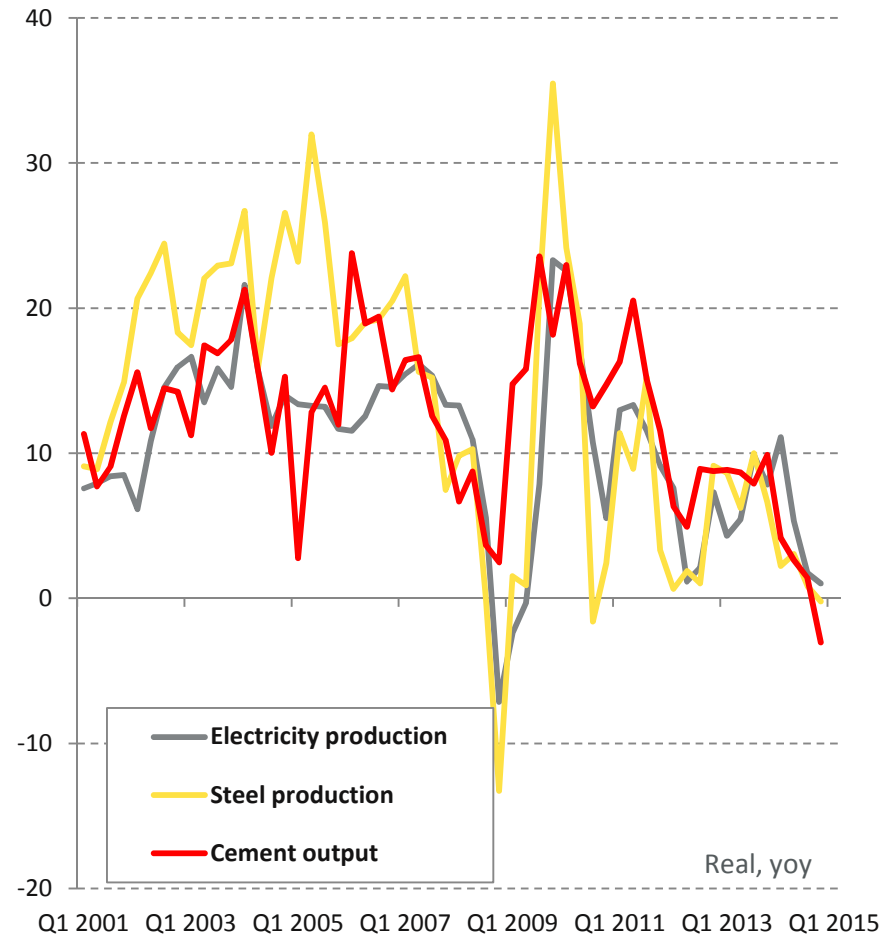
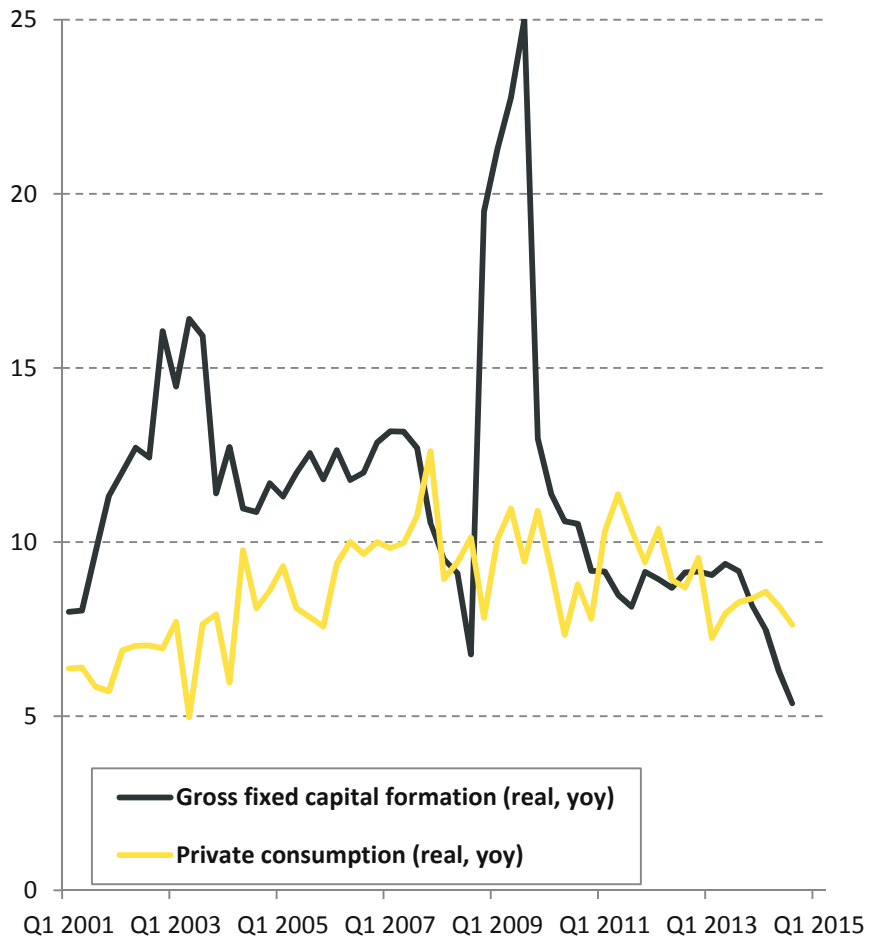
Chinese growth set to decelerate further



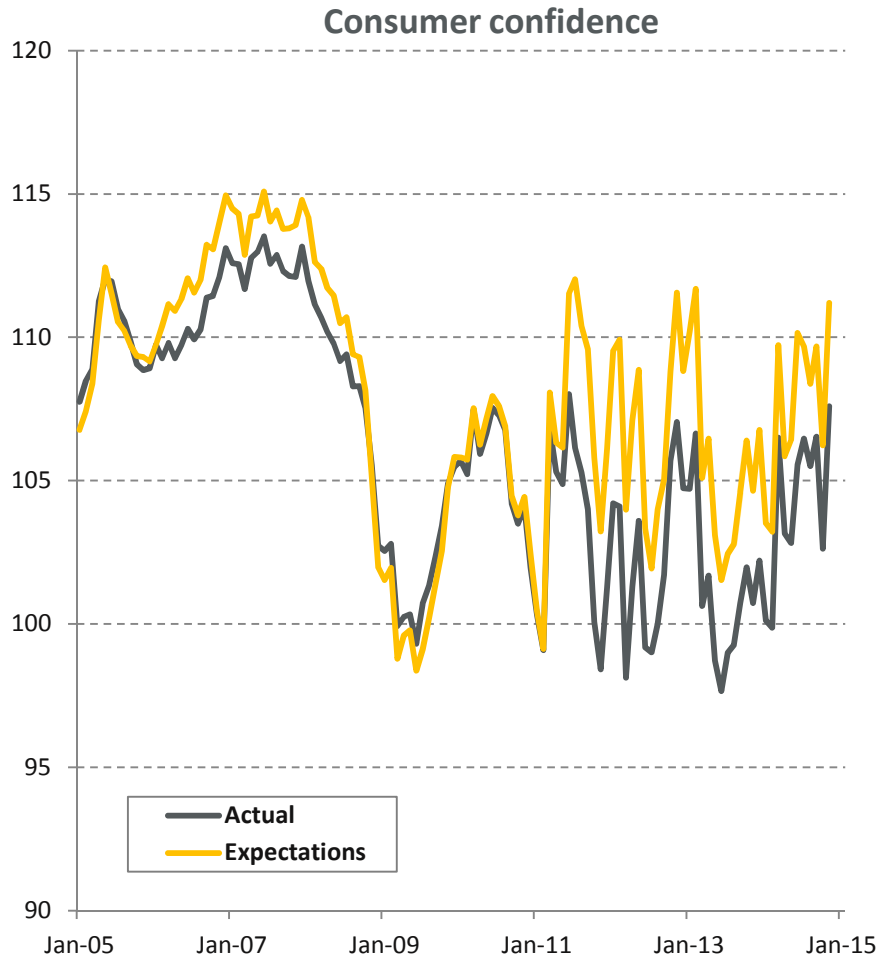
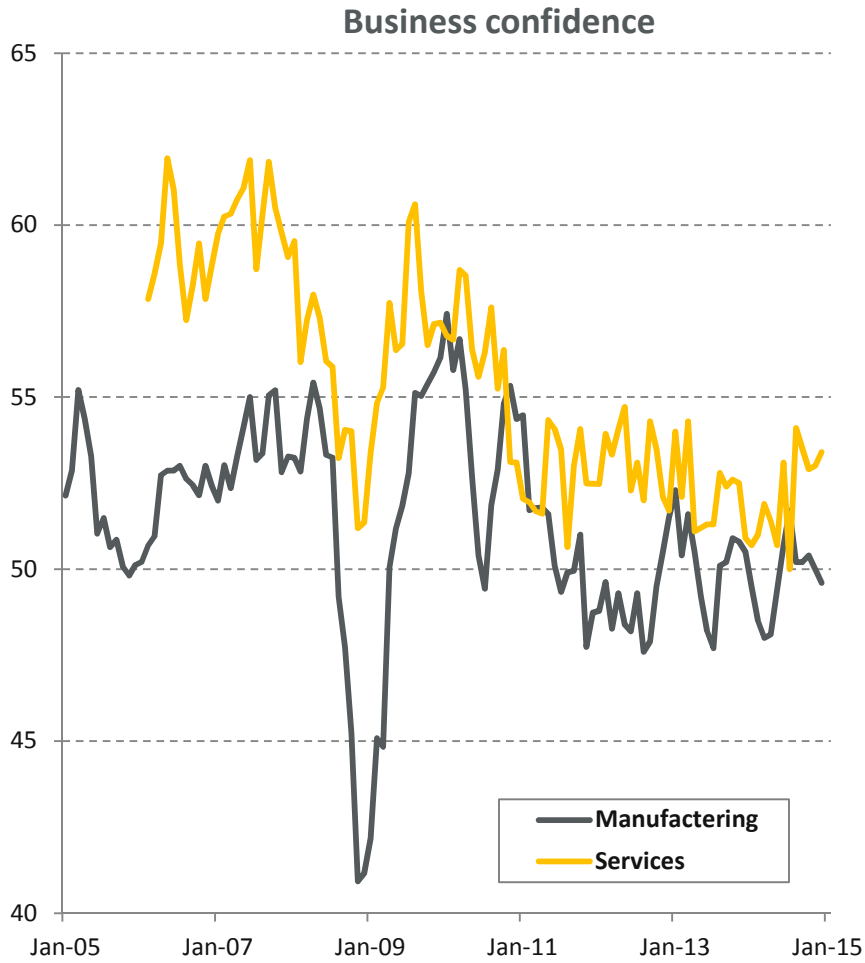
* Regression based on industrial output, retail sales and confidence indicators



