

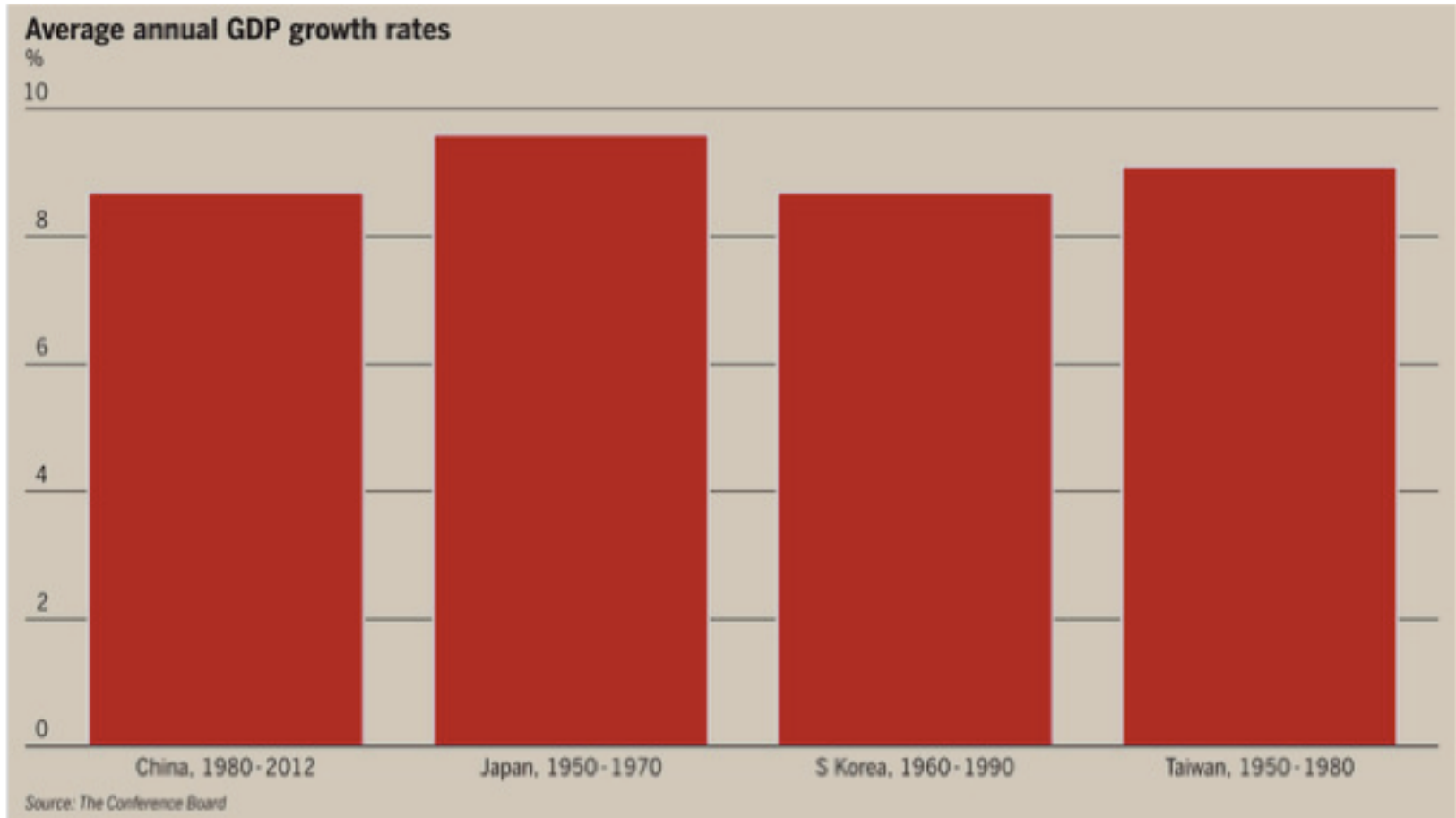
CHINA'S ECONOMIC SLOWDOWN

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Chinese growth/ Japan, South Korea, Taiwan



Asian growth periods compared

Real GDP at purchasing power parity, rebased

1600

- China, 1980-2012
- Japan, 1950-1970
- S Korea, 1960-1990
- Taiwan, 1950-1980

1200

800

400

0

0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

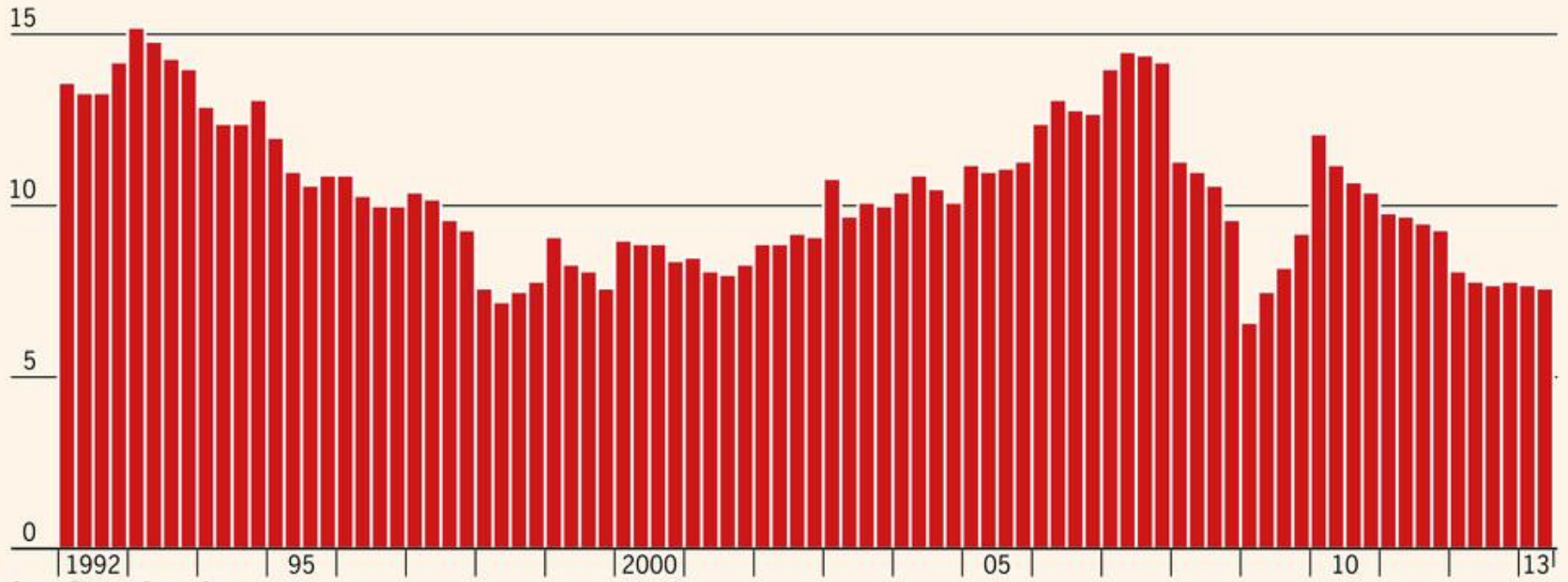
Source: The Conference Board

Years



China GDP growth

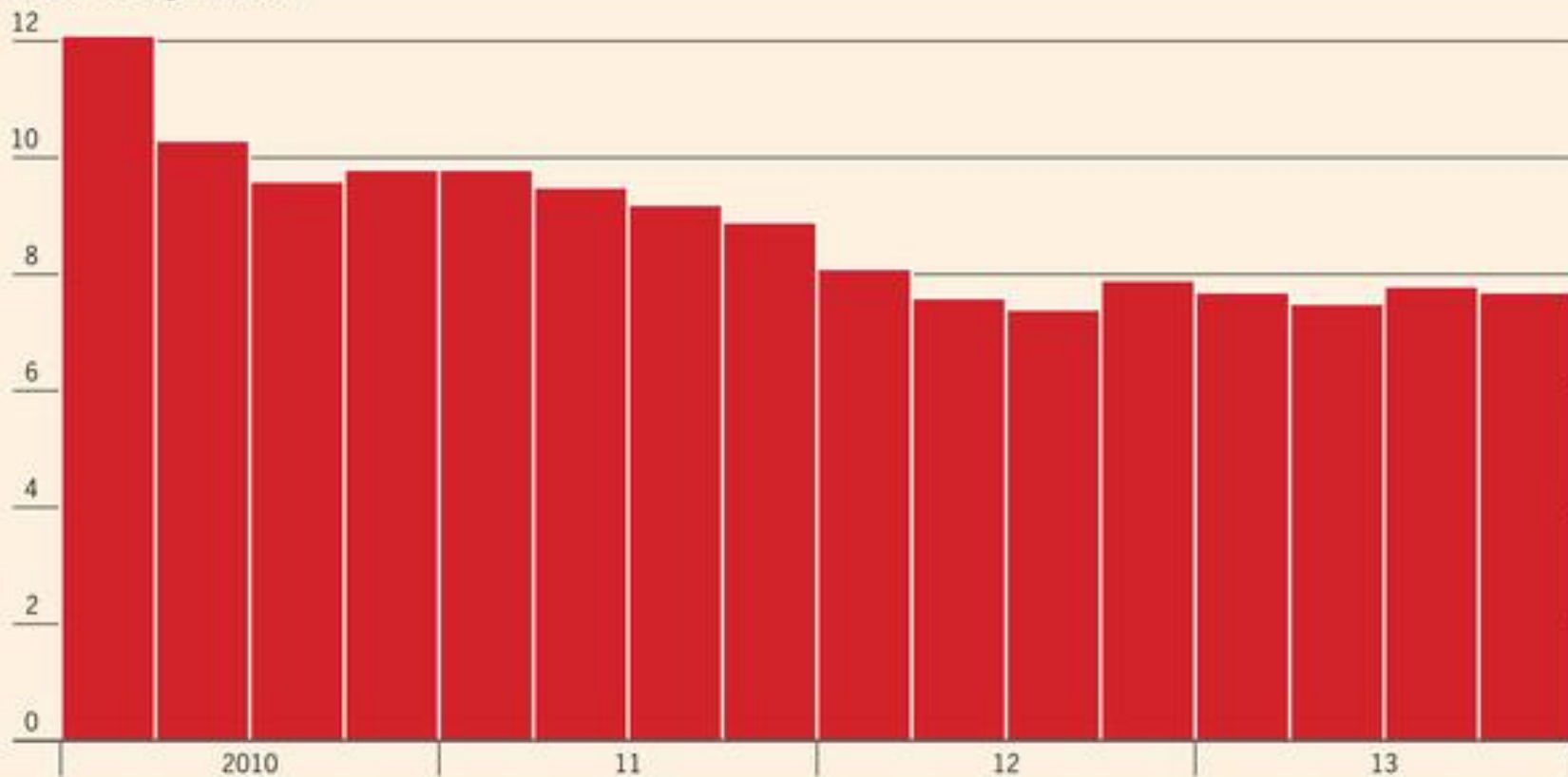
Annual % change



Source: Thomson Reuters Datastream

China GDP growth

Annual % change in real GDP



Source: Thomson Reuters Datastream

Chinas'share of global totals of commodities output

Table 2: China's share of global totals of commodities output

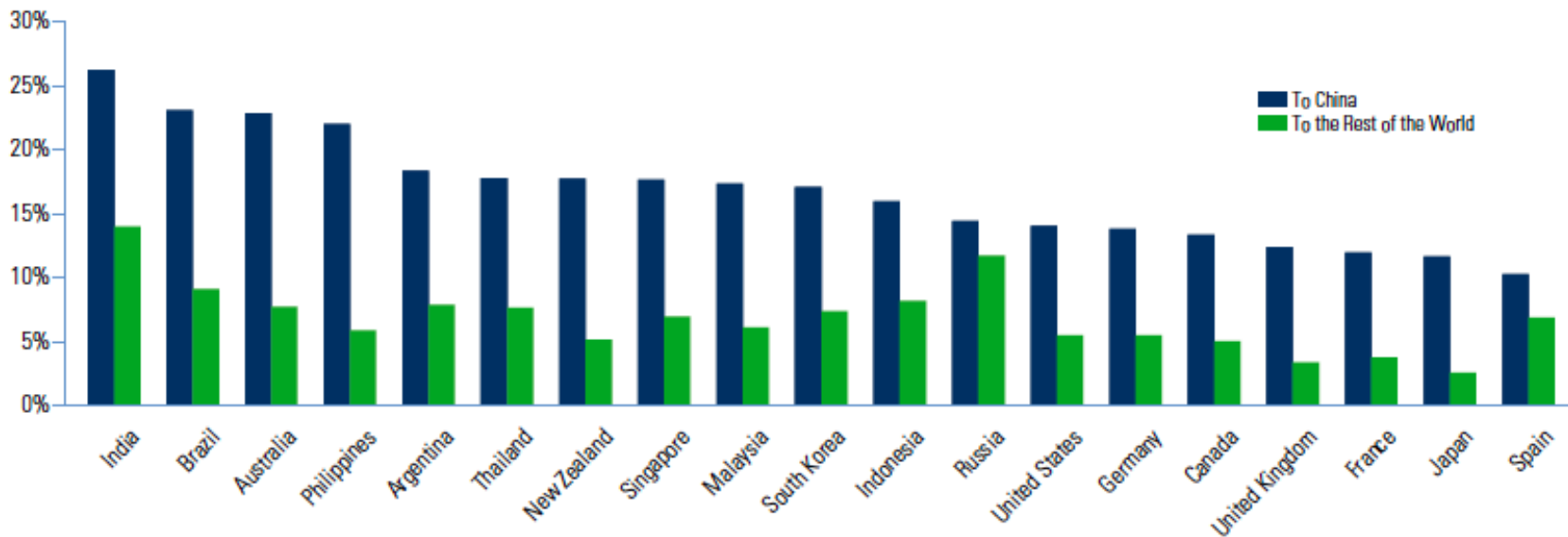
Commodity	China % of World
Cement	53.2%
Iron Ore	47.7%
Coal	46.9%
Pigs	46.4%
Steel	45.4%
Lead	44.6%
Zinc	41.3%
Aluminum	40.6%
Copper	38.9%
Eggs	37.2%
Nickel	36.3%
Rice	28.1%
Soybeans	24.6%
Wheat	16.6%
Chickens	15.6%
PPP GDP	13.6%
Oil	10.3%
Cattle	9.5%
GDP	9.4%

Exports to China Faster than Exports to the Rest of the World

Exhibit 15: Exports to China Have Grown Faster than Exports to the Rest of the World

China has been the main destination of many of the world's exports.

Exports CAGR,
1995-2012



Data as of 2012.

Source: Investment Strategy Group, IMF.

The central role of China in intra-BRIC's trade

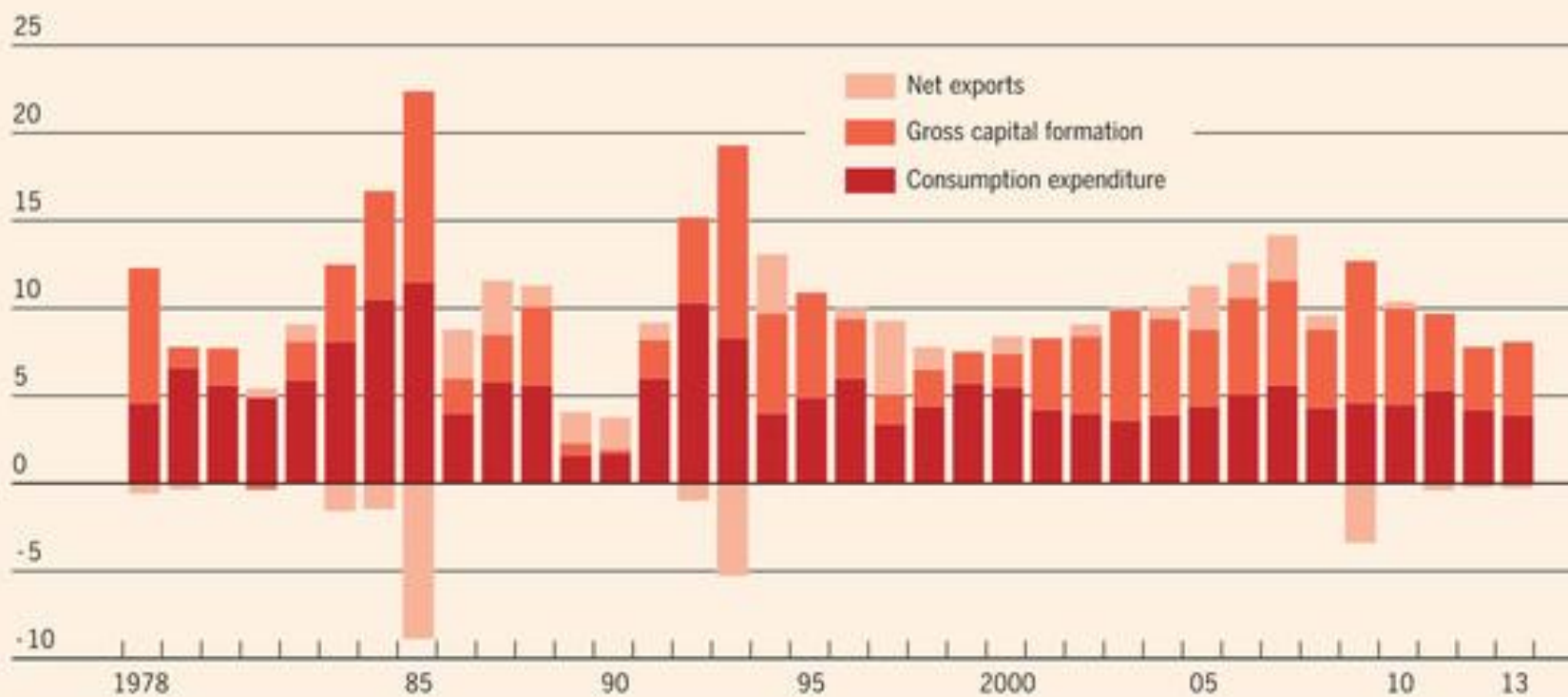
BRIC: direction of exports (as % of total)

	US+UE+Japon	USA	UE	Japon	BRIC	Brésil	Russie	Inde	Chine	Monde
Brésil	33,3	12,2	17,5	3,6	21,0	0,0	1,5	2,3	17,3	100,0
Russie	51,8	4,7	43,8	3,3	9,0	0,5	0,0	1,1	7,5	100,0
Inde	30,7	12,3	16,2	2,2	9,6	2,3	1,0	0,0	6,2	100,0
Chine	47,3	19,6	18,7	9,0	7,7	2,0	2,9	2,8	0,0	100,0

BRIC: exports as % of GDP

	US+UE+Japon	USA	UE	Japon	BRIC	Brésil	Russie	Inde	Chine	Monde
Brésil	3,7	1,4	1,9	0,4	2,3	0,0	0,2	0,3	1,9	11,1
Russie	15,5	1,4	13,1	1,0	2,7	0,1	0,0	0,3	2,2	29,9
Inde	4,9	2,0	2,6	0,3	1,5	0,4	0,2	0,0	1,0	15,9
Chine	11,6	4,8	4,6	2,2	1,9	0,5	0,7	0,7	0,0	24,6

Contributions to China's GDP growth (% points)



Source: Haver Analytics

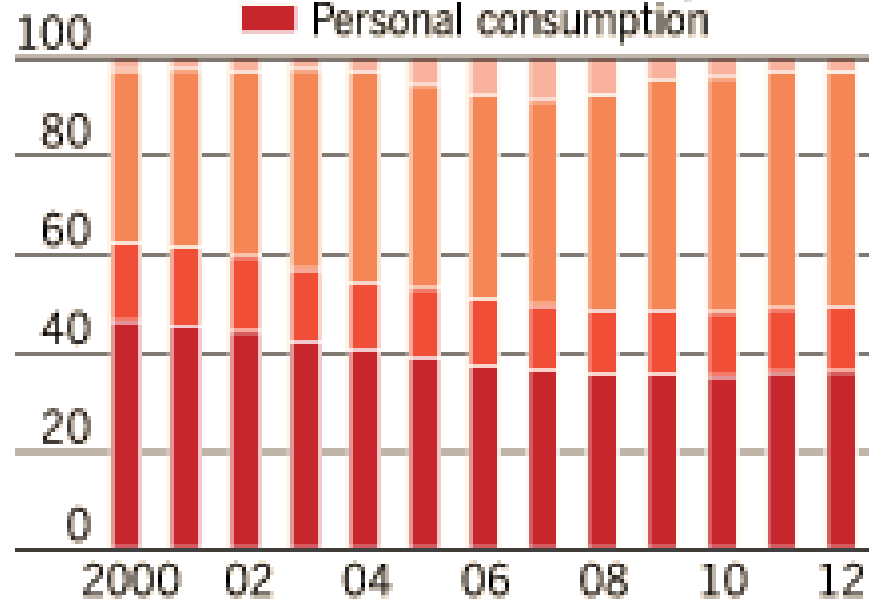
Composition of demand 2000-2012

China

Composition of demand

% of GDP

- Net exports
- Investment (fixed & stocks)
- Government consumption
- Personal consumption



Source: Thomson Reuters Datastream

China net exports

Contribution to GDP growth (% points)



Source: Haver Analytics

China consumption and investment

Rmb bn

30000

■ Final consumption expenditure

■ Gross capital formation

25000

20000

15000

10000

5000

0

2000

01

02

03

04

05

06

07

08

09

10

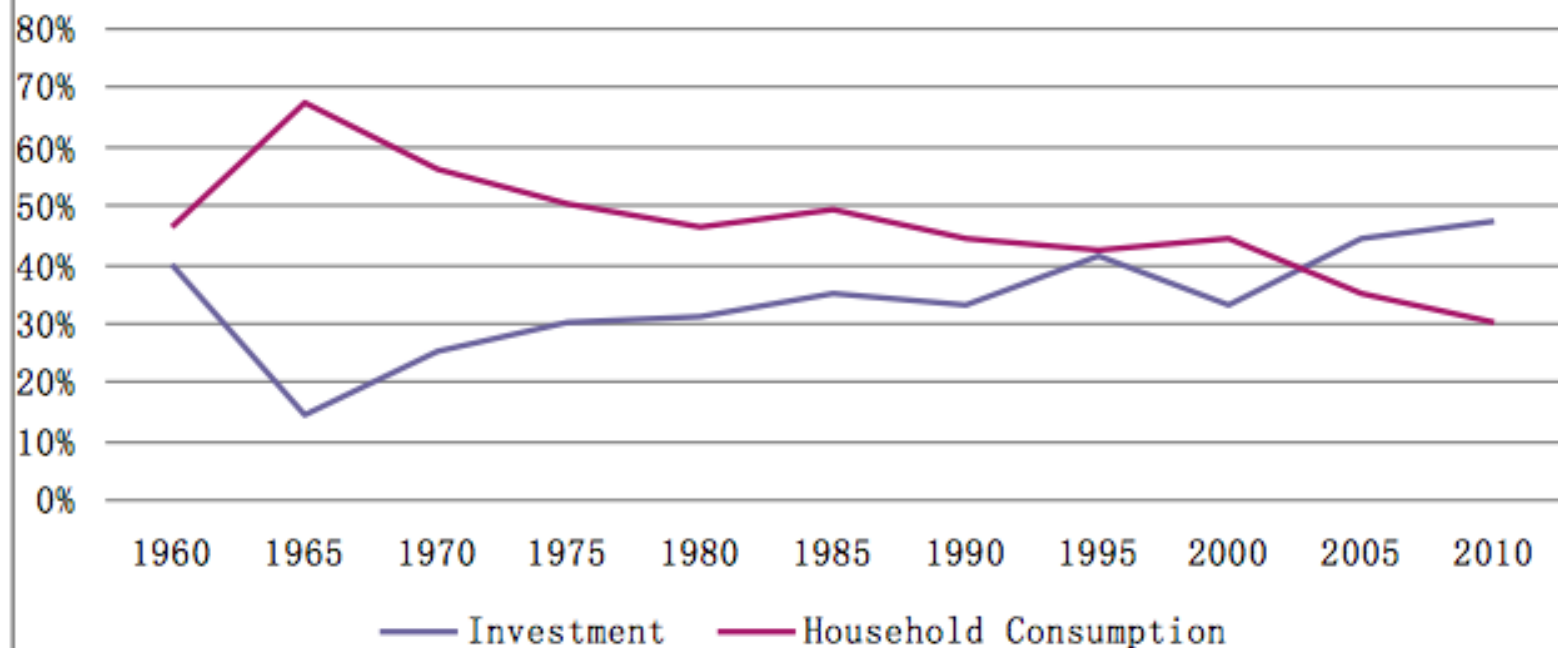
11

12

Source: Haver Analytics



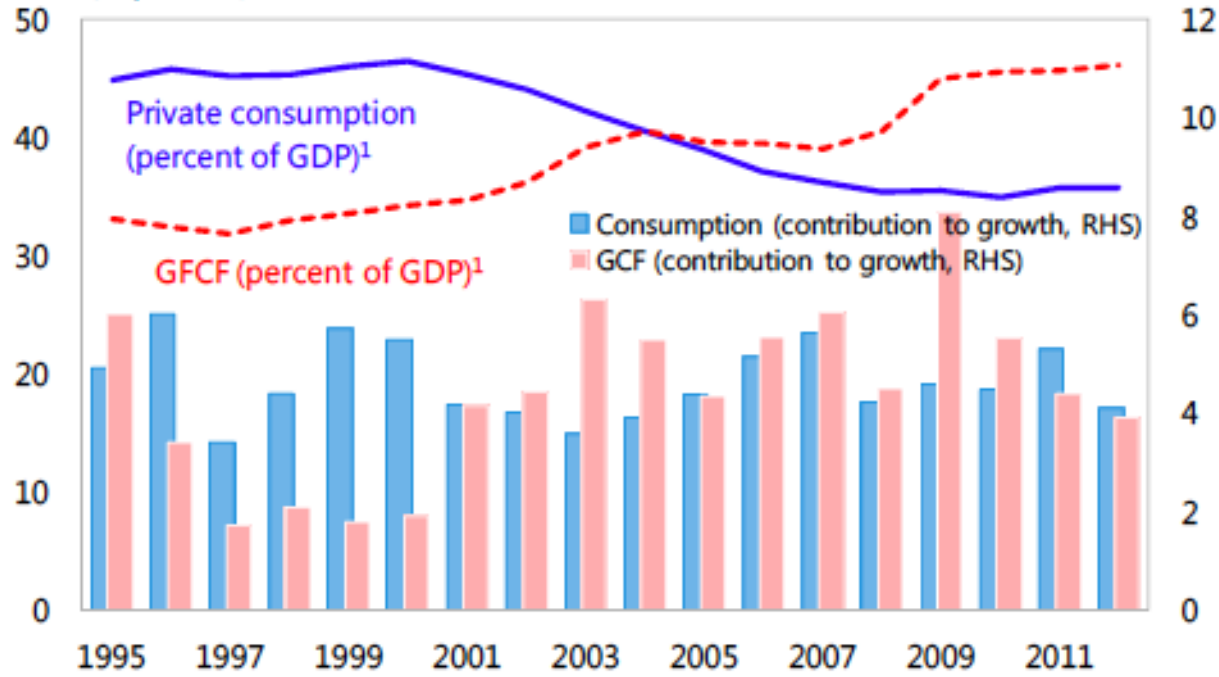
Investment, H/H Consumption as a percentage of GDP



Source: China Center for Economic Research (CCER) database

Consumption and Investment

(In percent)

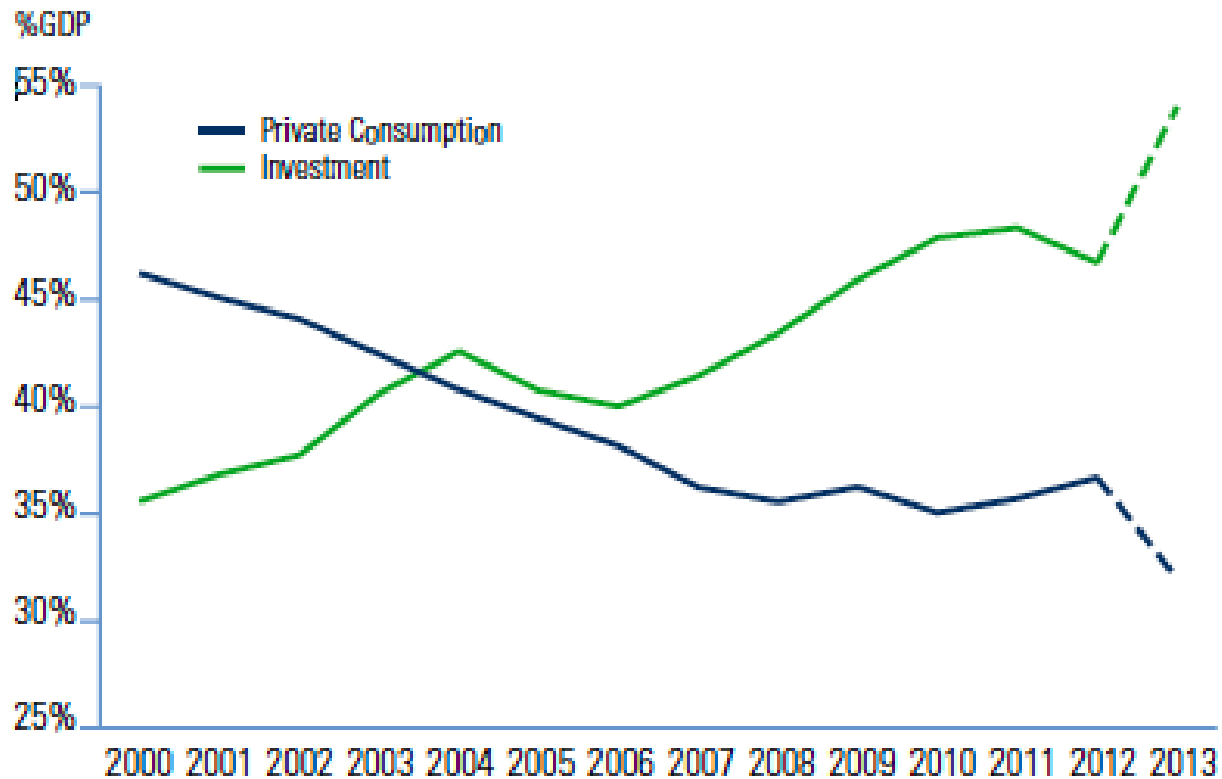


Sources: CEIC; and IMF staff estimates.

¹ Percent of expenditure-based GDP.

2012

Unsustainable Consumption/Investment



Data through Q3 2013.

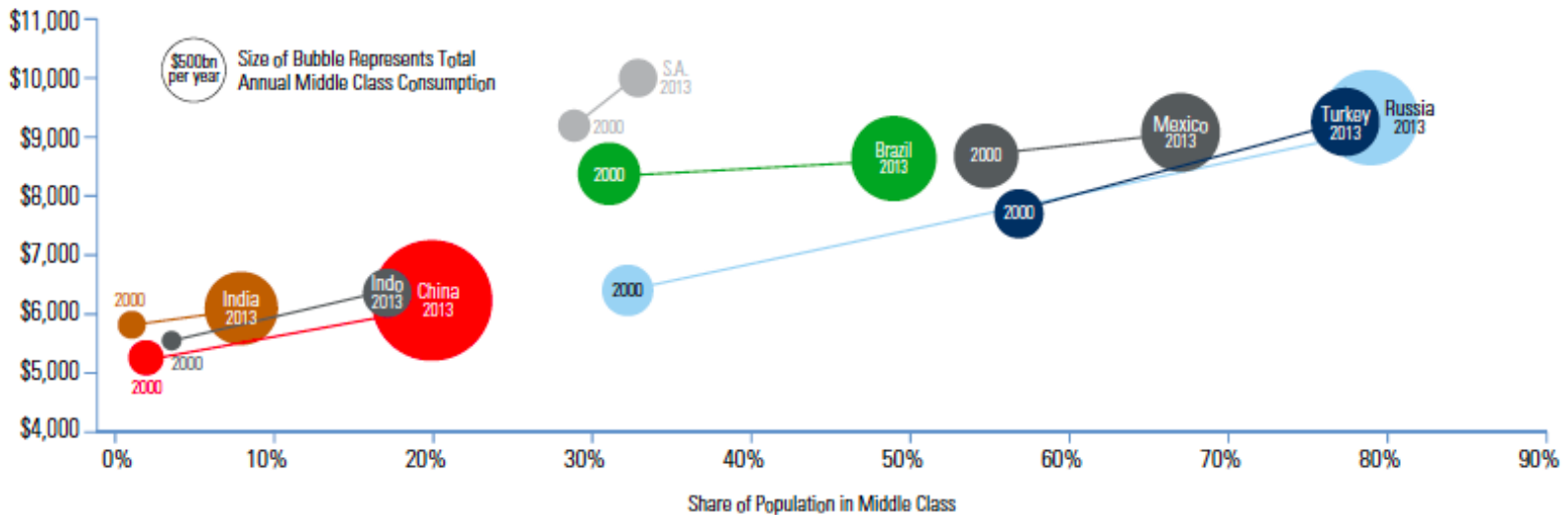
Source: Investment Strategy Group, Datastream.

The Rise of China's Middle Class

Exhibit 14: The Rise of the EM Middle Class

Demands on governments rise as middle classes grow.

Average Annual Expenditure of Middle Class Citizen



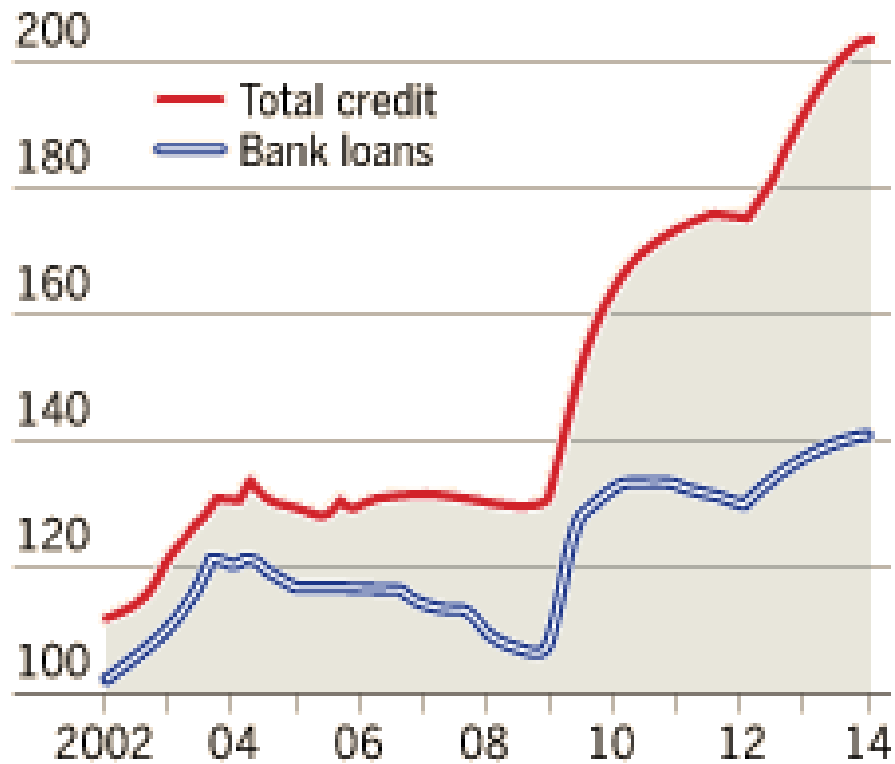
Data as of 2013.