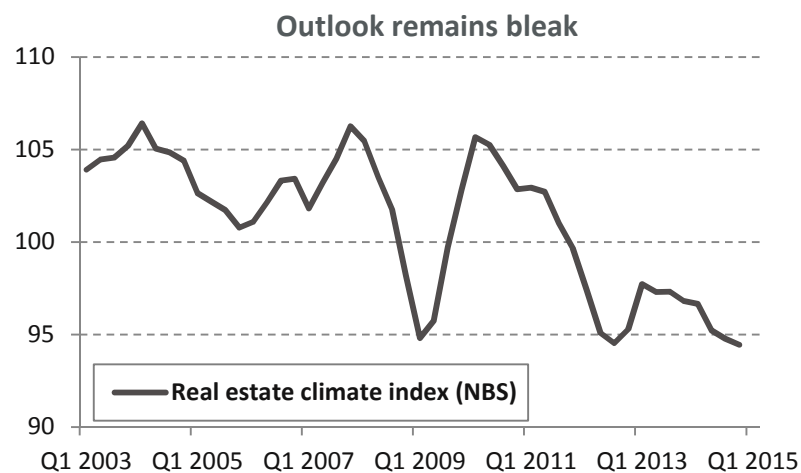
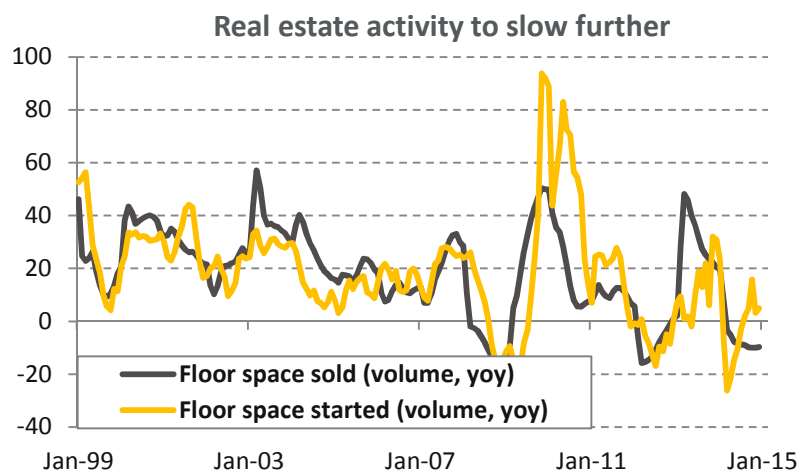
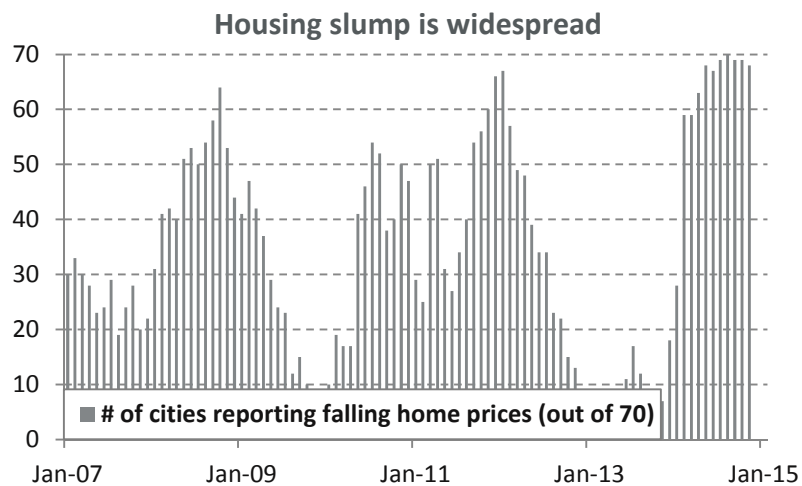
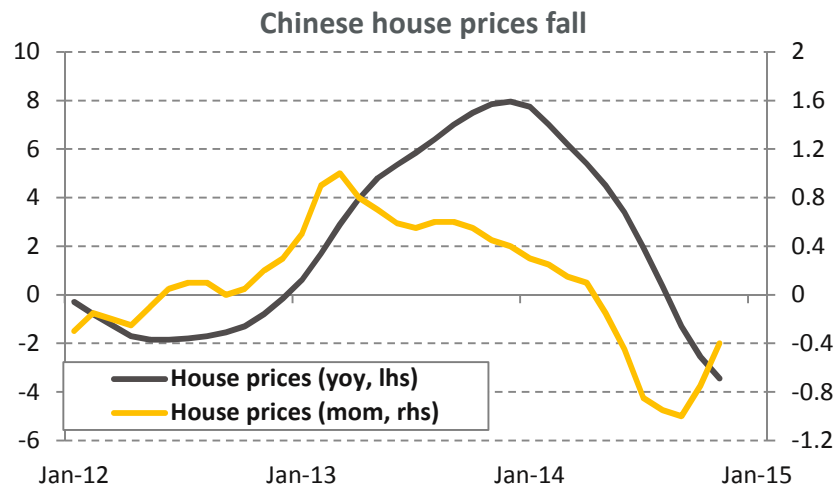
Capex activity slows while private consumption holds up well



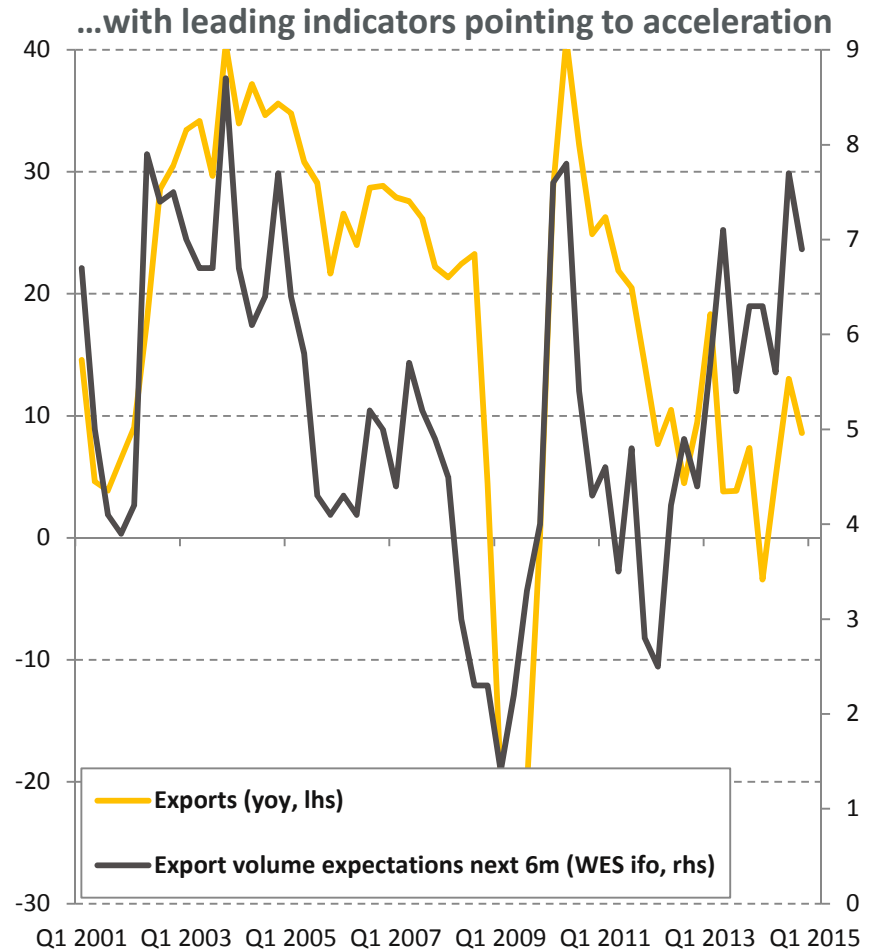
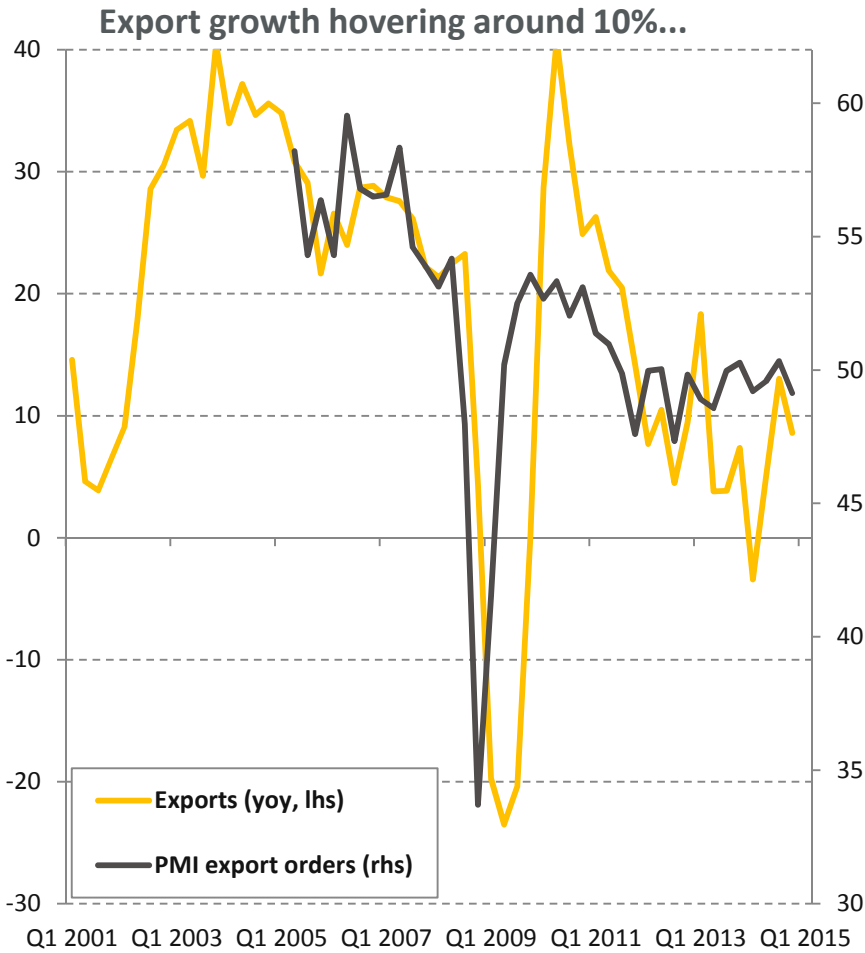
Consumer and services sector confidence remains upbeat