Source: Investment Strategy Group, Eurasia Group.

CREDIT GROWTH

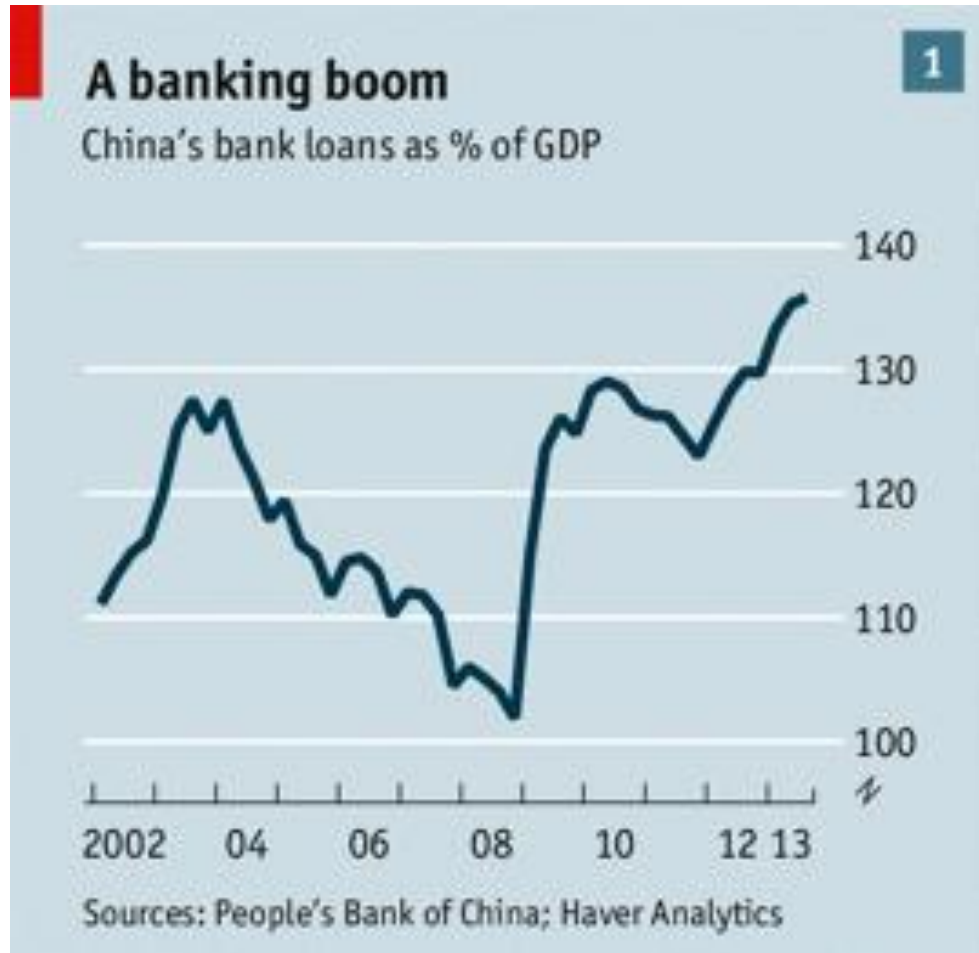
Chinese credit

% of GDP



Source: Capital Economics

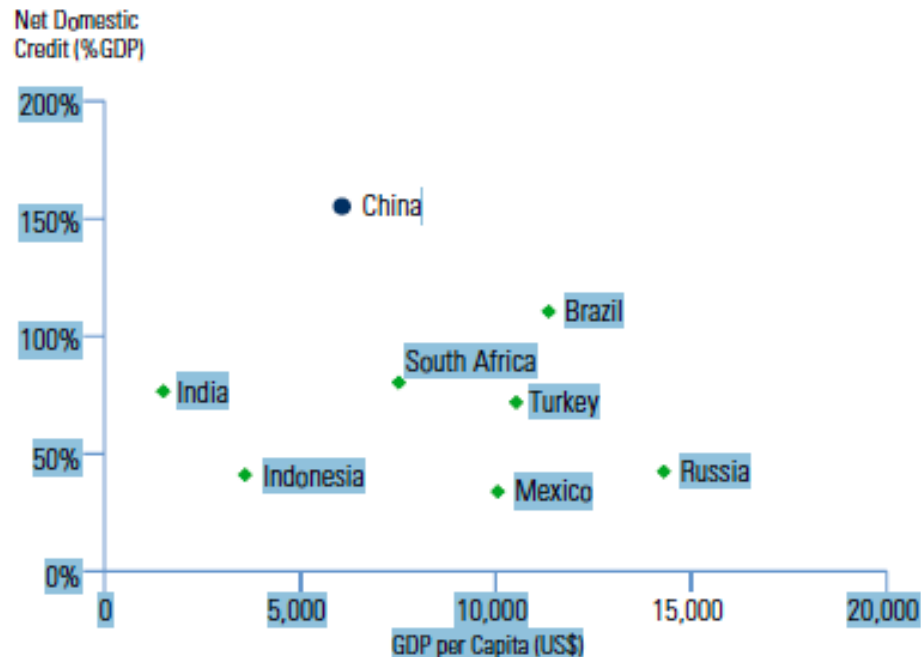
BANKING BOOM



China's Bank Credit High Among EM

Exhibit 17: China's Bank Credit is High Among Its EM Peers

China's pace of investment has relied heavily on expanding credit.

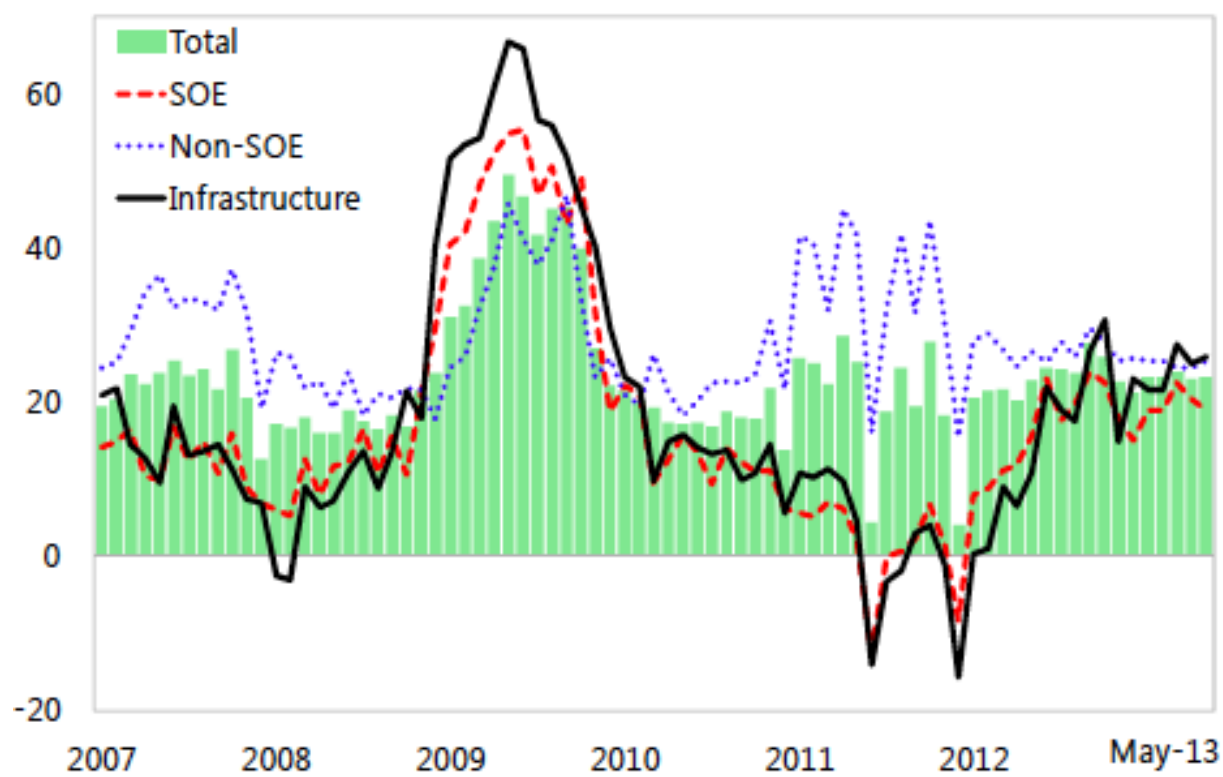


Data as of 2012.

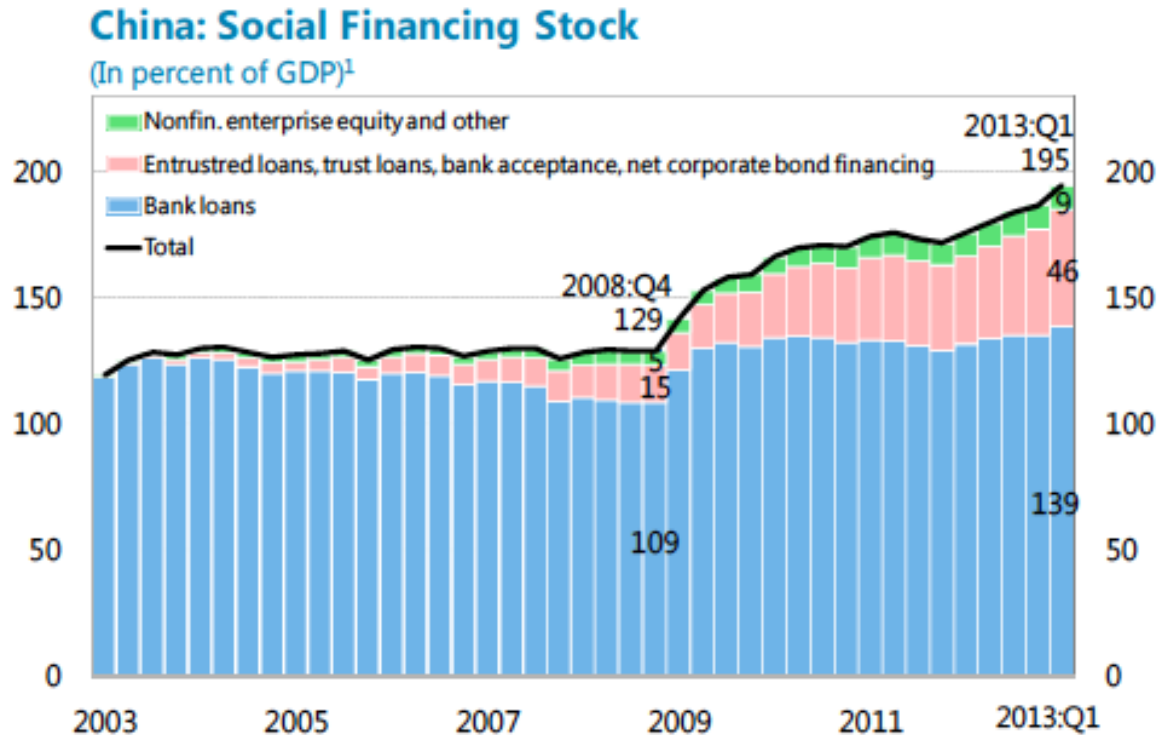
Source: Investment Strategy Group, World Bank.

Real Fixed Asset Investment

(In percent, year-on-year)



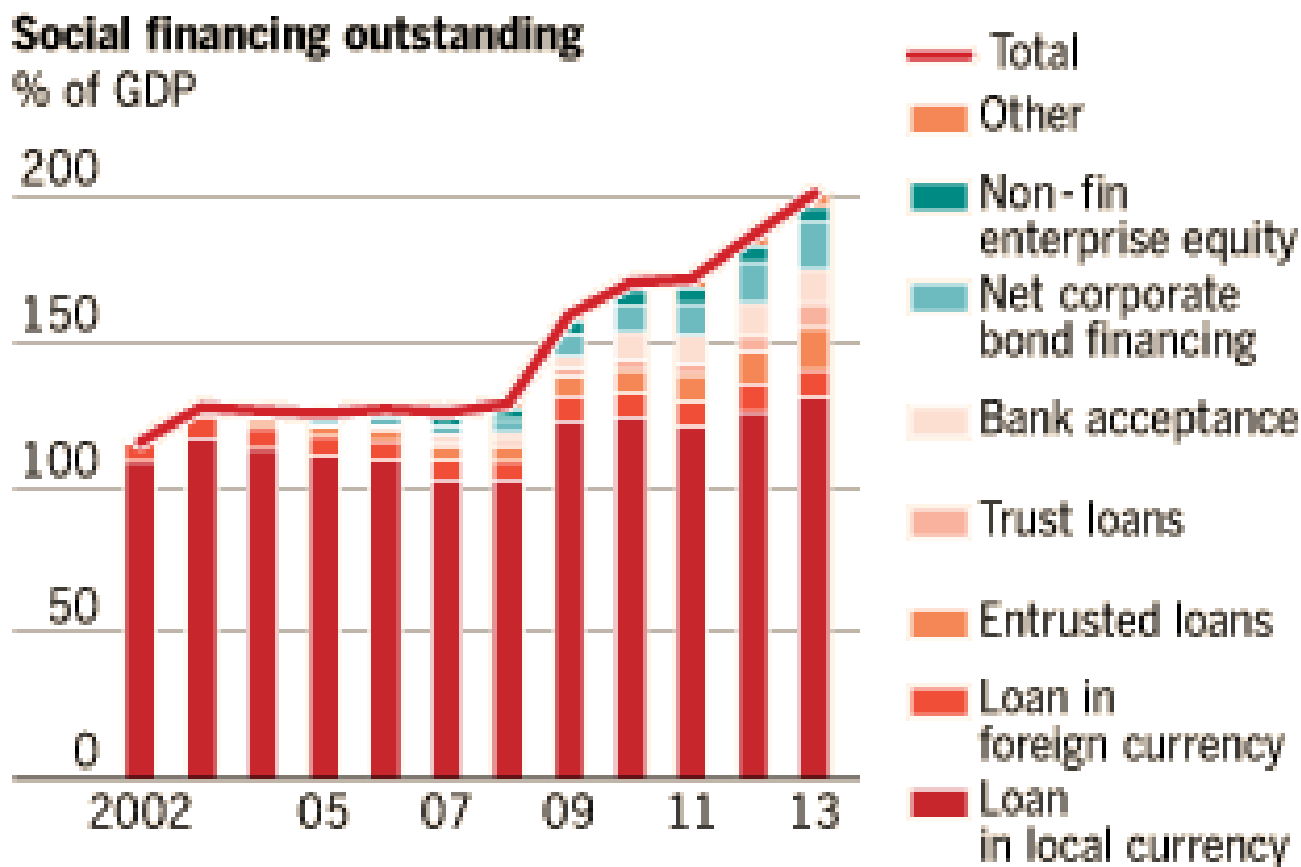
China : Social Financing Stock % GDP



Sources: CEIC; and IMF staff calculations.

¹In percent of 4Q rolling sum of quarterly GDP.

Total Social Financing 2002-2013



Source: CEIC, IMF

China's debt on the rise (% of GDP)

China's debt on the rise

% of GDP

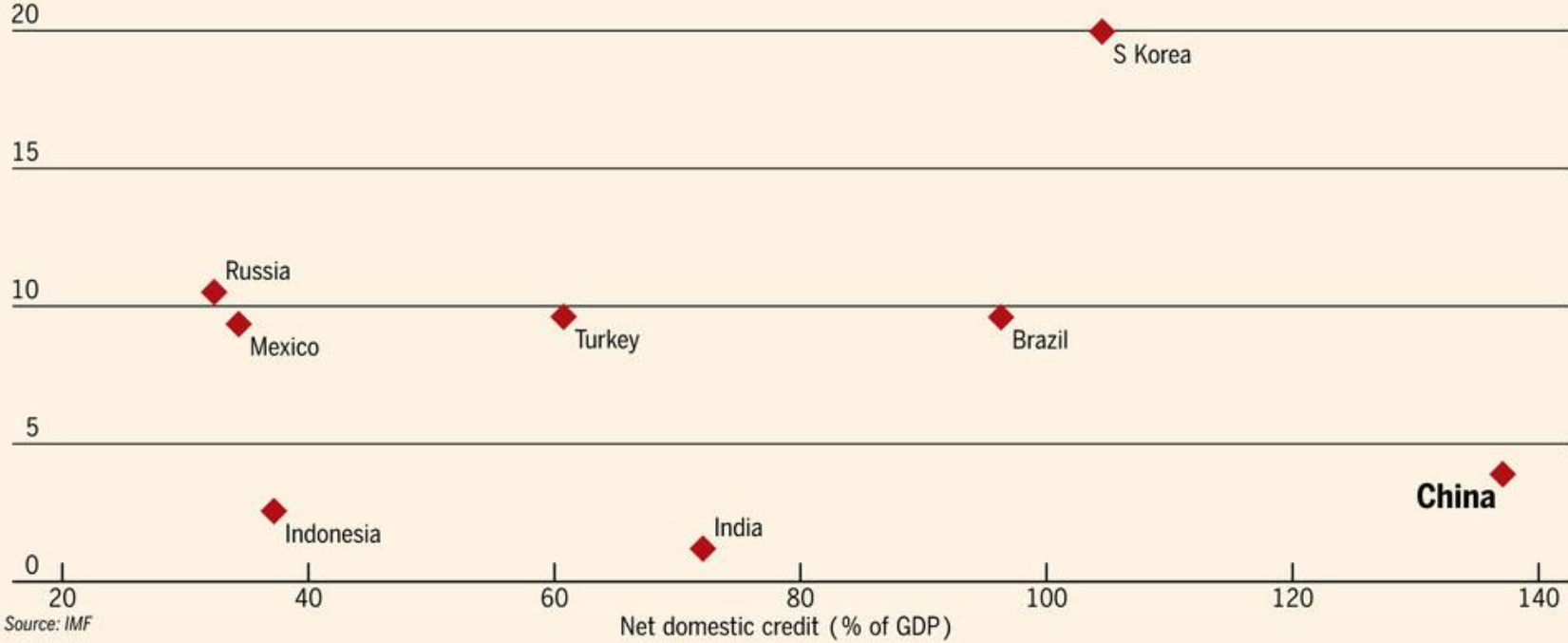


Source: IMF

China's debt versus emerging markets

China: more indebted than other emerging markets

GDP per capita (\$'000)