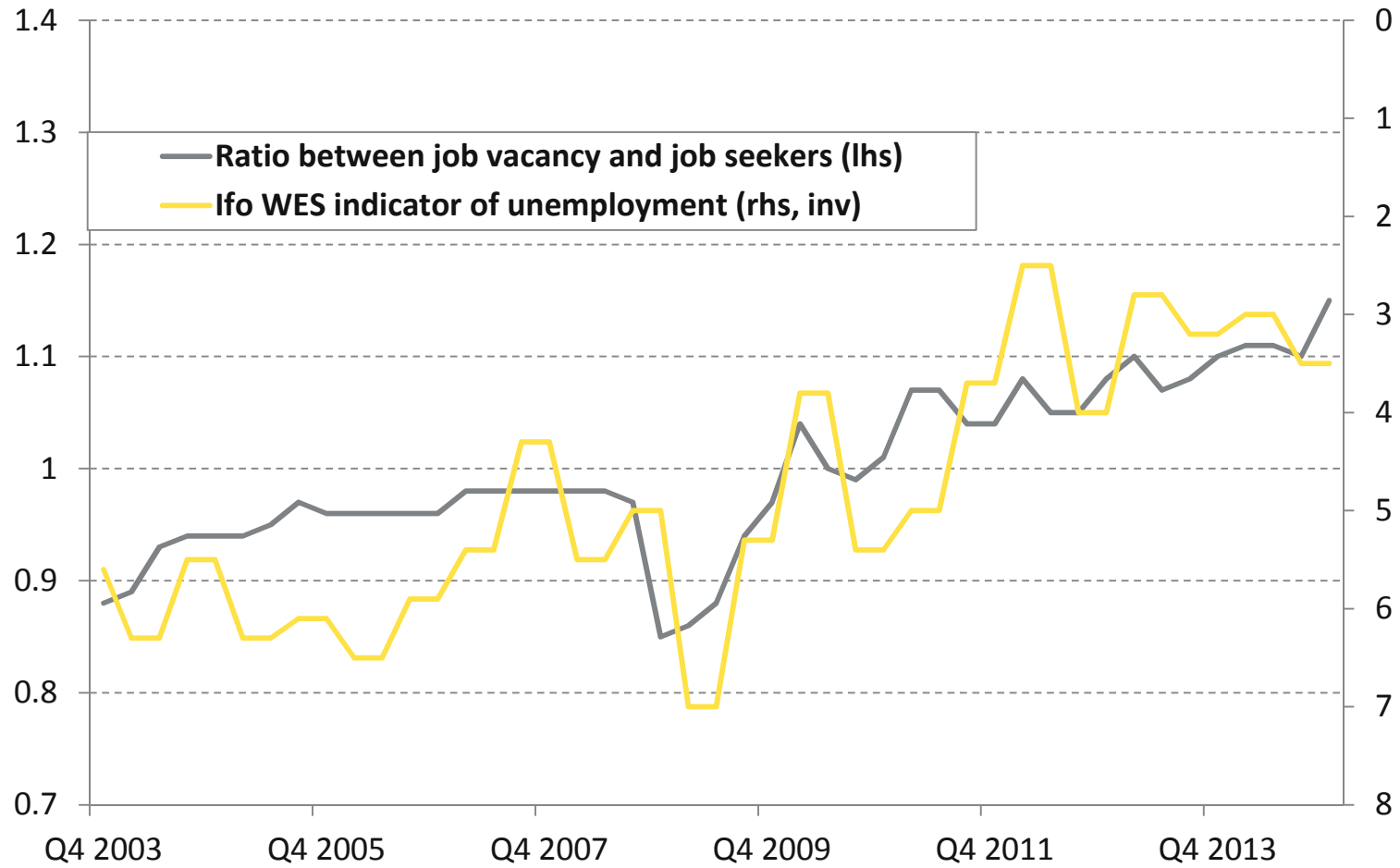
Chinese housing market cooling off



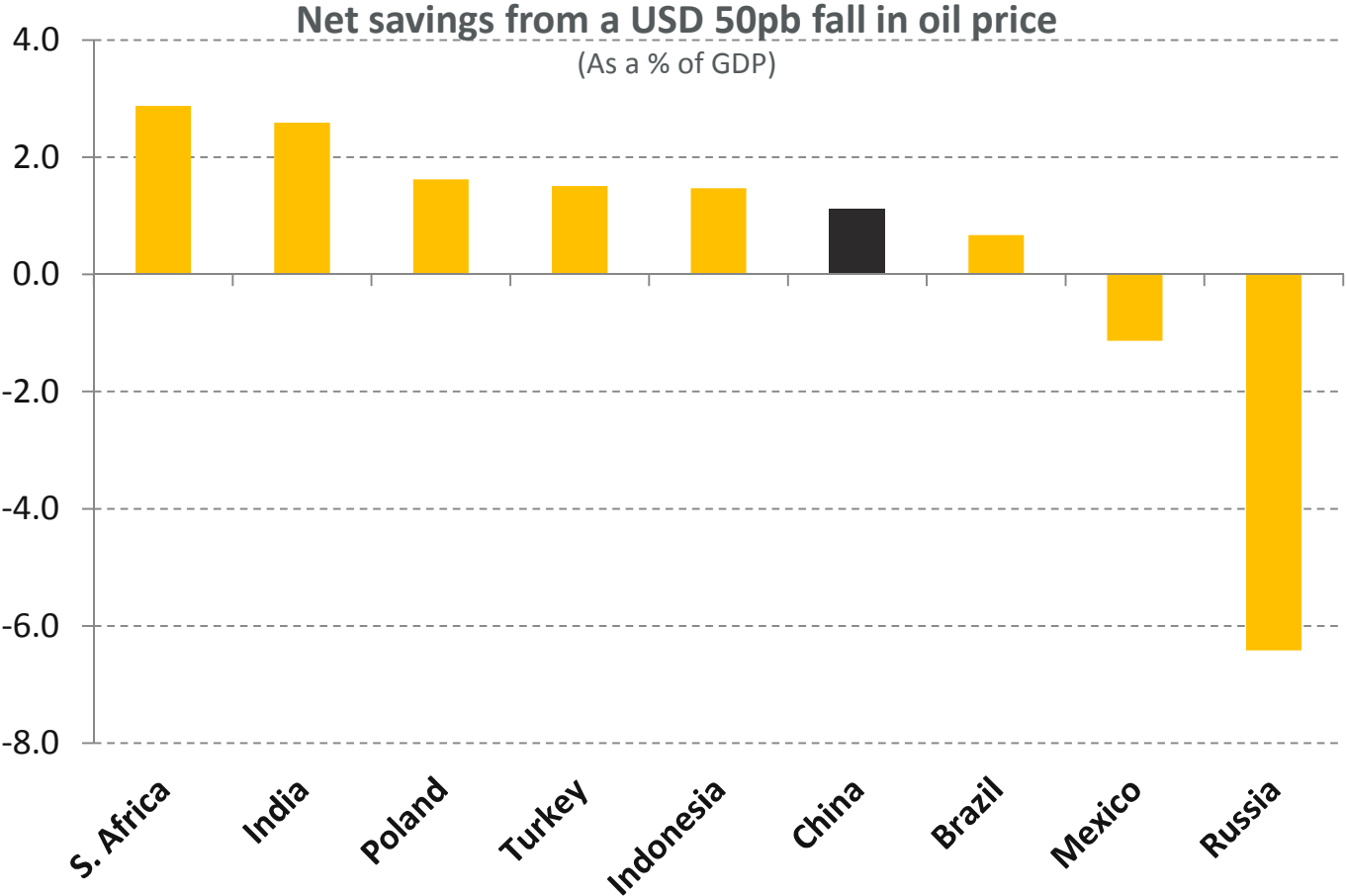
Chinese export prospects remain healthy



Labour market remains strong



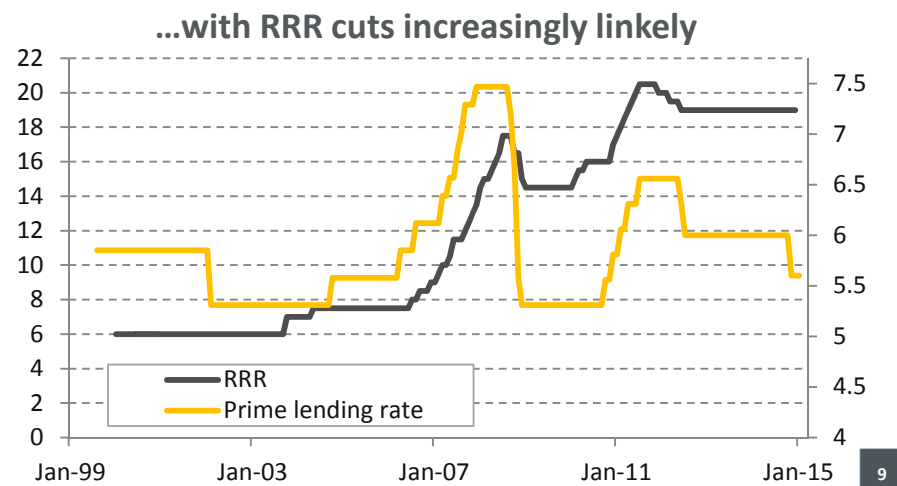
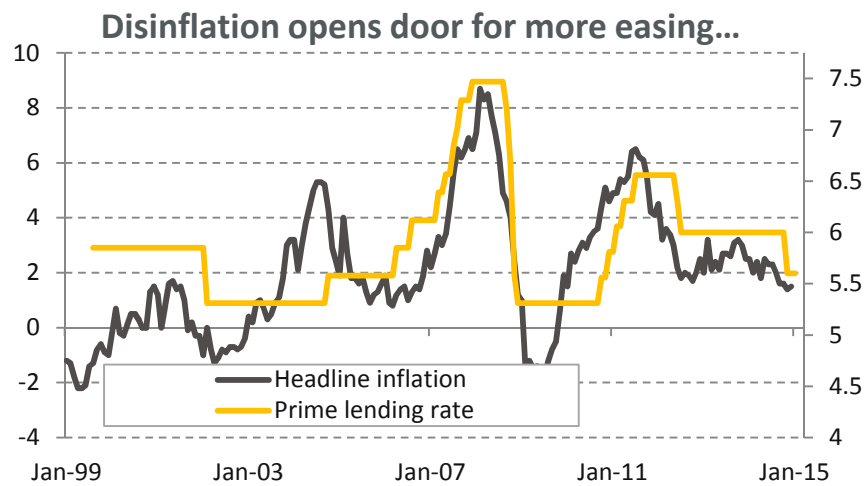
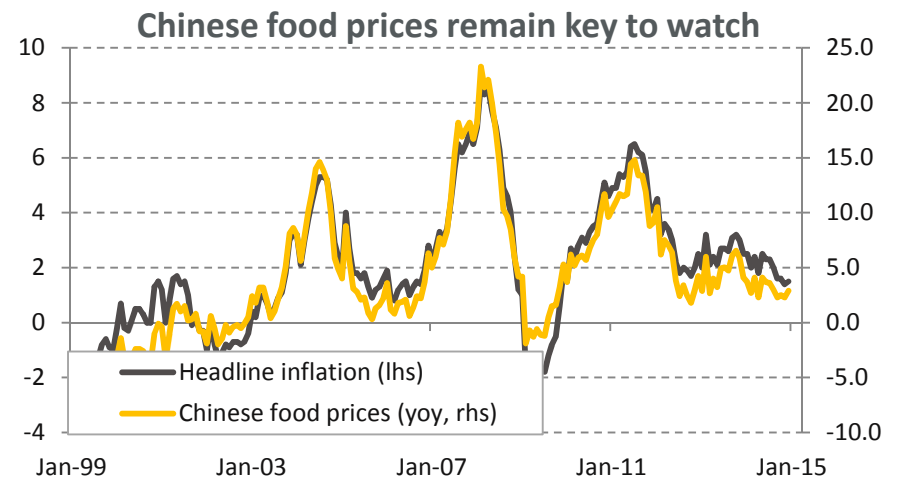
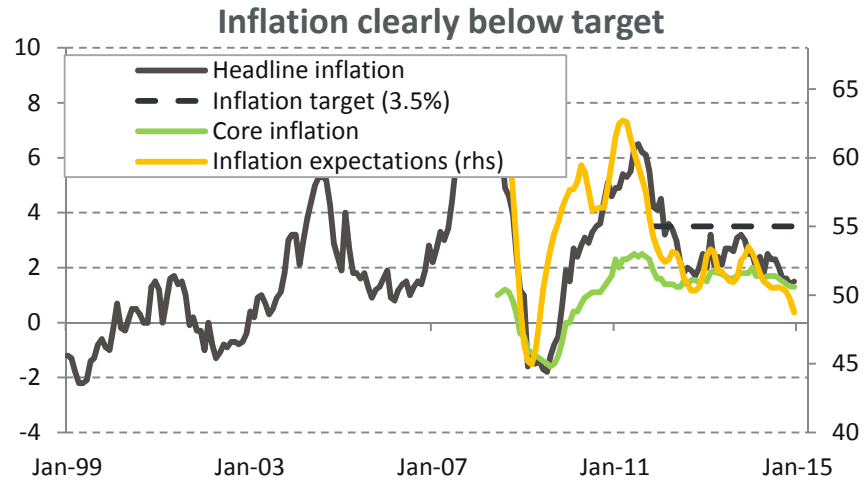
Fall in oil price provides tailwind for China