Source: IMF

China's debt by sector

Rmb tn

100

- Government
- Household
- Corporate

80

60

40

20

0

2007

08

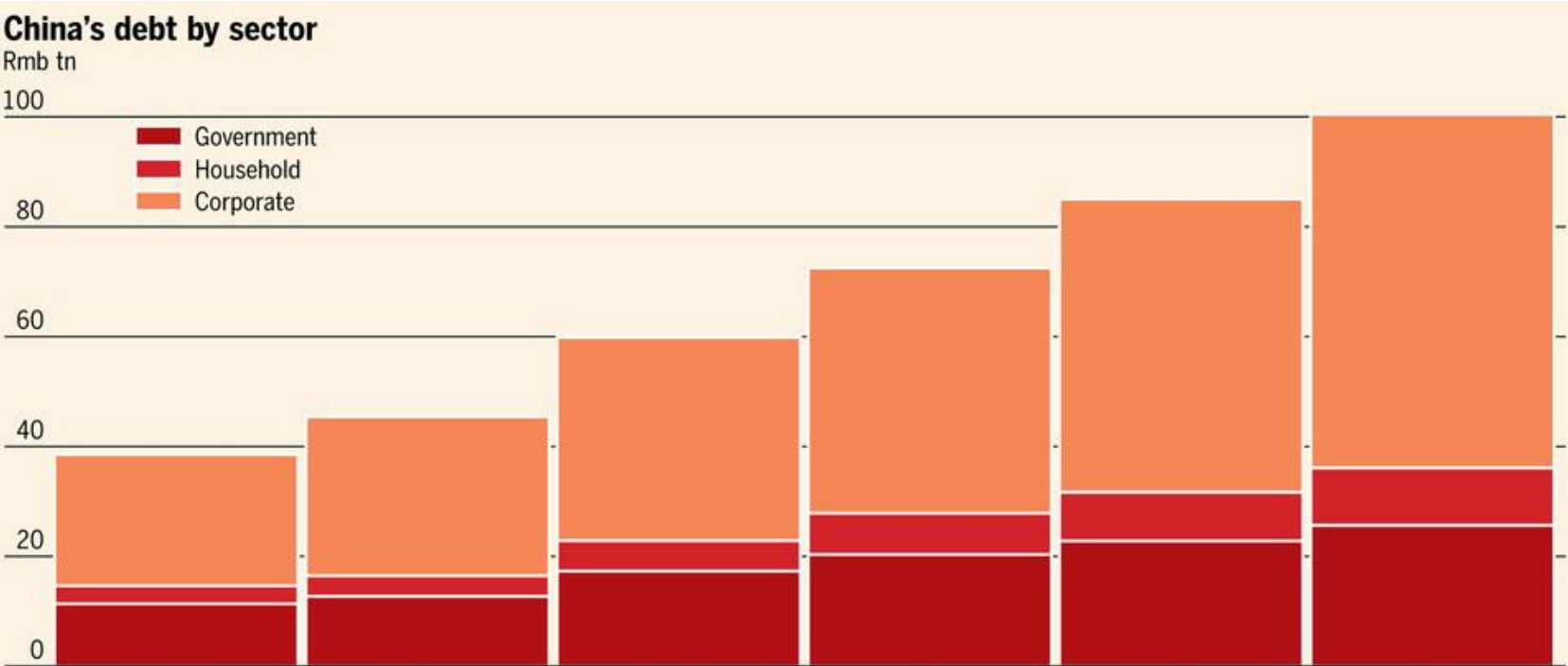
09

10

11

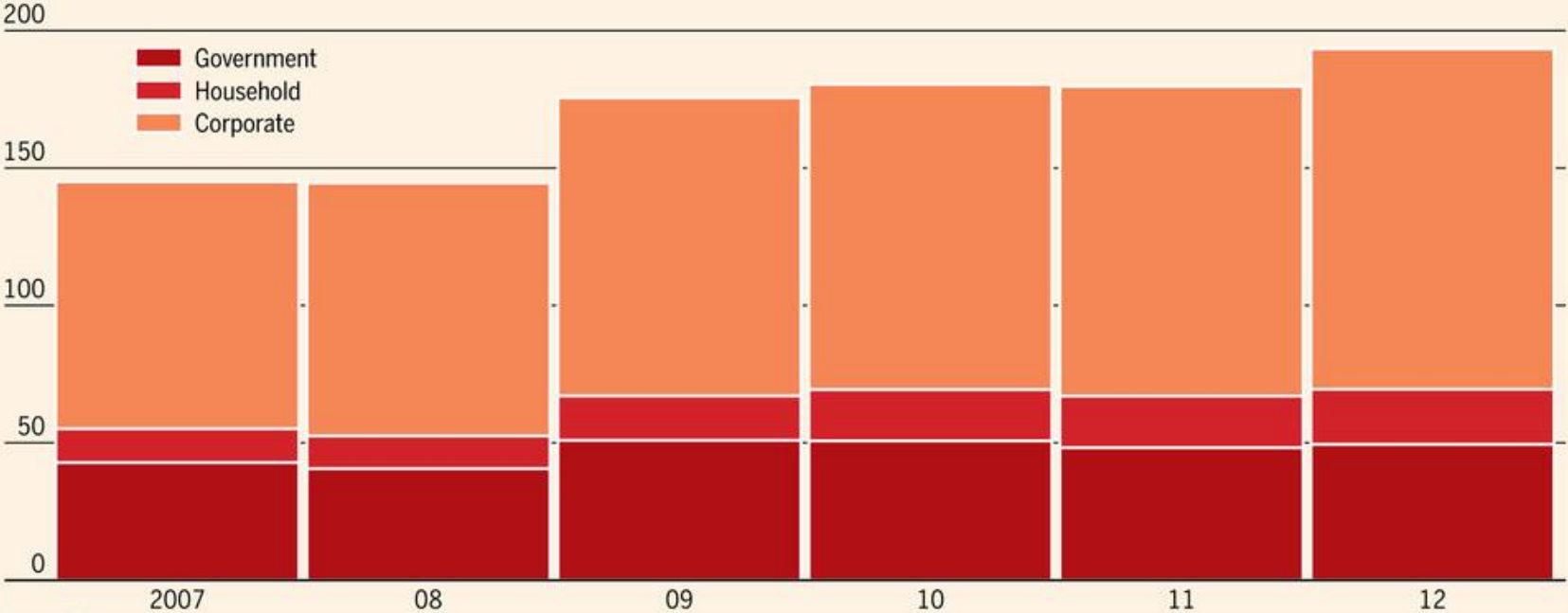
12

Source: JP Morgan



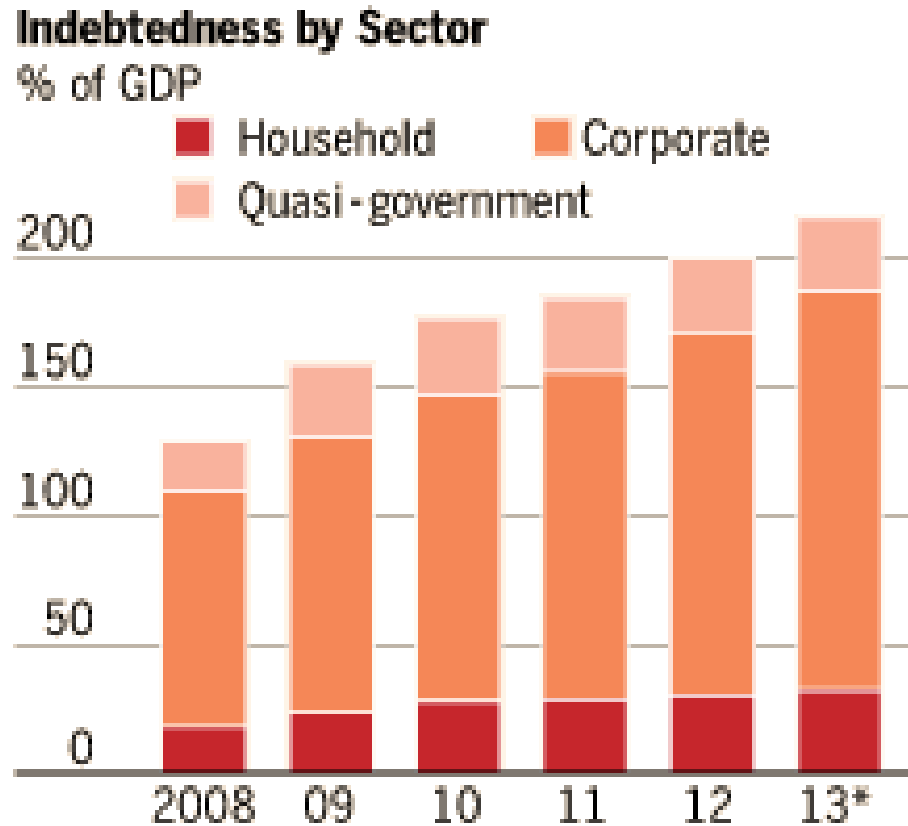
China's debt by sector

% of GDP



Source: JP Morgan

Indebtedness by Sector 2008-2013

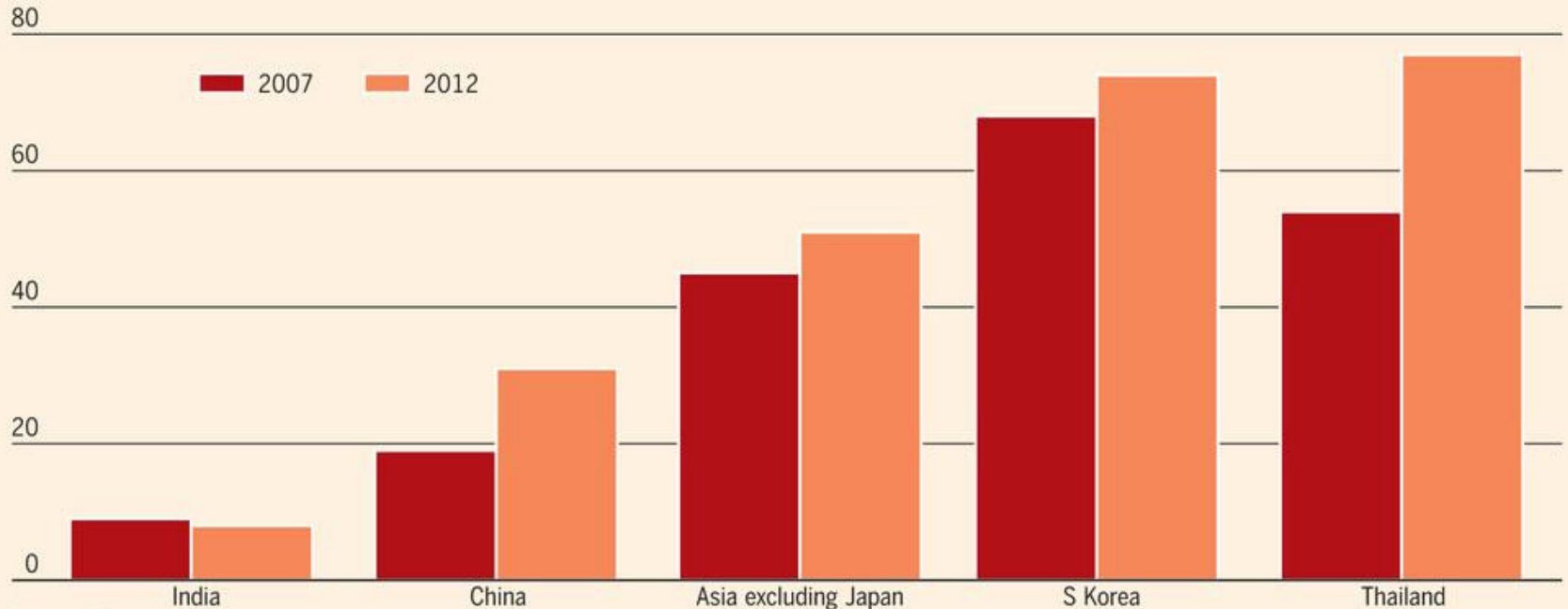


Source: Fitch

Household debt to GDP : International comparisons

Household debt

As % of GDP

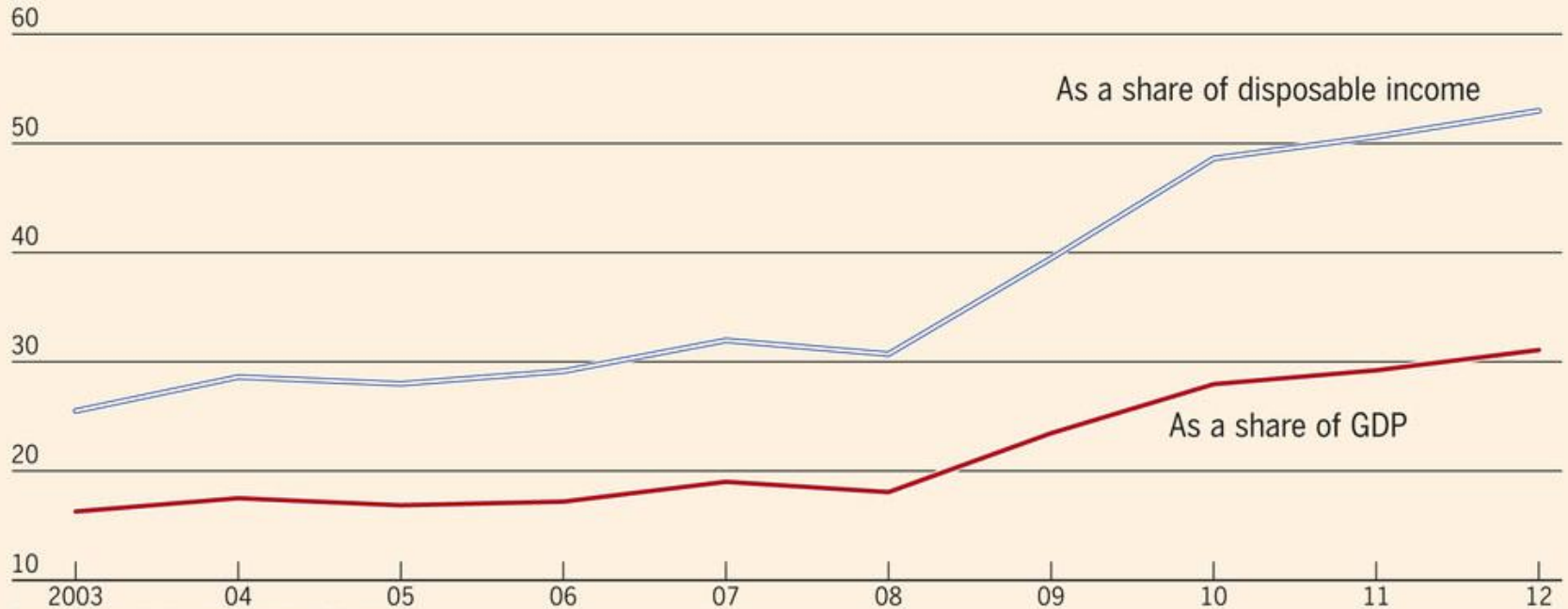


Source: HSBC

Chinese household debt

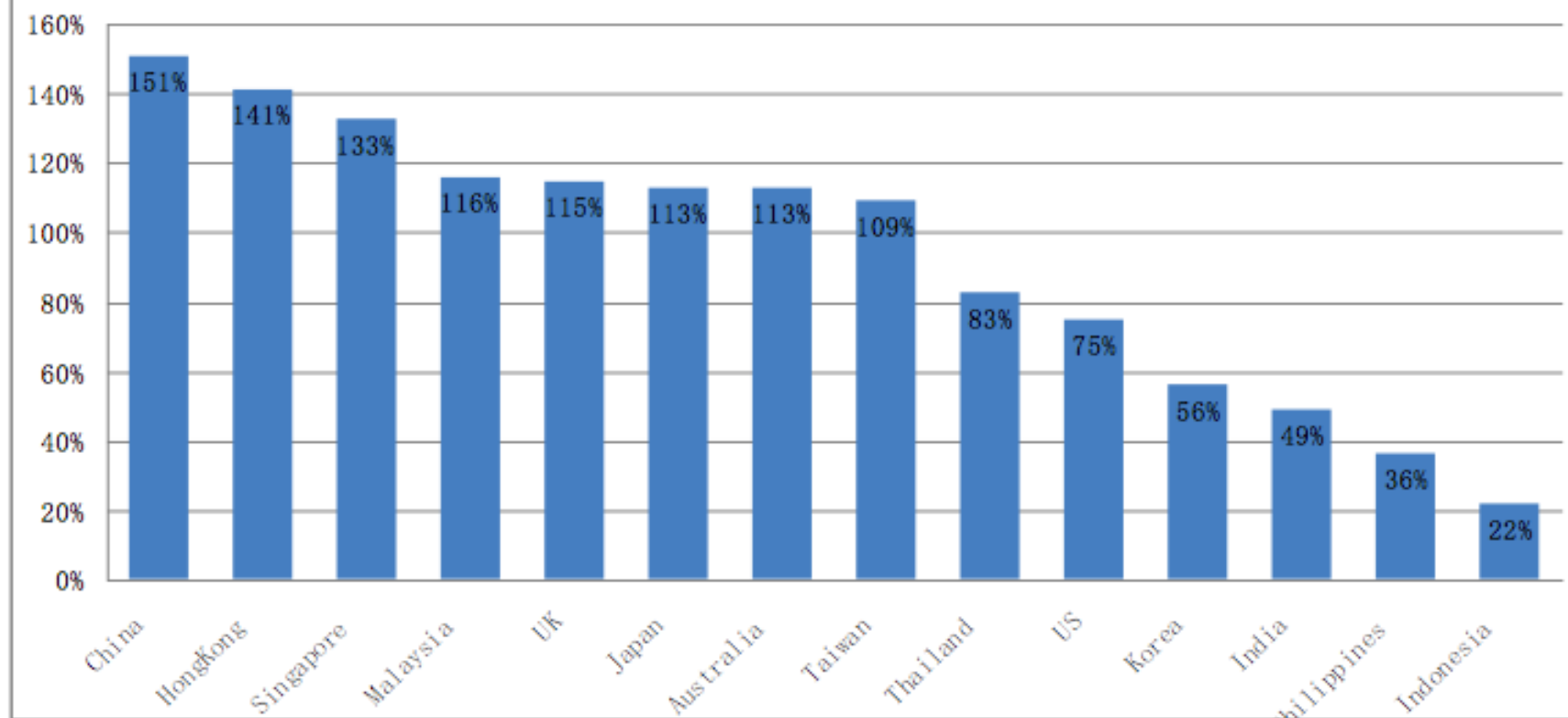
Chinese household debt

Per cent



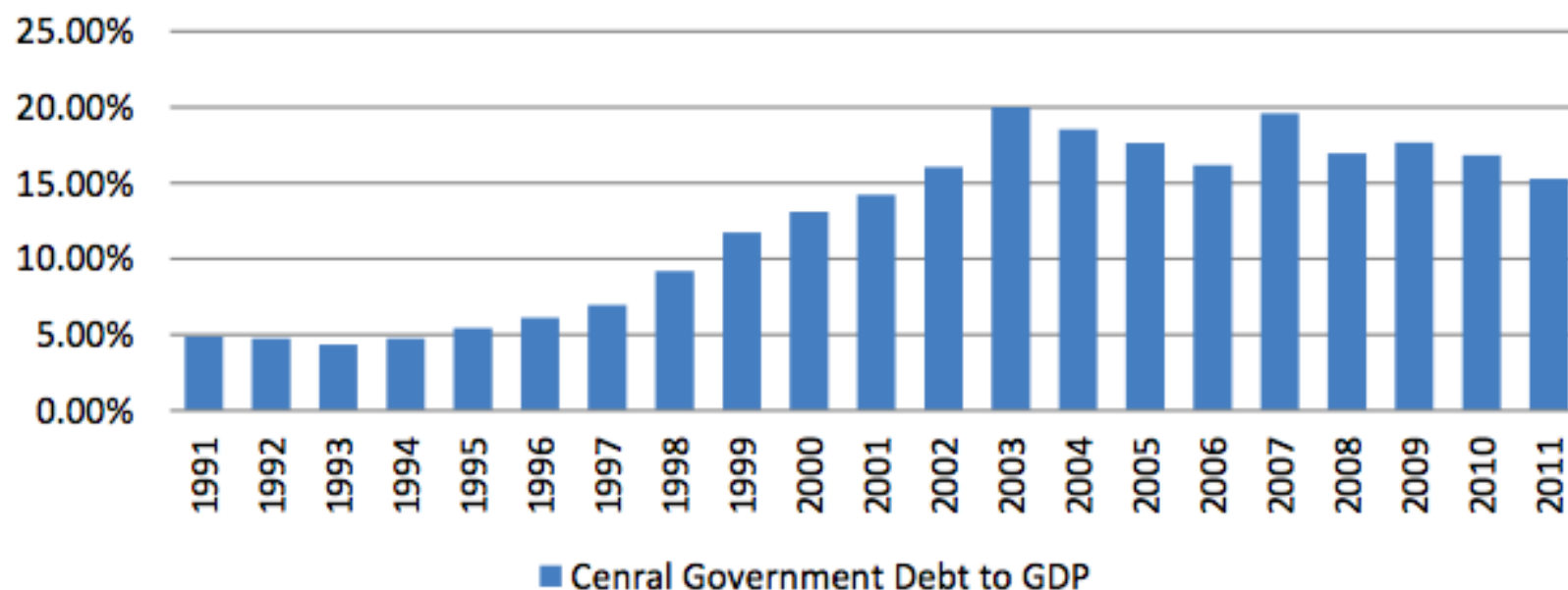
Source: Peterson Institute for International Economics

Corporate Debt as percent of GDP, by country



Source: Frank Veneroso (from data from Guo Hua Securities, Goldman Sachs, and Zero Hedge)

Central Government Debt as a Percent of GDP



Source: China Center for Economic Research database

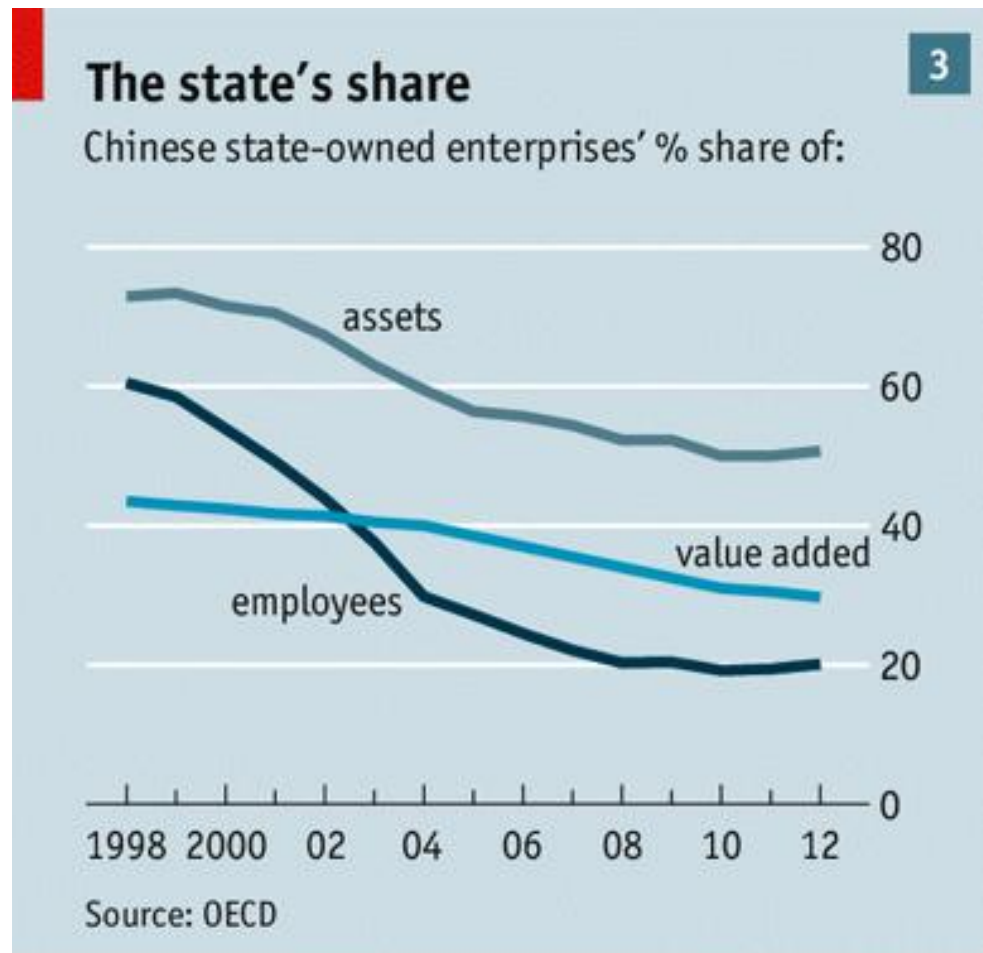
Total Public Debt (National Audit Office, Mid. 2013)

Central Gt Debt : RMB 12,384 trillion (23 % GDP)

Local Gt Debt : RMB 17,891 trillion (33,2 % GDP)
RMB 21 trillion, end 2013 (37 % GDP)

TOTAL = 60 % GDP

Chinese SOEs % share of :



China corporations return on assets



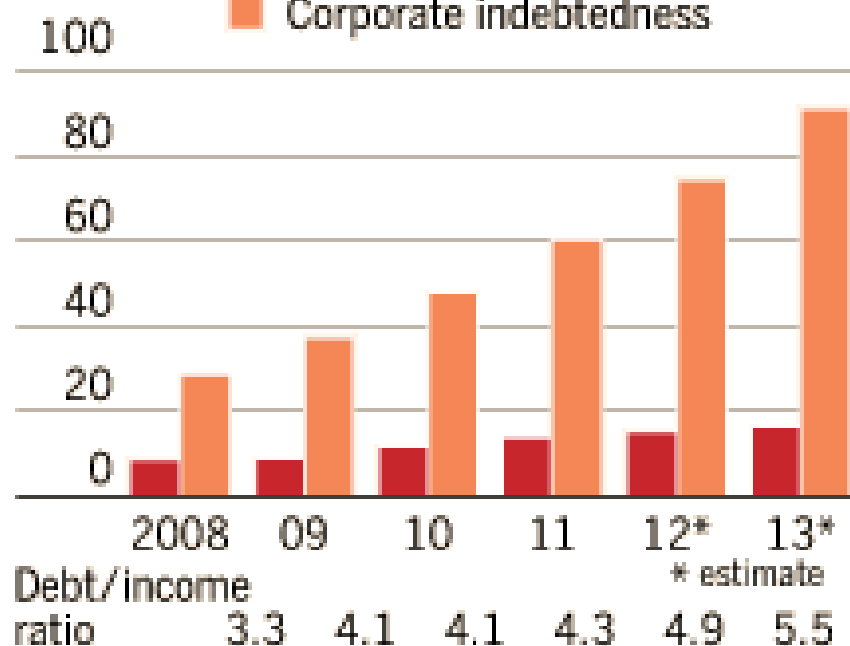
Sources: CEIC, HSBC

Trends Corporate Debt & Profit 2008-2013

Trends in corporate debt and profit

Rmb tn

- Aggregate operating surplus of corporates
- Corporate indebtedness



Source: Fitch

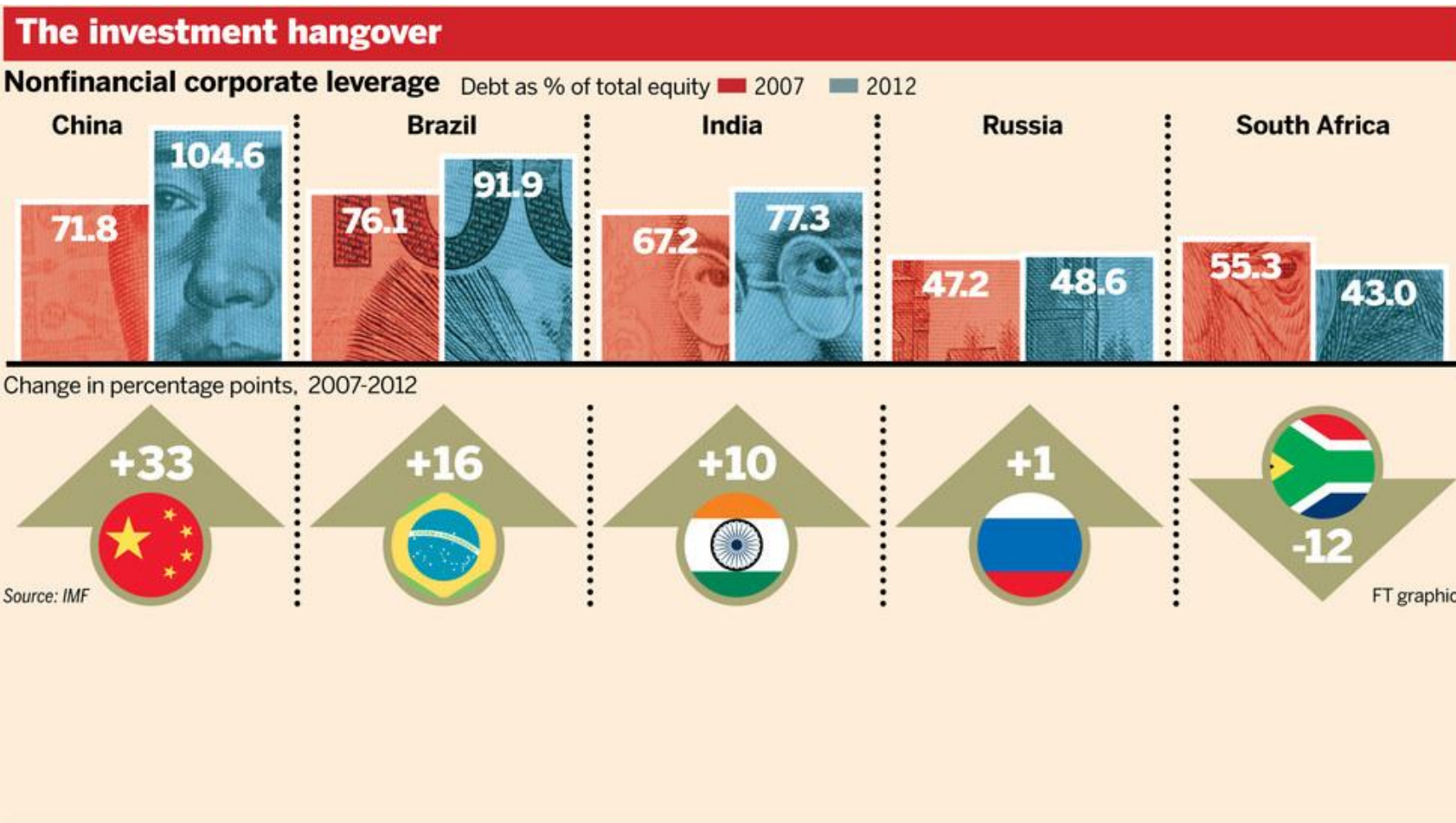
China's multinationals

China's Champions Corporate Results 2012

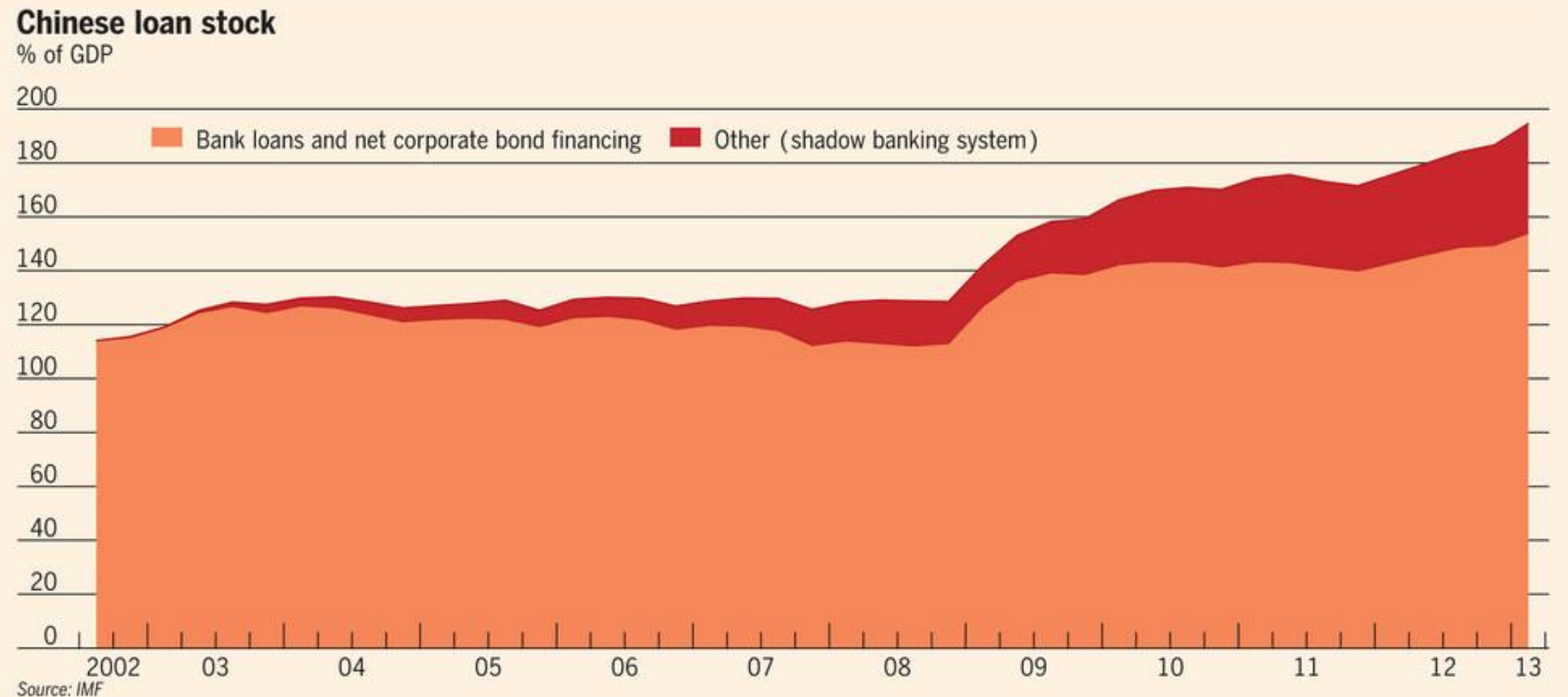
Source: Bloomberg, Company reports

	 HUAWEI Tele-communications	 ZTE 中兴 Tele-communications	 lenovo PC manufacturer	 Haier Household appliances	 SUNTECH Solar power	 BYD Batteries and vehicles	 SANY Construction machines
SALES in bin euros	26.8	10.4	26.3 2012/13	19.5	2.3 2011	5.5	5.6
PROFIT/LOSS in bin euros	1.9	-0.3	0.5 2012/13	1.1	-0.7 2011	0.03	0.7
WORKFORCE	150 000	89 800	27 000	80 000	14 000	over 150 000	60 000