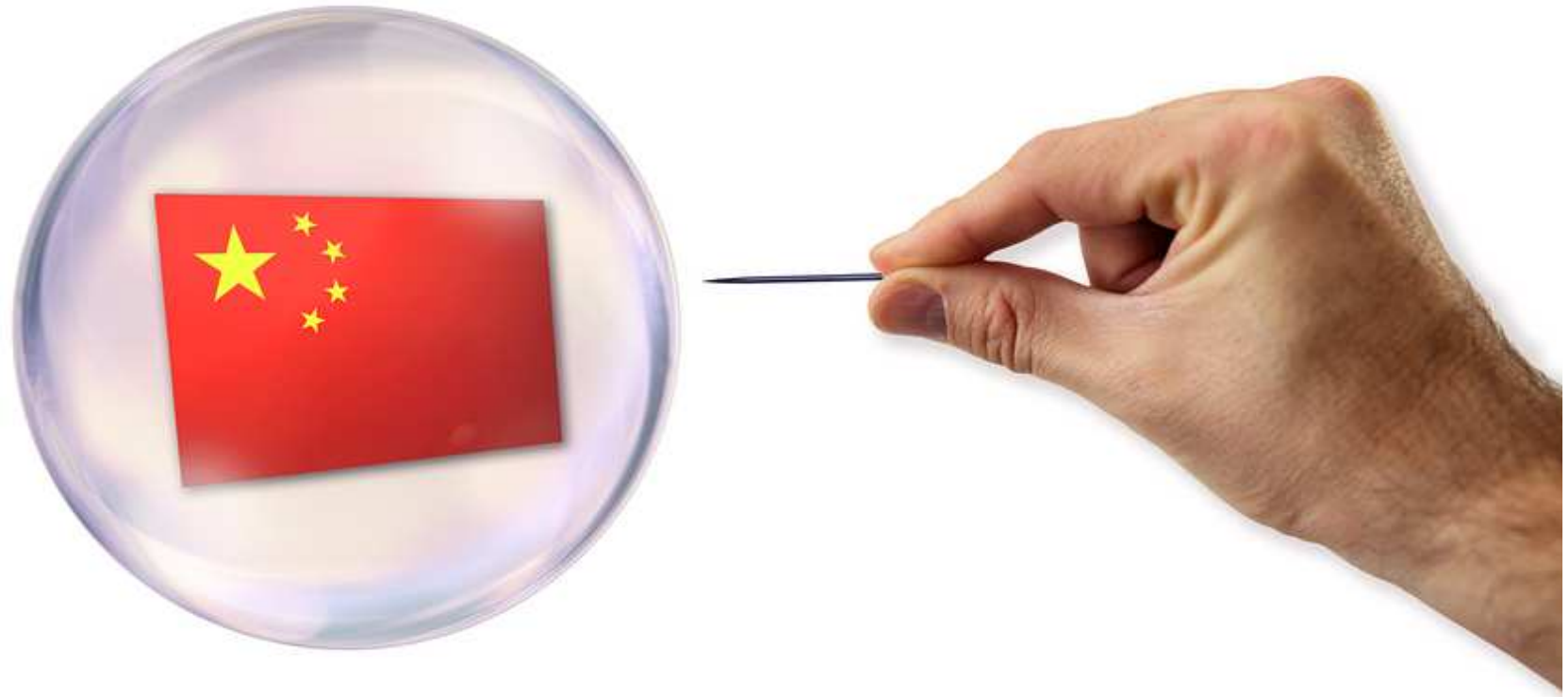
Calculation based on 2013 BP figures for oil consumption and oil production



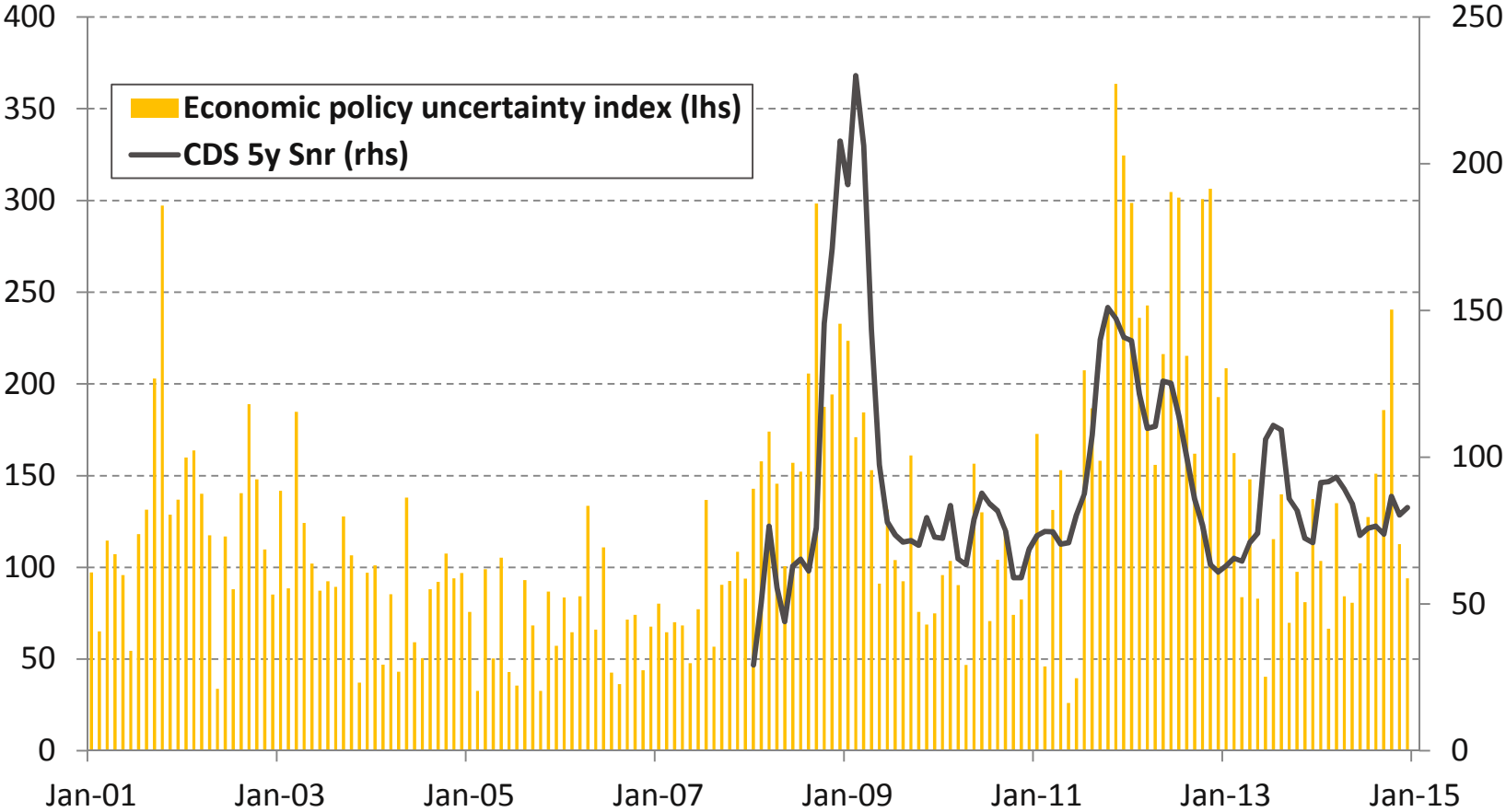
Disinflationary environment opens door for more policy easing



Chinese hard landing around the corner?