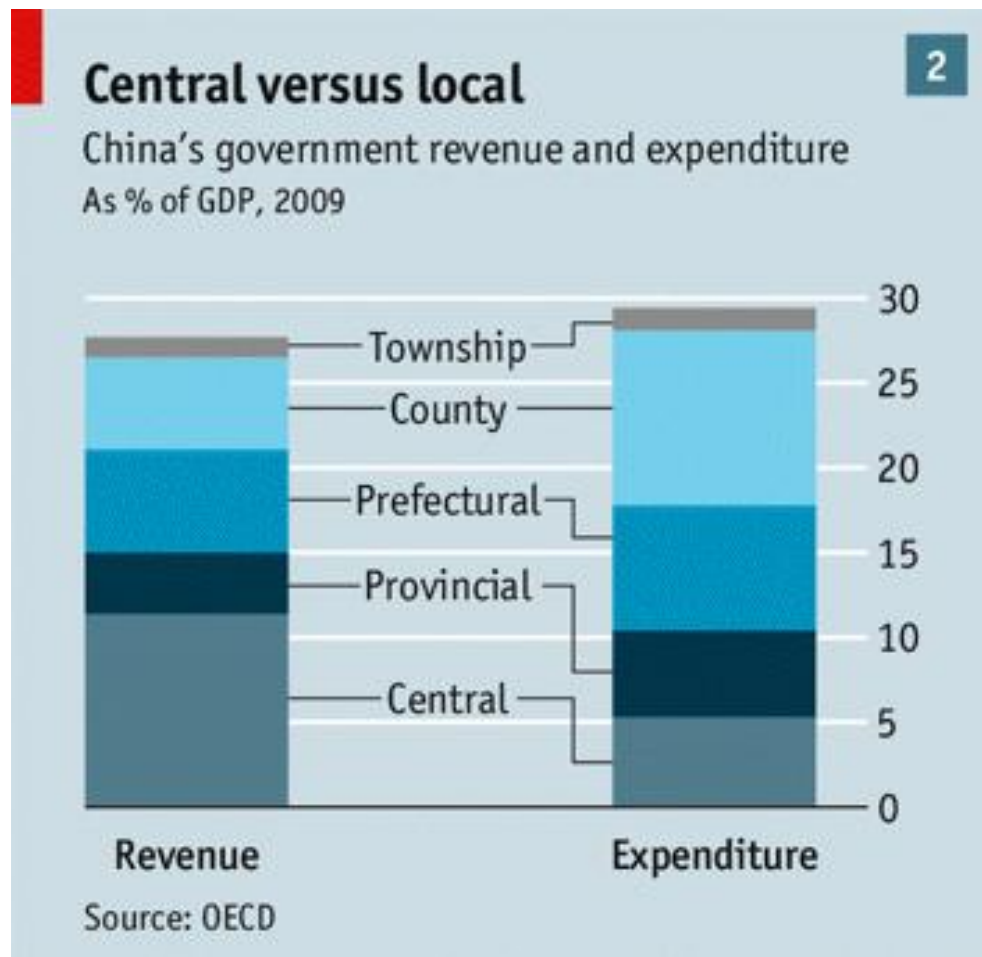
Non financial corporate leverage 2007-2012



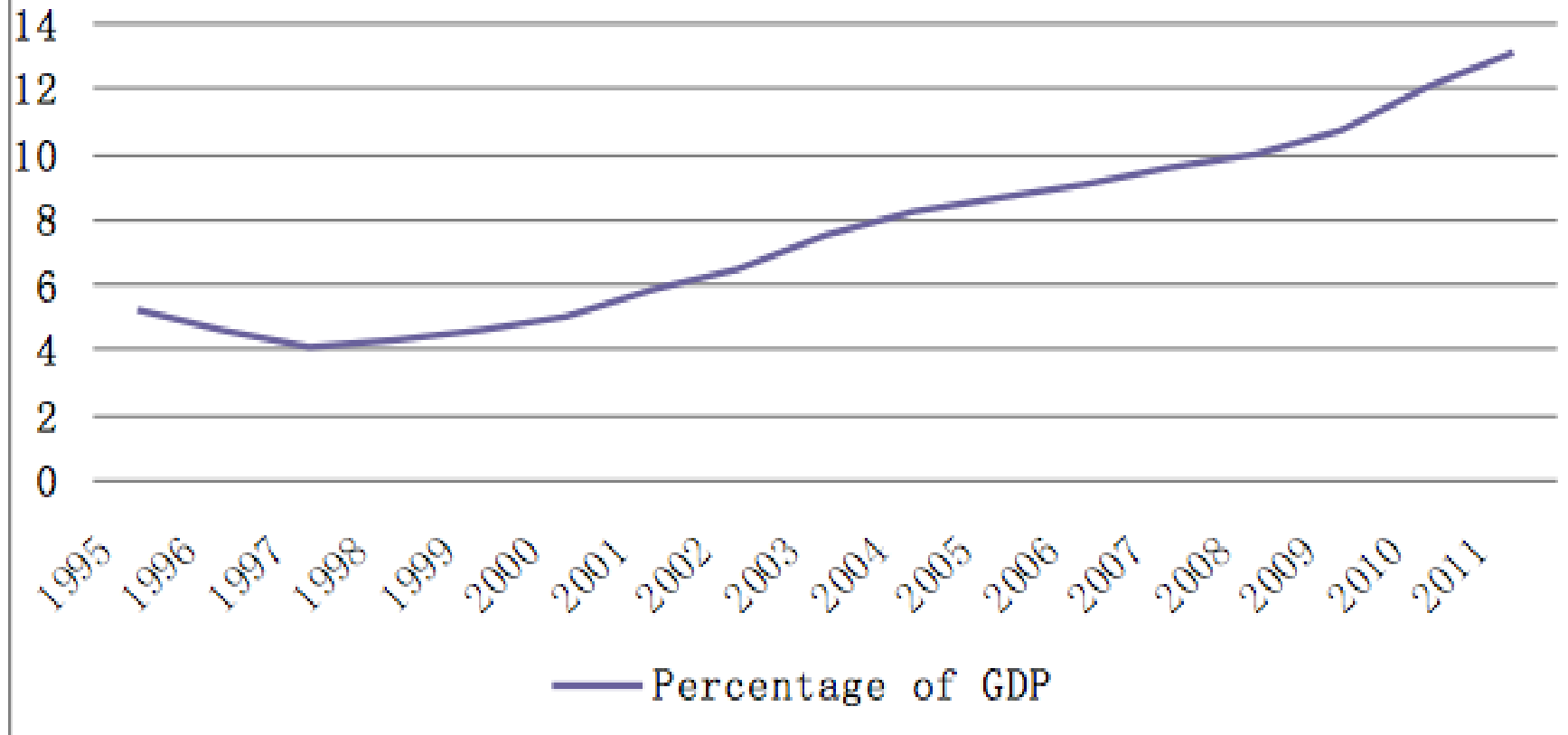
Bank loans corporate bond and shadow banking : loan stock % of GDP



Central versus local revenue



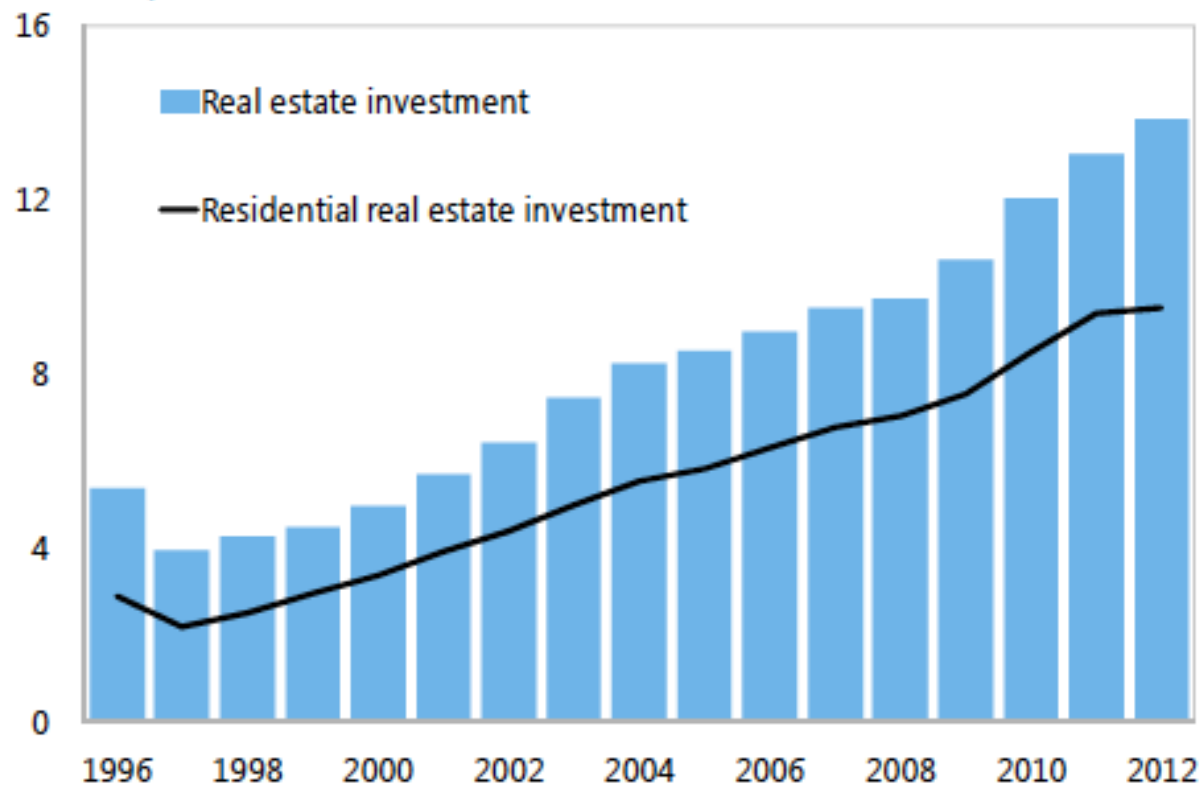
New Residential Real Estate as a percentage of GDP



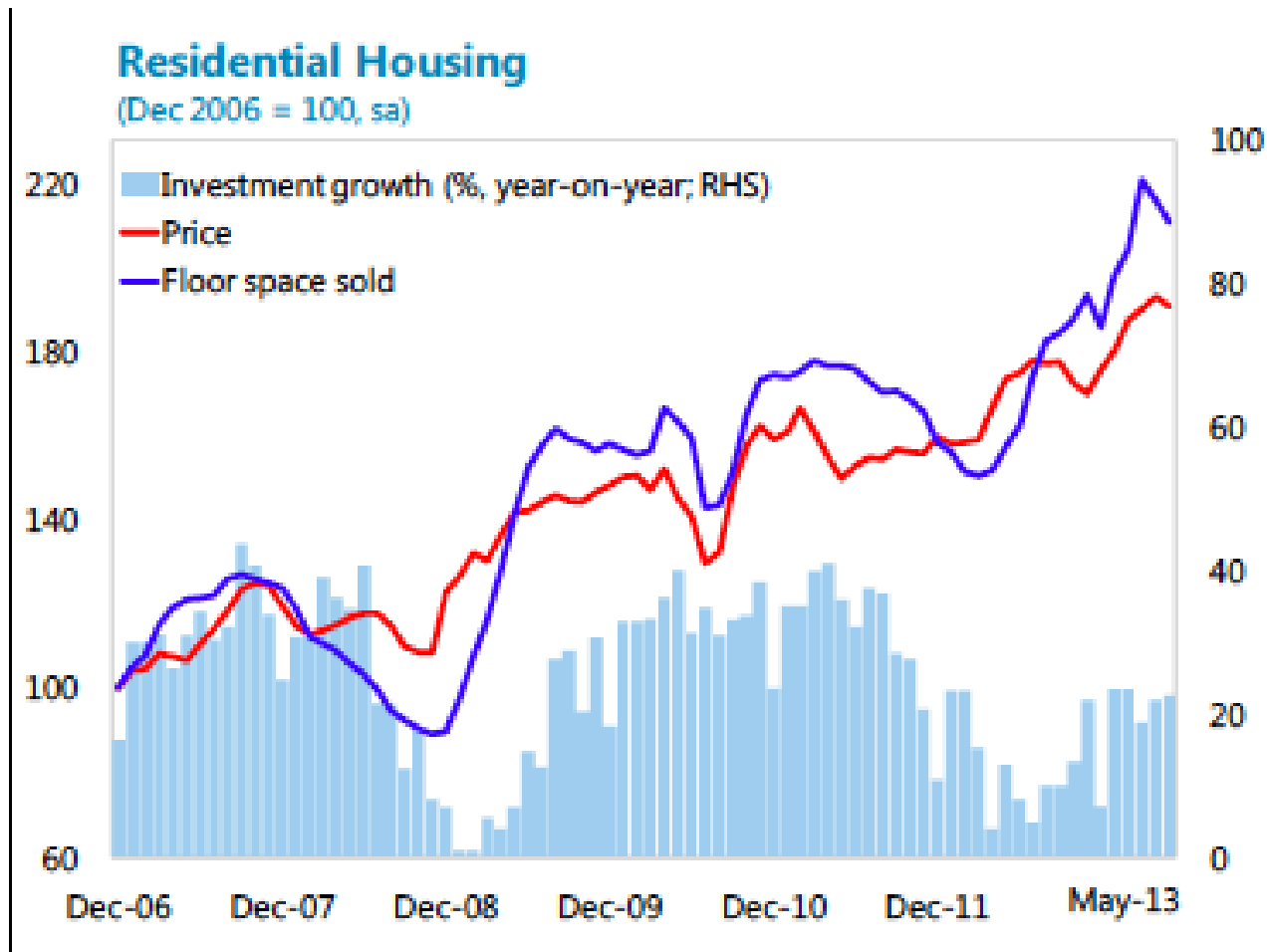
Source: China statistics year book, China Custom statistics, National Bureau of statistics of China

Real Estate Investment

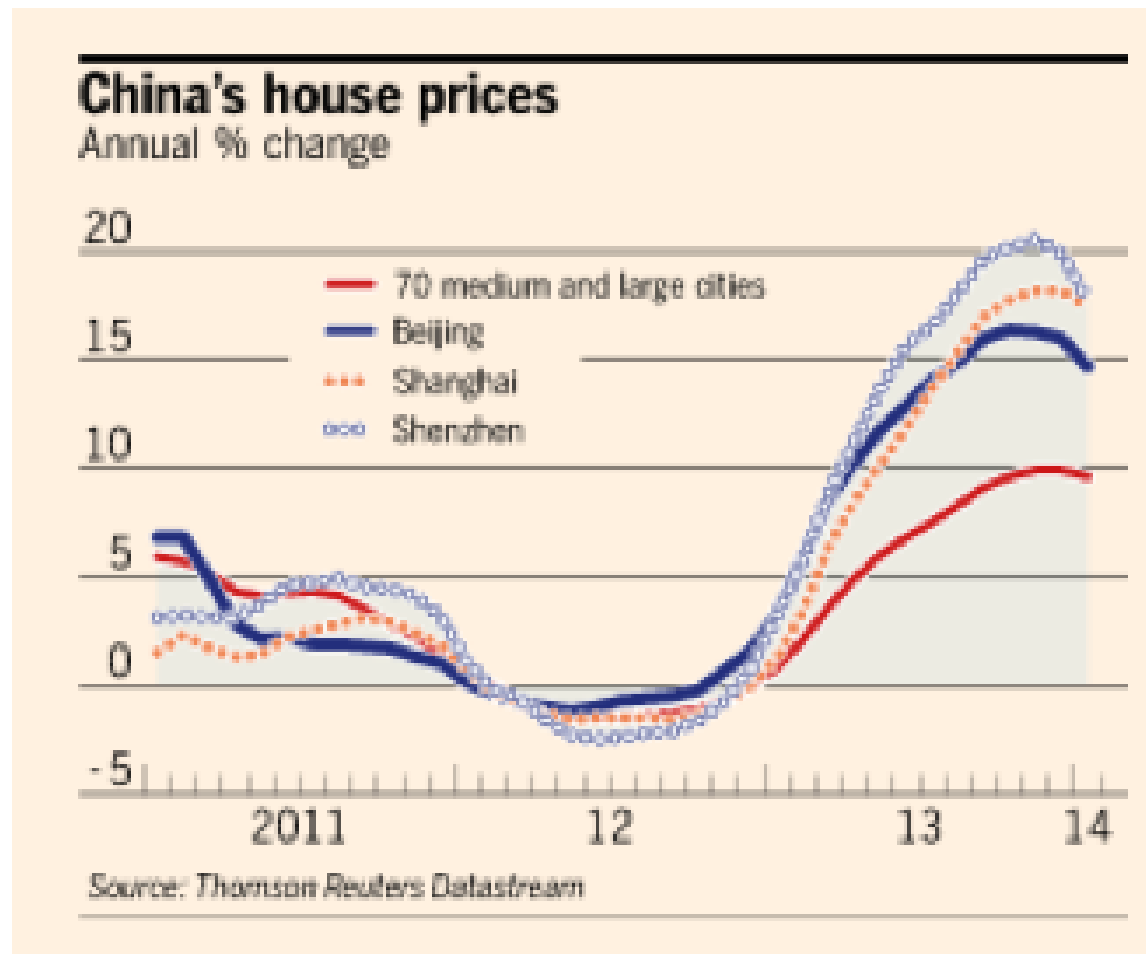
(In percent of GDP)



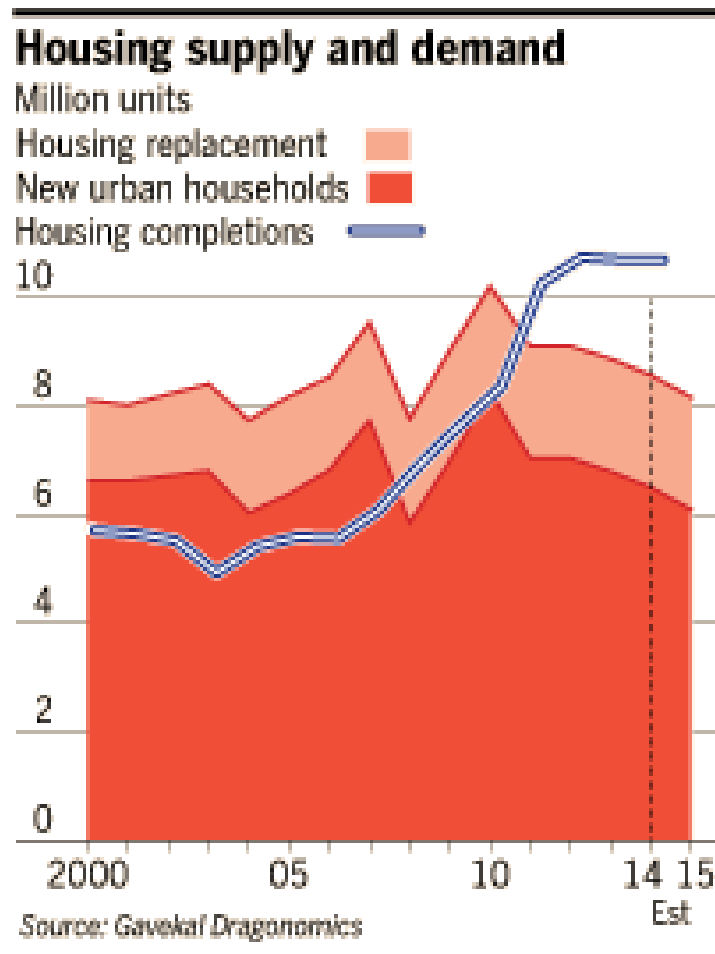
Residential Housing Dec. 2006 = 100



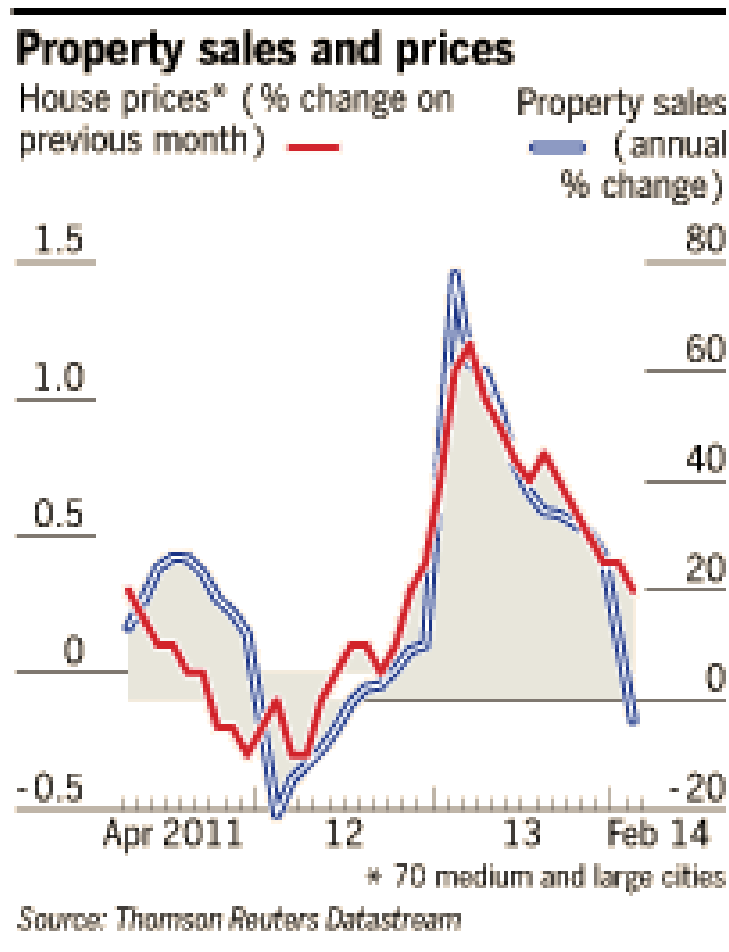
China's house prices 2010-2014



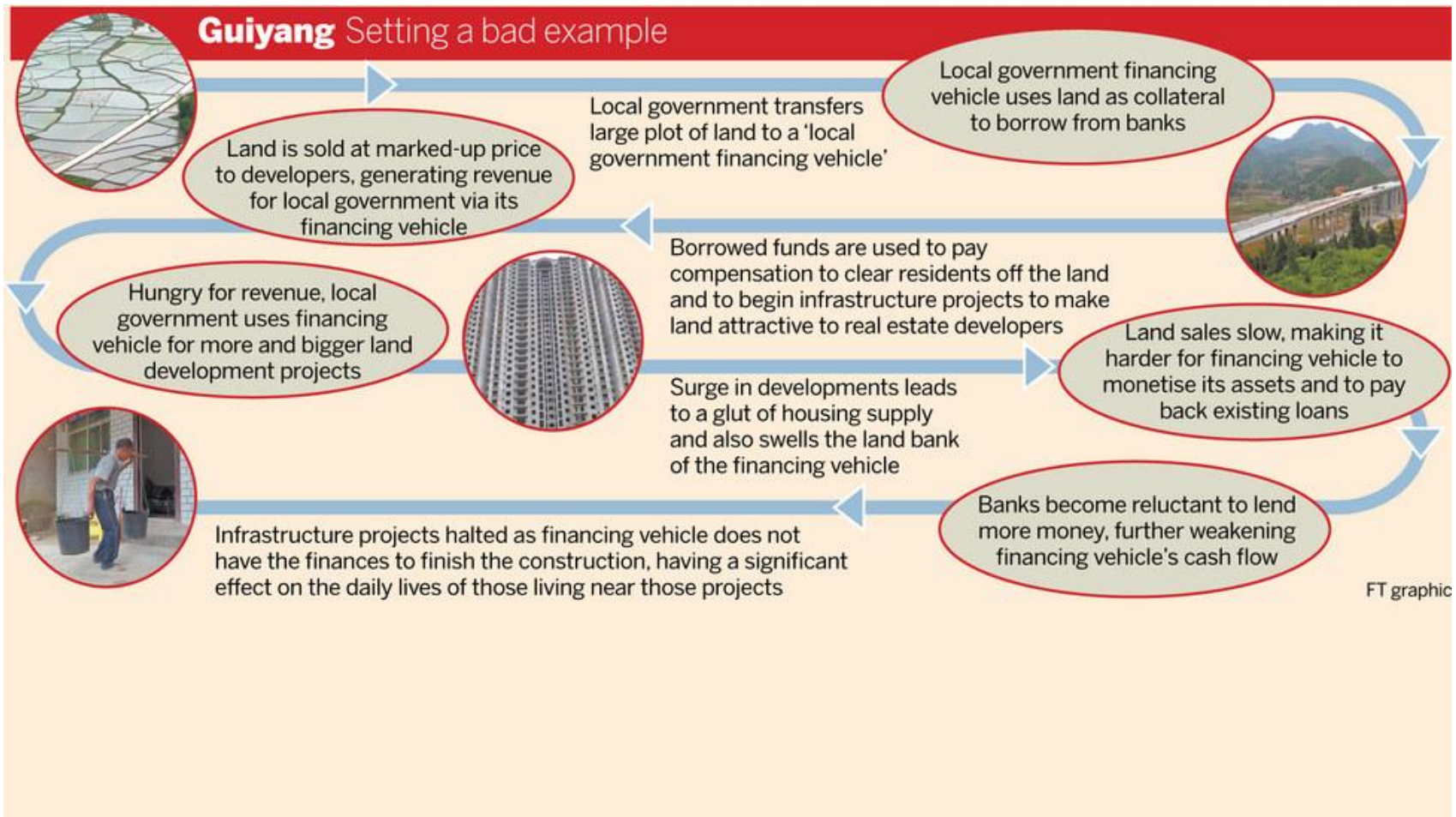
Housing Supply and Demand



Property Sales and Prices 2011-2014



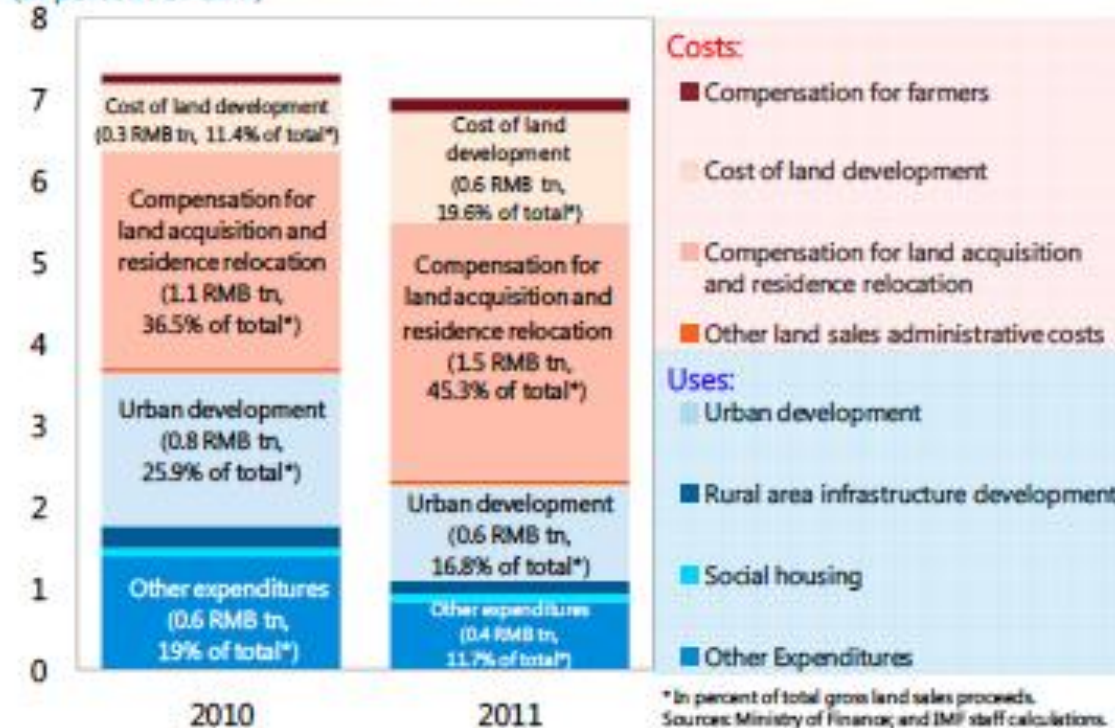
LGFV and Local Gt debt



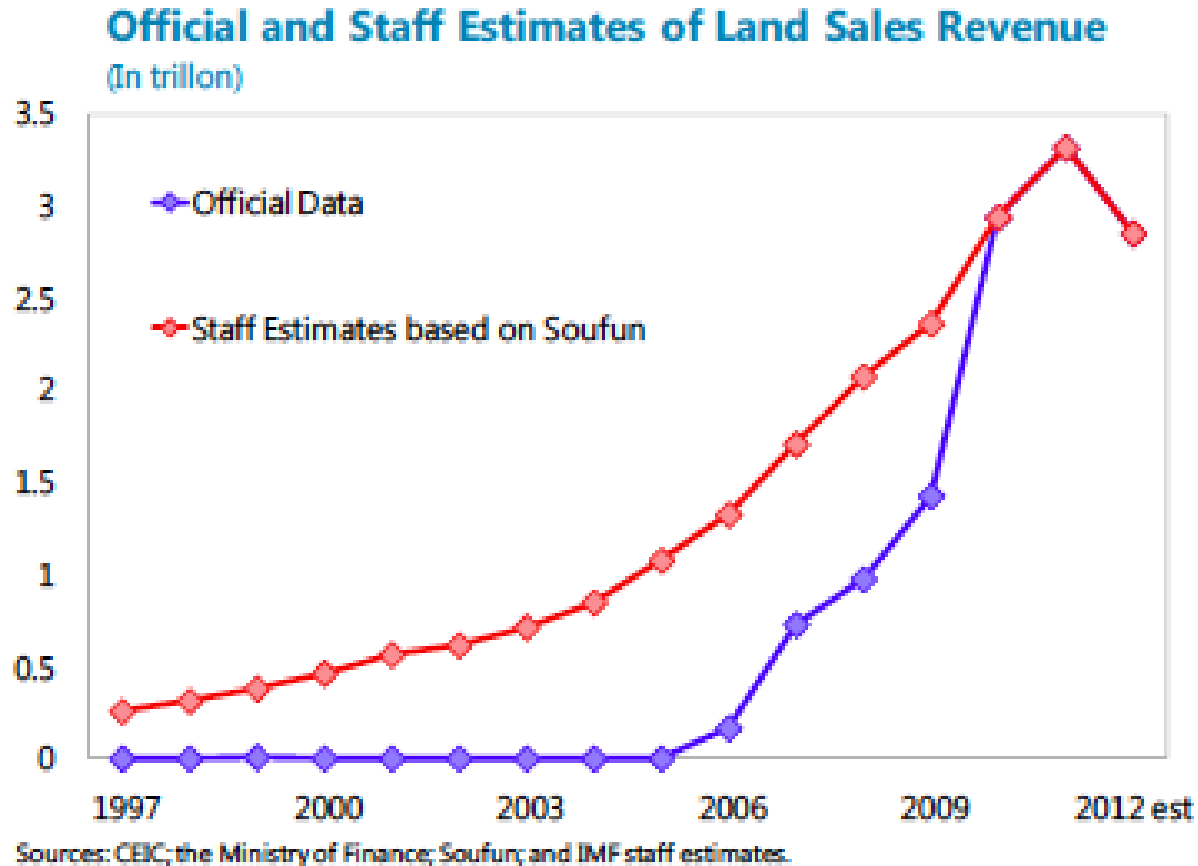
Decomposition of Gross Land Sales : Costs and Uses (in percent of GDP)

Decomposition of Gross Land Sales Proceeds: Costs and Uses

(In percent of GDP)