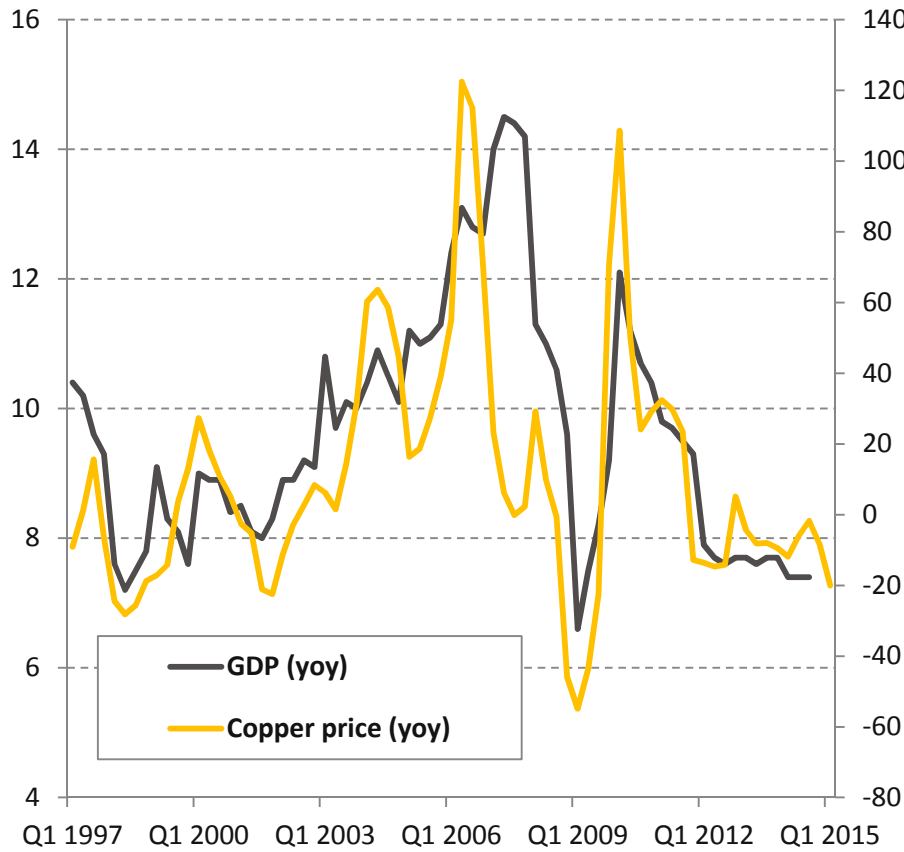


Hard landing fears will come and go

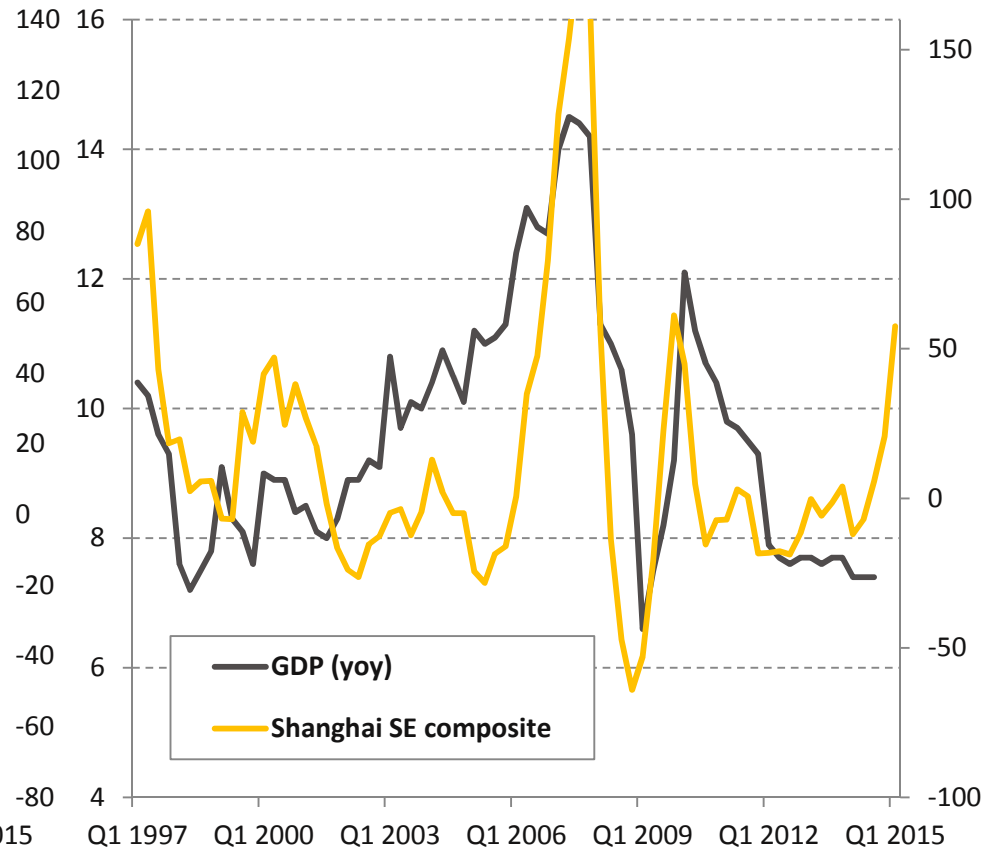


Recent fall in copper prices does not signal a hard landing

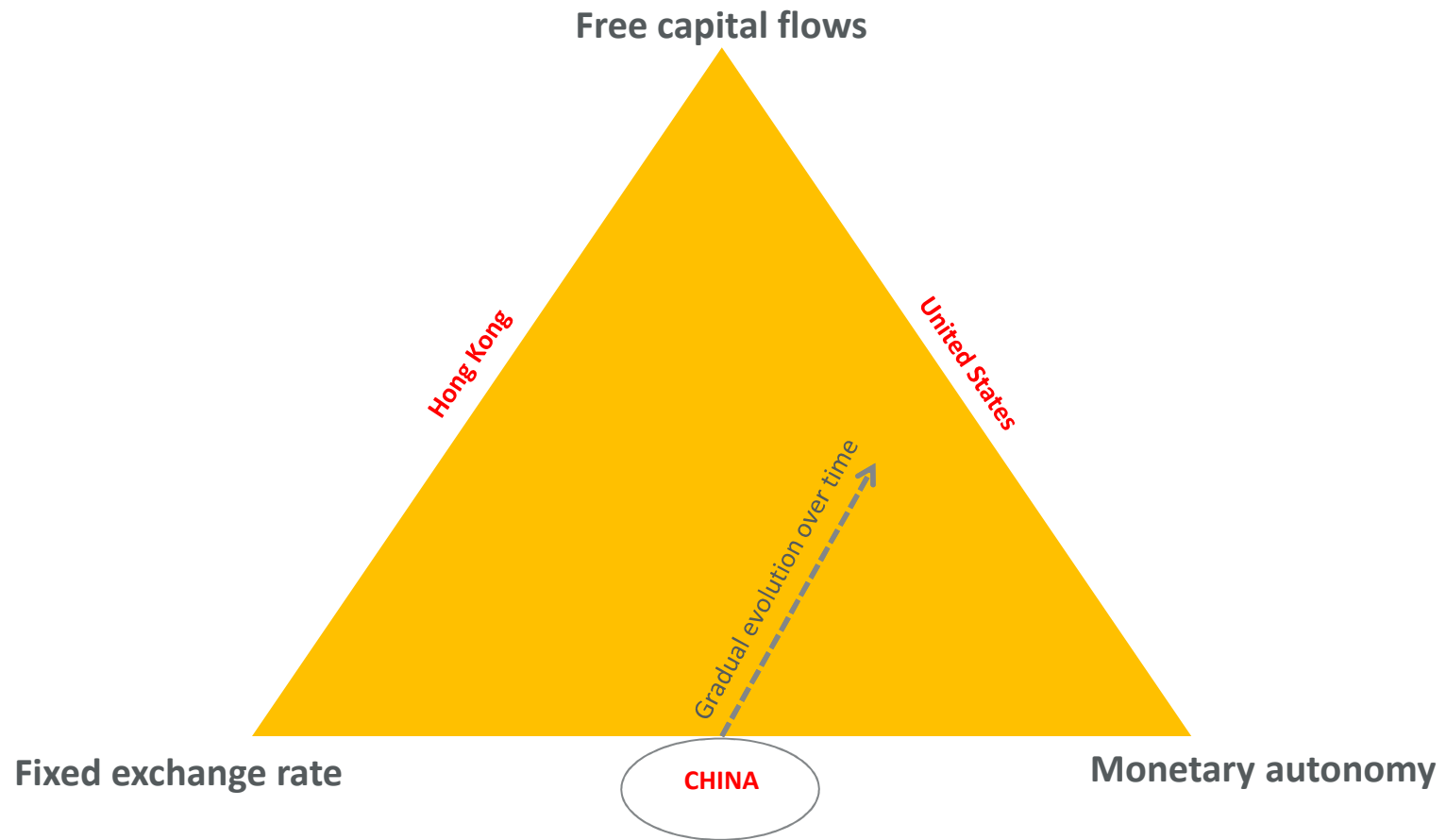
Chinese growth and copper



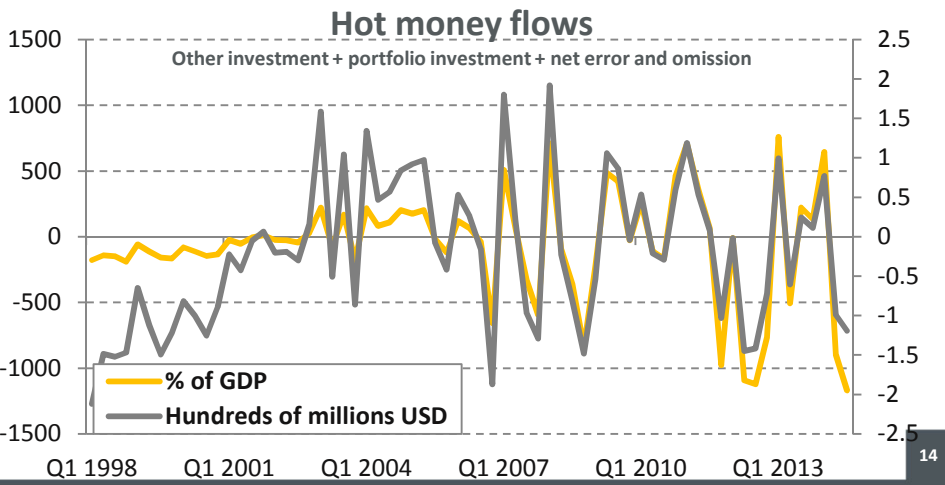
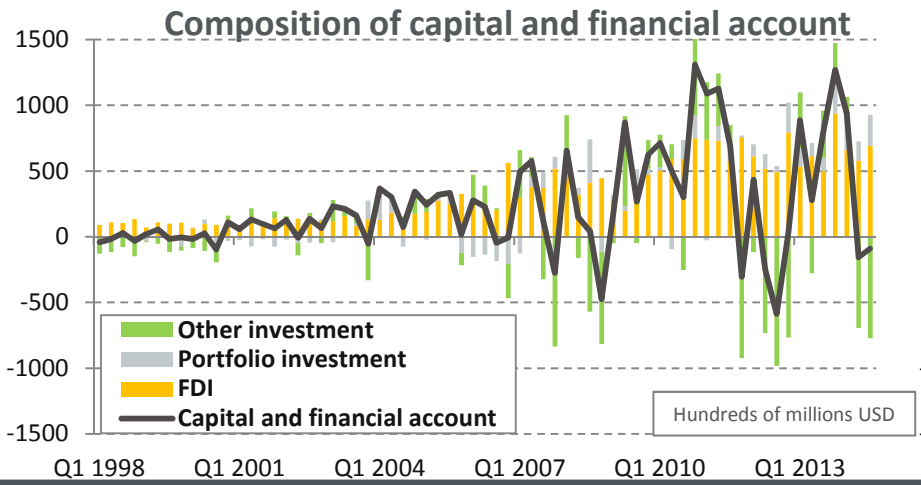
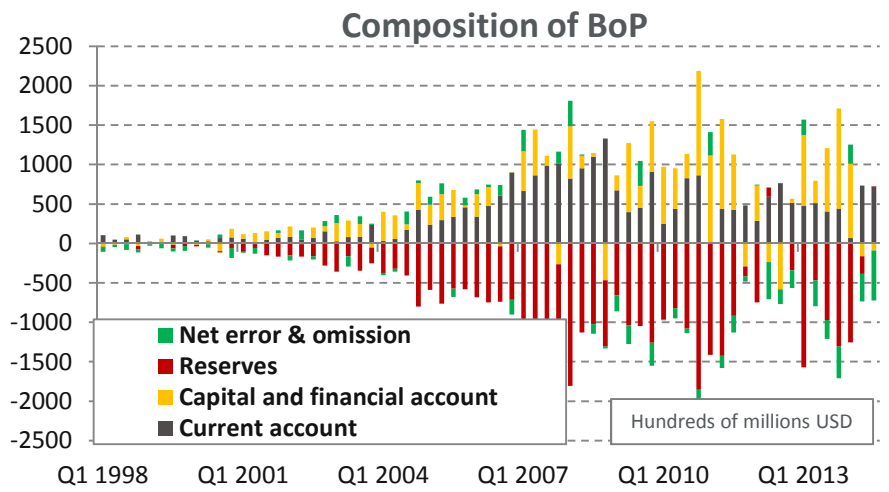
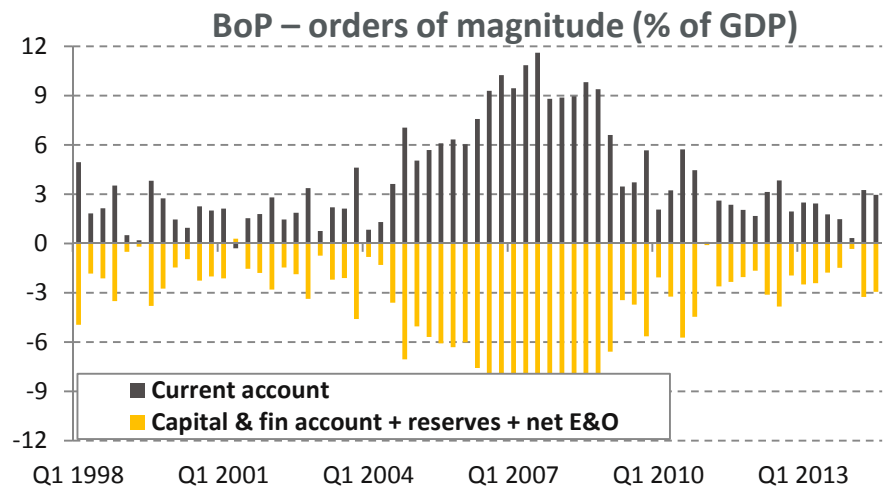
Chinese growth and equities



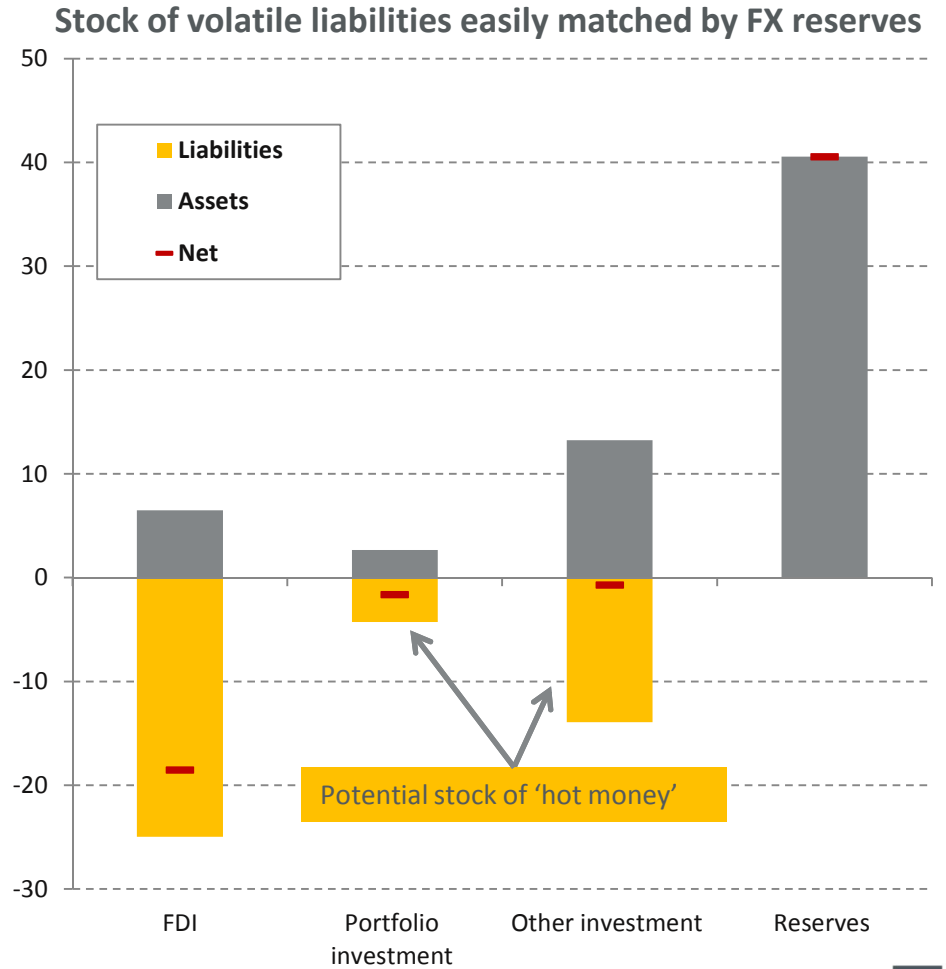
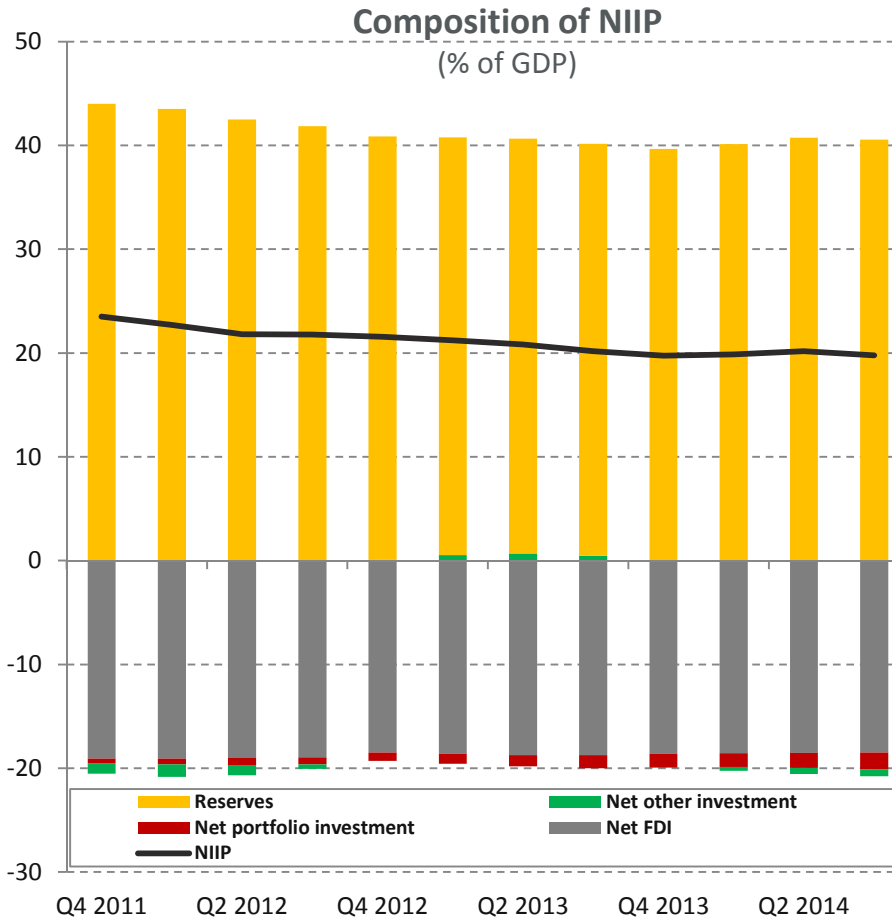
China and the impossible trinity



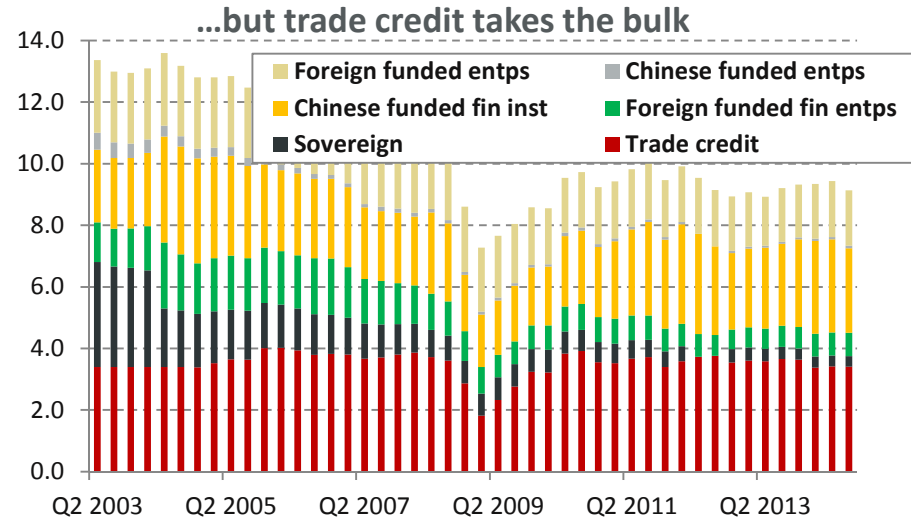
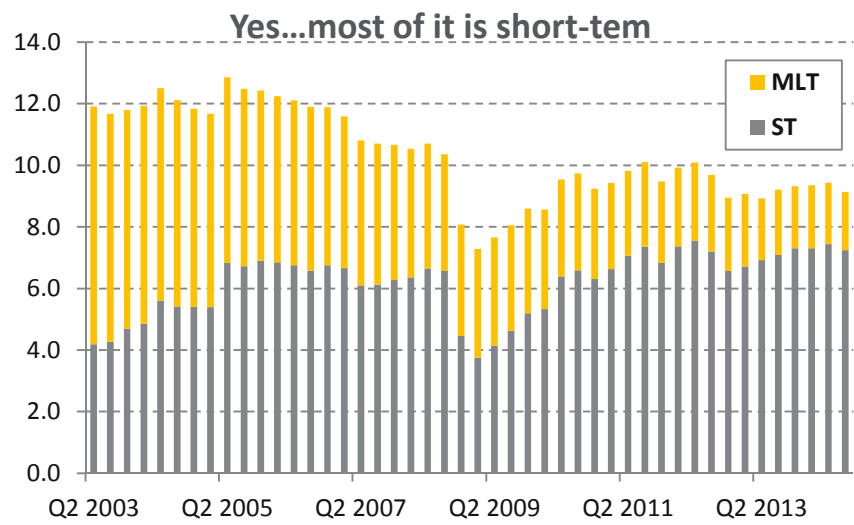
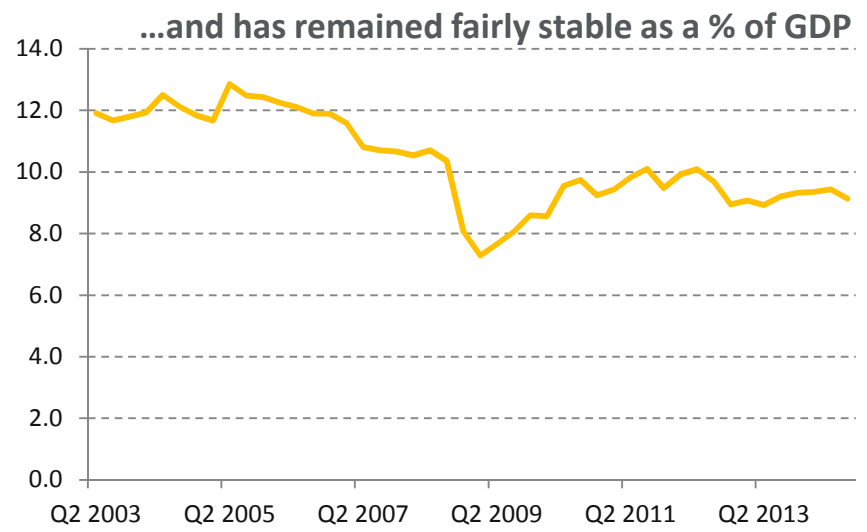
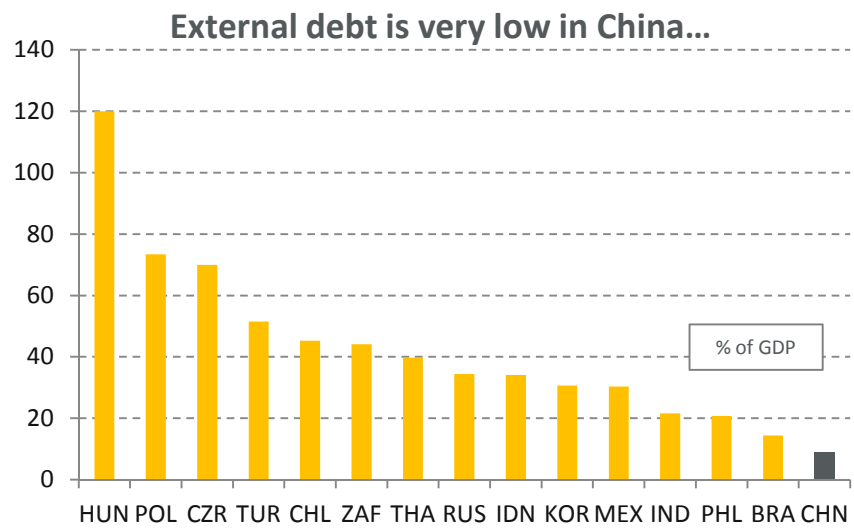
Detecting hot money flows



Very strong FX reserve position

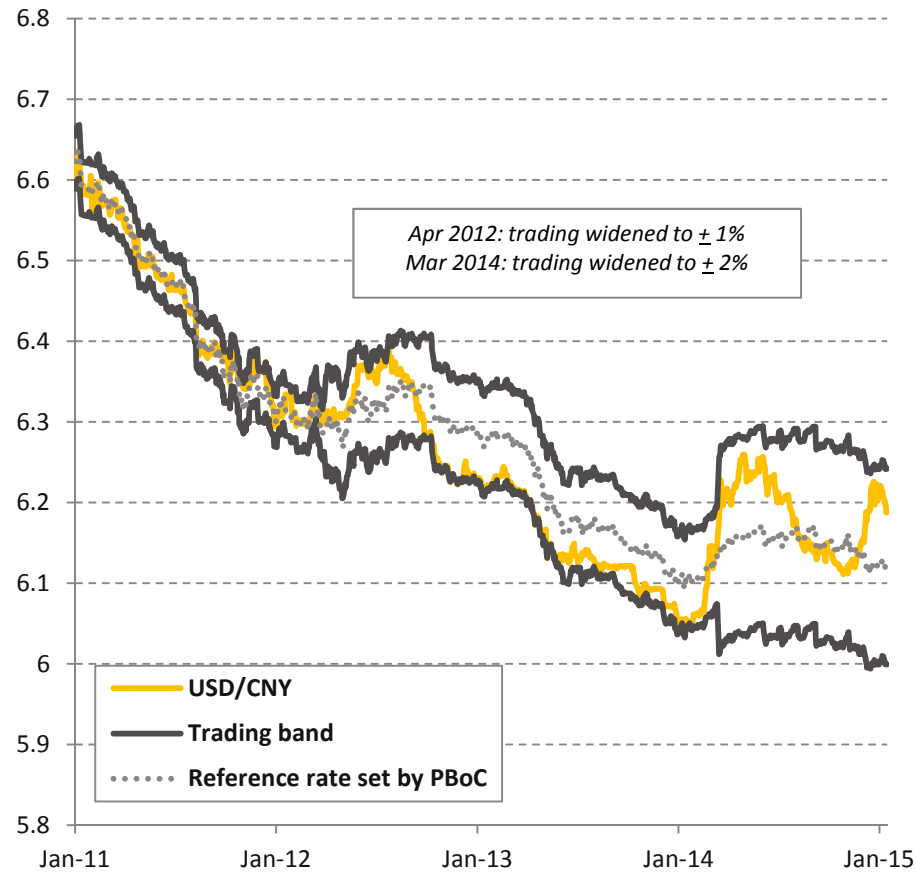
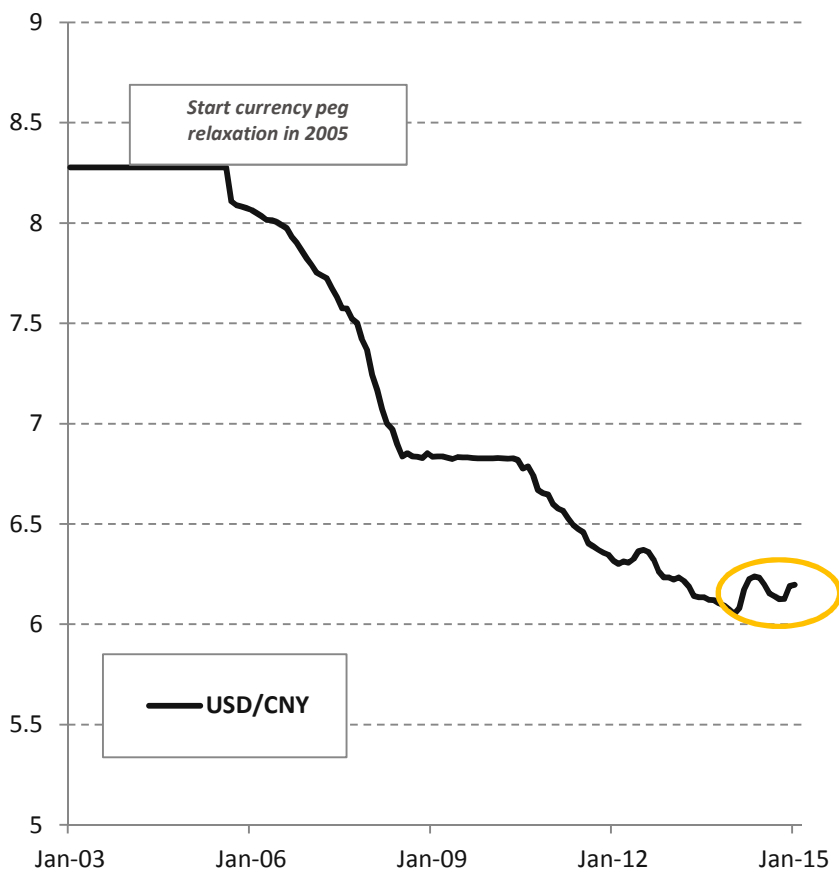


Risks stemming from external debt in China remain low



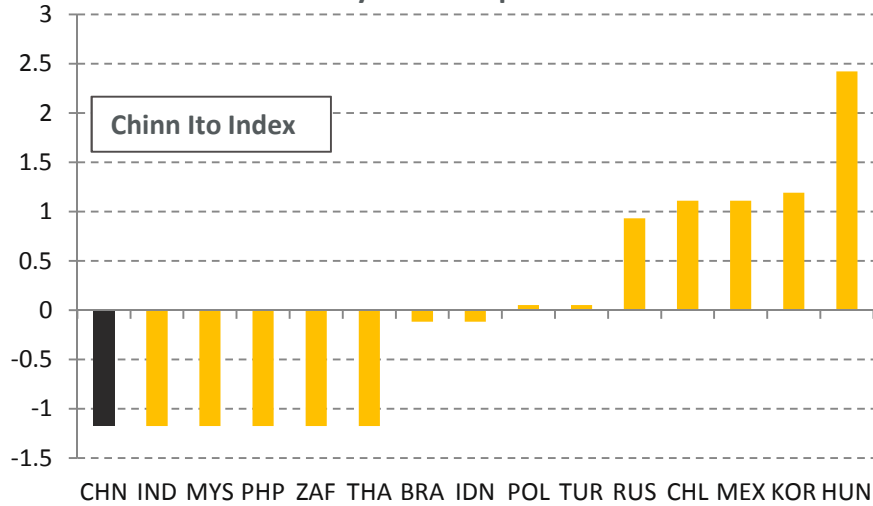
What about the recent RMB depreciation?

Efforts to discourage speculative inflows against the back of gradual trade band widening

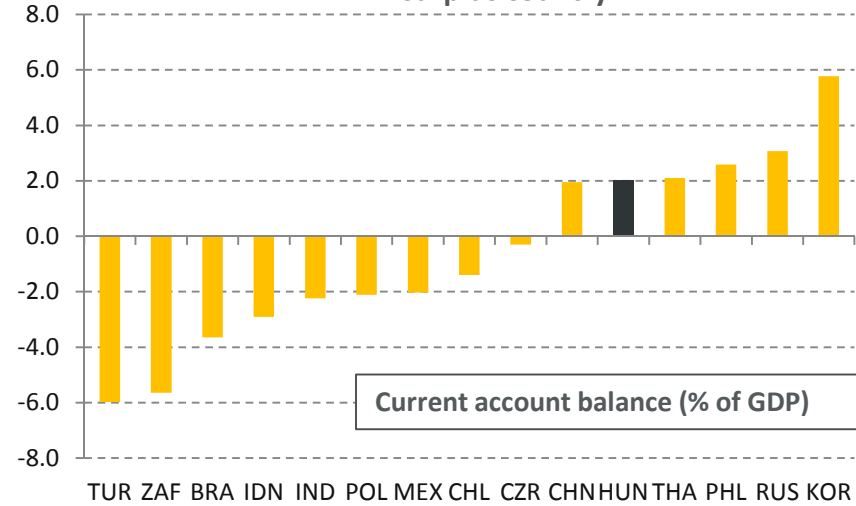


An imminent hard landing is unlikely

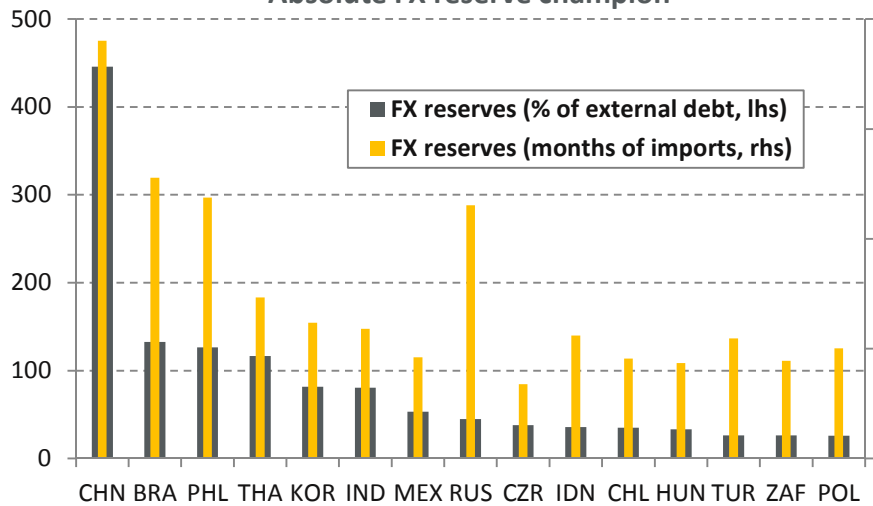
A fairly closed capital account



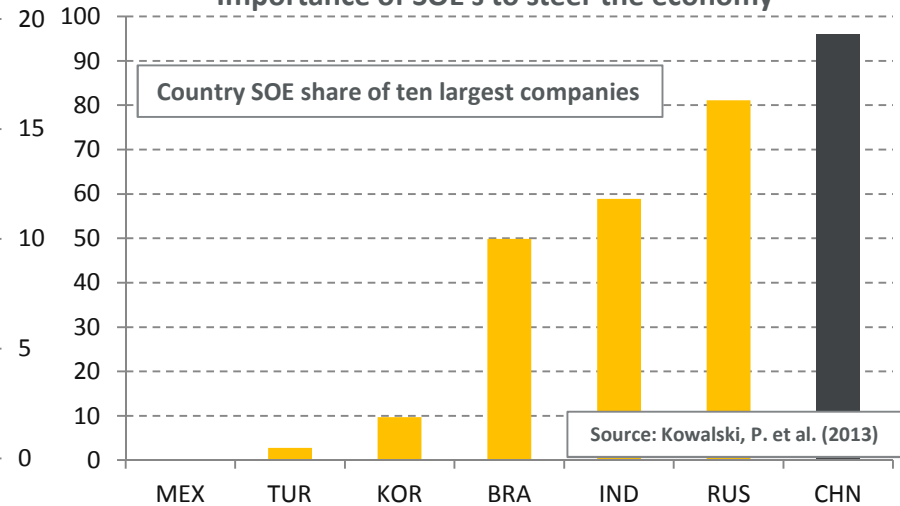
A surplus country



Absolute FX reserve champion



Importance of SOE's to steer the economy

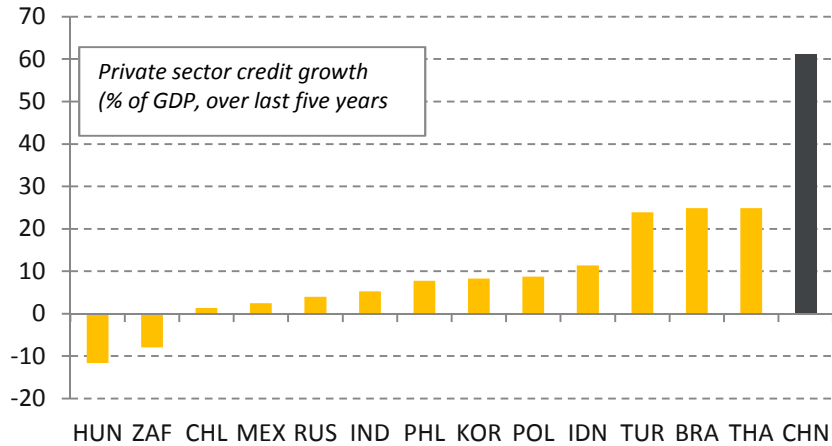


Source: Kowalski, P. et al. (2013)

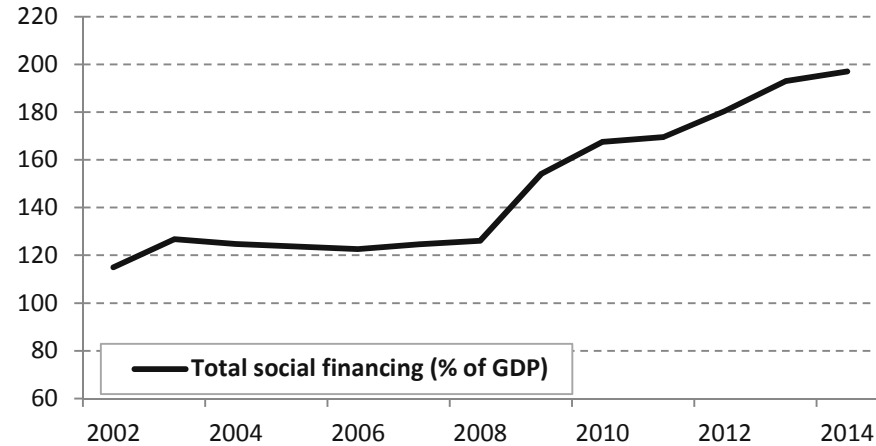


What about China's unsustainable debt explosion?

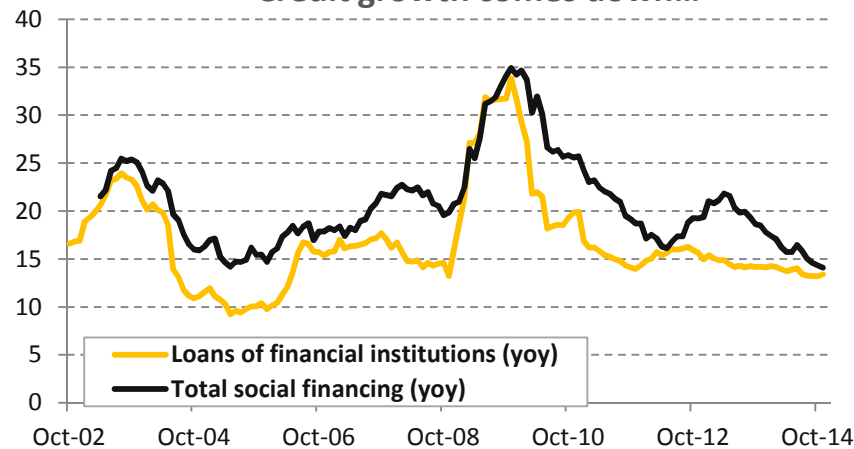
China's debt explosion...



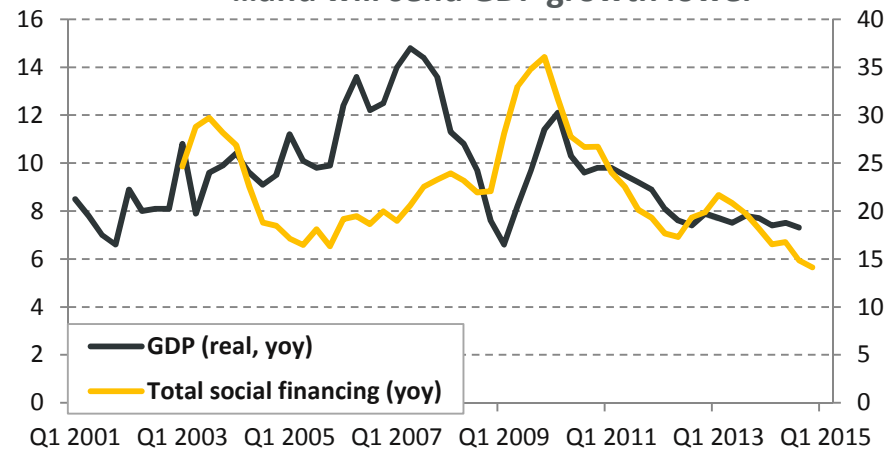
...is clearly unsustainable



Credit growth comes down...



...and will send GDP growth lower



Structural reforms remain key...

...in order to prevent a hard landing further down the road

Key concepts

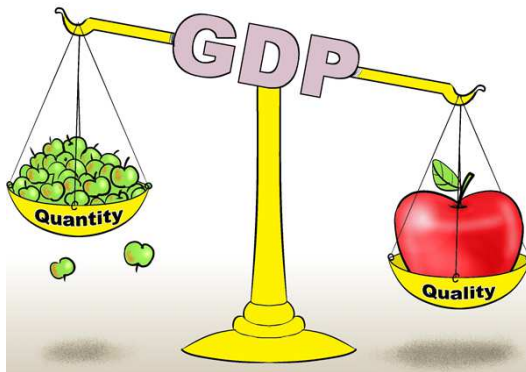


- 1) Improving the market system
- 2) Changing the role of government
- 3) Deepen social security

Areas of reform



- 1) Government reform
- 2) Breaking monopolies
- 3) Land reform
- 4) Financial reform
- 5) Tax reform
- 6) State asset management reform
- 7) Innovation system reform
- 8) Further open door policies



What's up for China in 2015?

- Chinese gradual slowdown continues despite tailwind from lower oil price
- Economic confidence and labour market hold up well
- Below target inflation opens door for additional easing (albeit not aggressive)
- Credit growth comes down but still no deleveraging
- Hard landing fears almost certainly to pop up again
- No hard landing around the corner
- Structural reforms remain essential to secure high growth over time



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