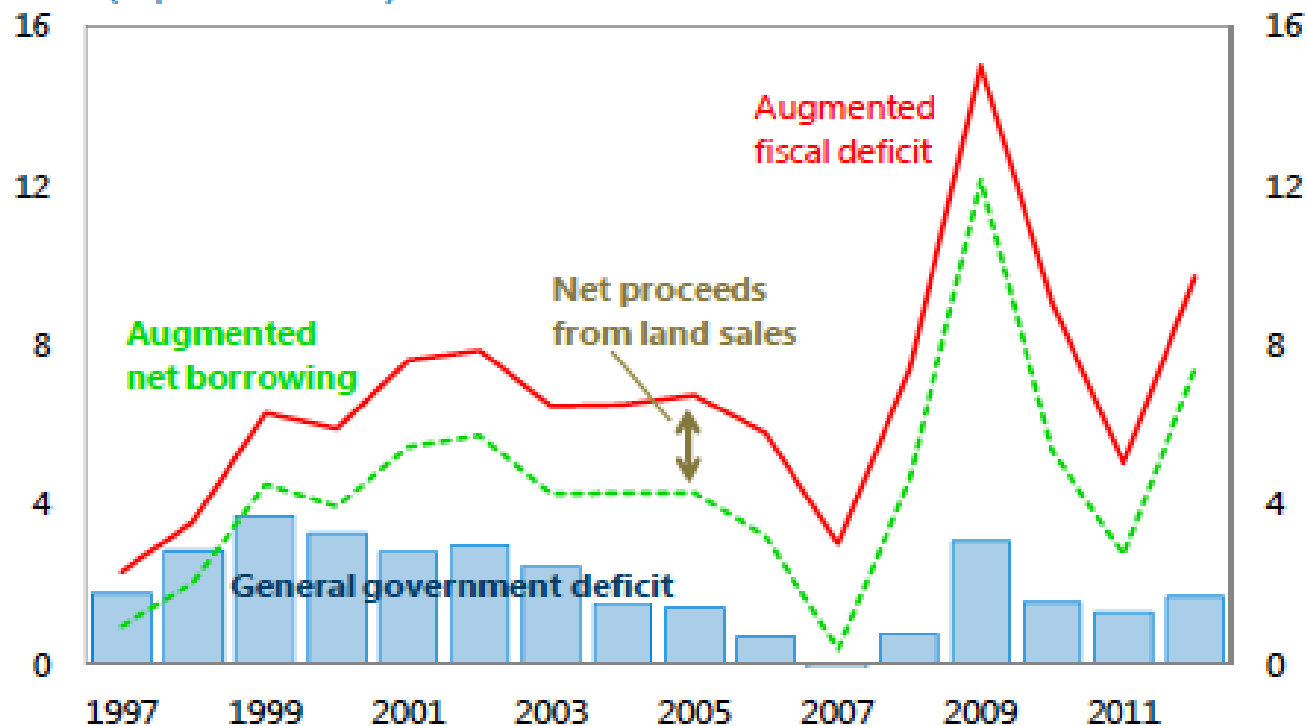
Official and IMF estimates of Land Sales Revenue (trillion Rmb)



Deficits and Land sales

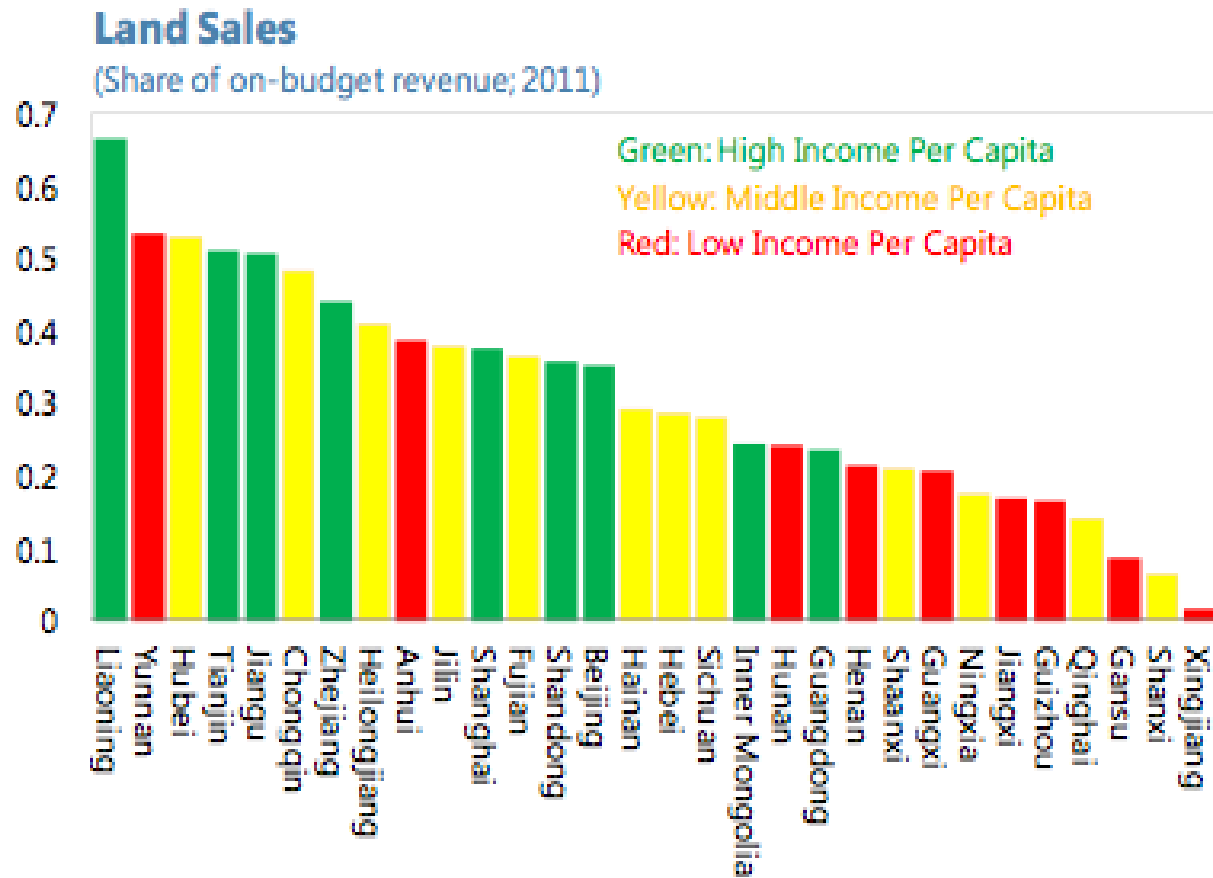
Augmented Deficits and Net Borrowings

(In percent of GDP)



Sources: CEIC, Chinabond, EUROSTAT, China Citic Press, China Trustee Association, NAO, and the Ministry of Finance, Zhang and Barnett (2013).

Land Sales : share of on-budget revenue 2011

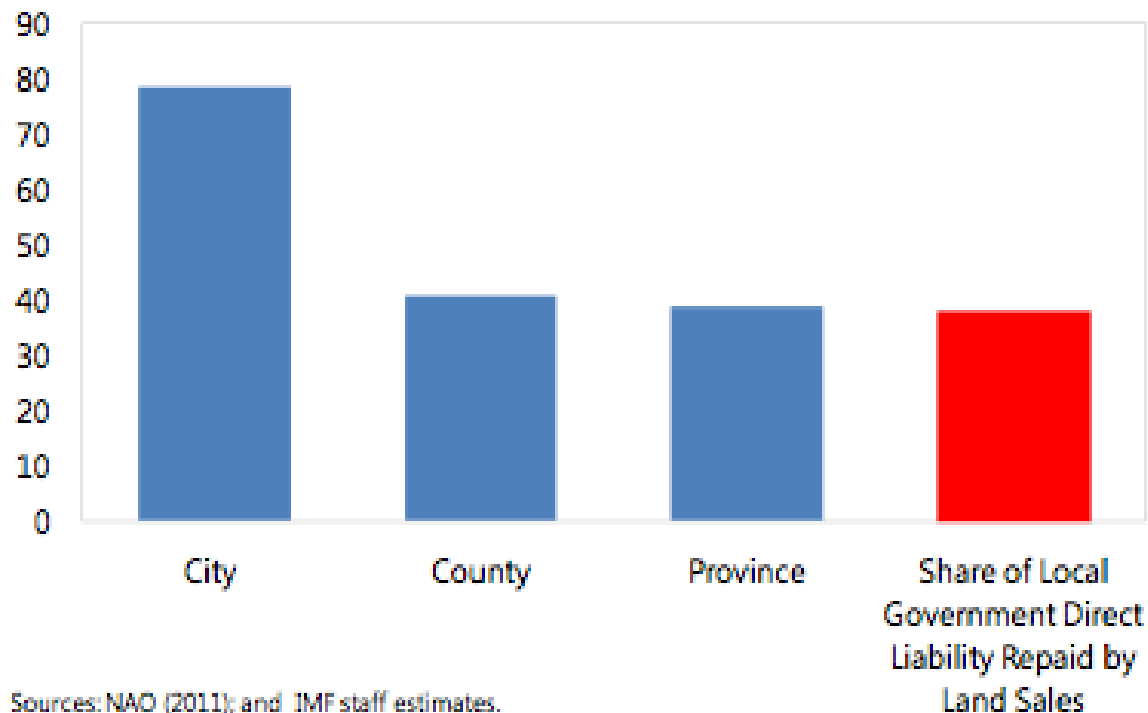


Sources: Soufun; CEIC; and IMF staff estimates.

Counties and Provinces Promising to Repay Local Gt Liability by Land Sales

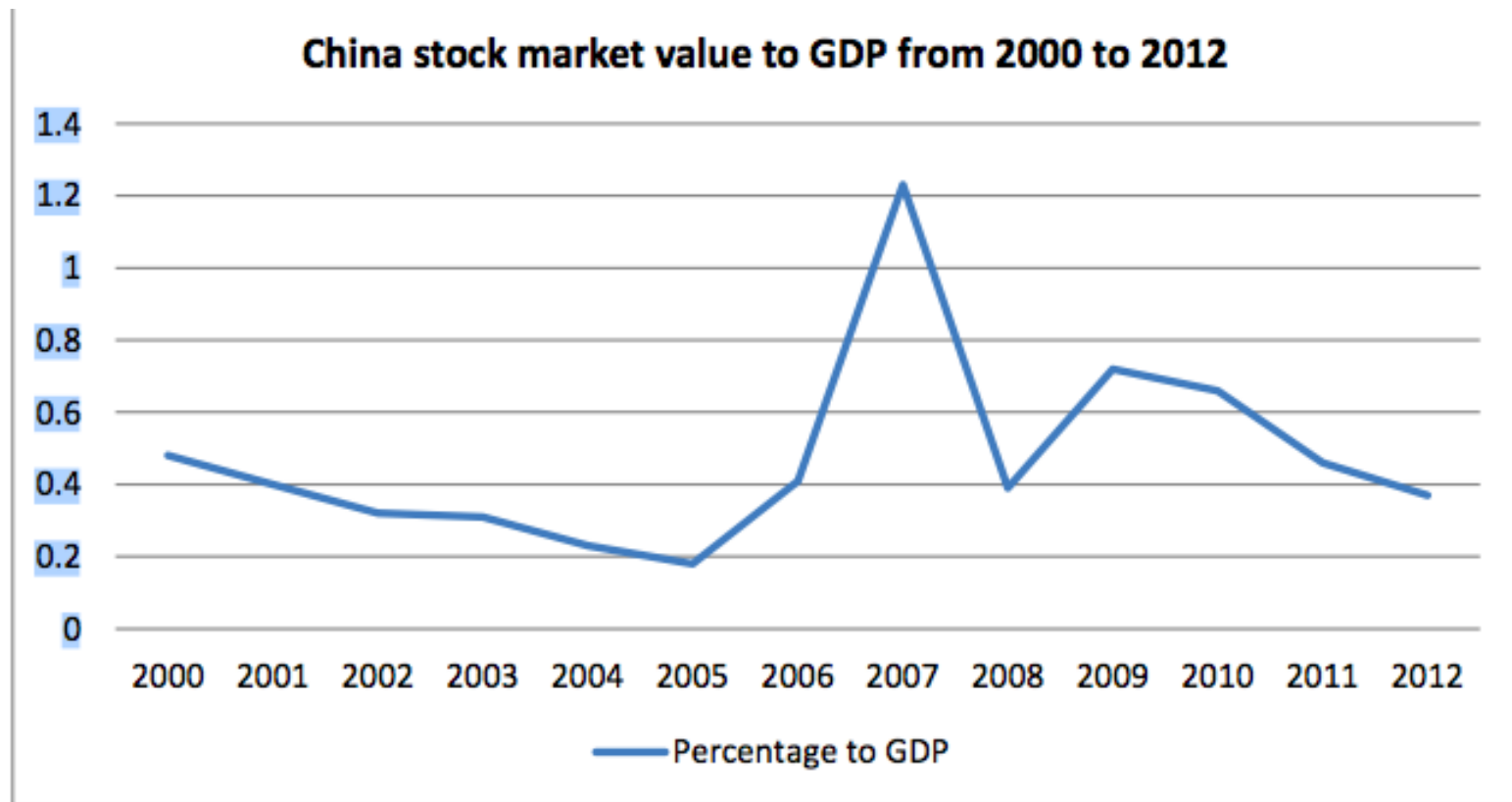
Counties and Provinces Promising to Repay Local Government Liability by Land Sales

(Share of cities)



Sources: NAO (2011); and IMF staff estimates.

China stock market value to GDP 2000-2012

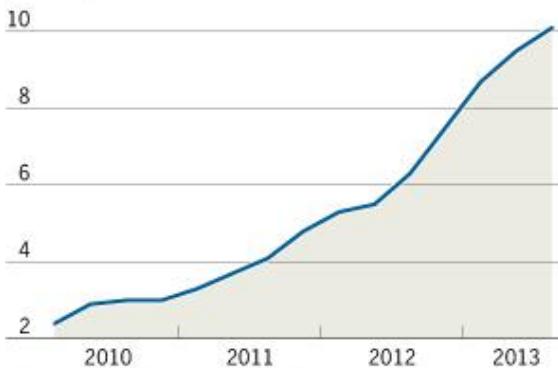


Source: China Center for Economic Research database

China's trust sector : 2010-2013

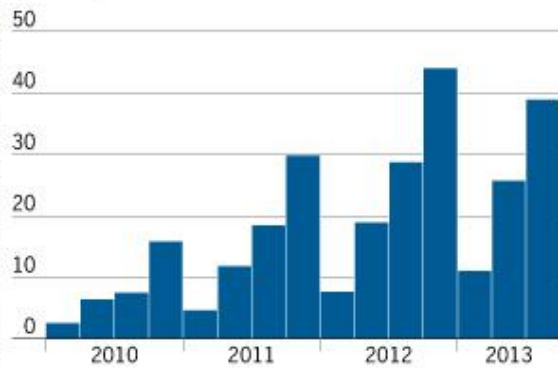
China's trust sector

Total assets
(Rmb tn)

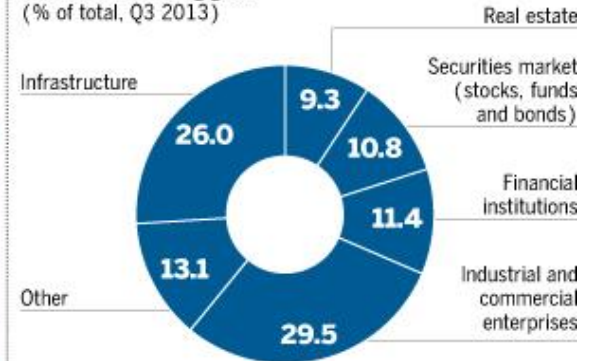


Sources: China Trustee Association, FT research

Net profits
(Rmb bn)



Where trust financing goes
(% of total, Q3 2013)

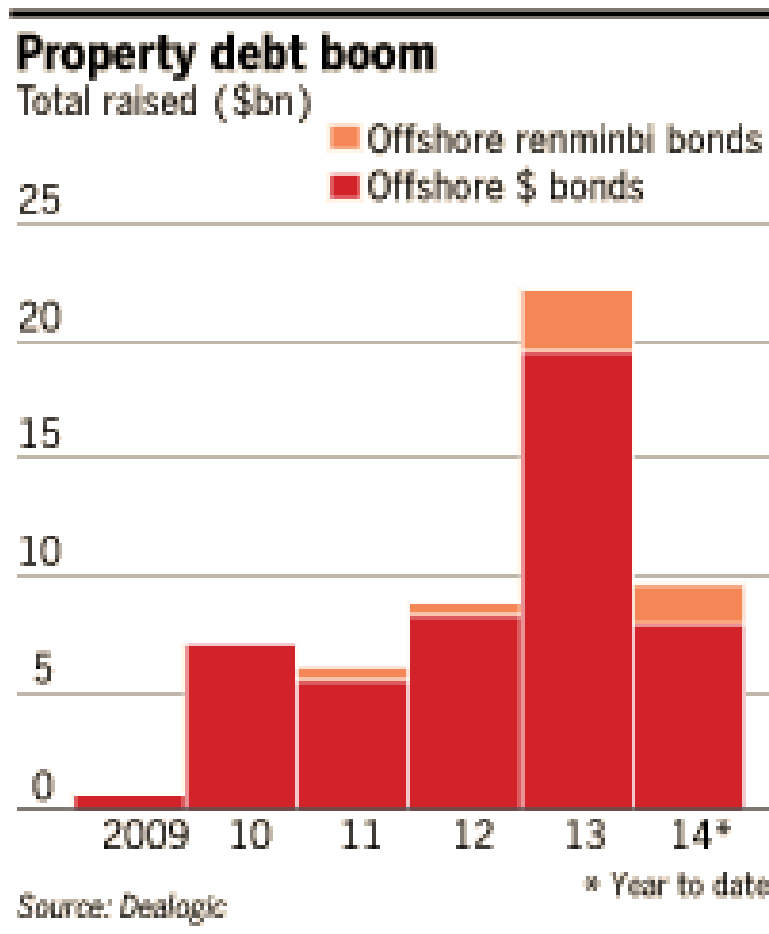


Trusts as Banks' intermediaries : The Cat and Mouse Game

- Three quarters of the trust industry's assets under management, and 39 % of their revenues derives from the « conduit business » = Renting their trust licence to banks and other financial institutions that need to use their structure to invest or launch investment products.

(Financial Times, 1/01/14, 12/01/14; SCMP 29/11/13)

Property Debt Boom and Offshore Bonds 2009-2014



Conduit Business

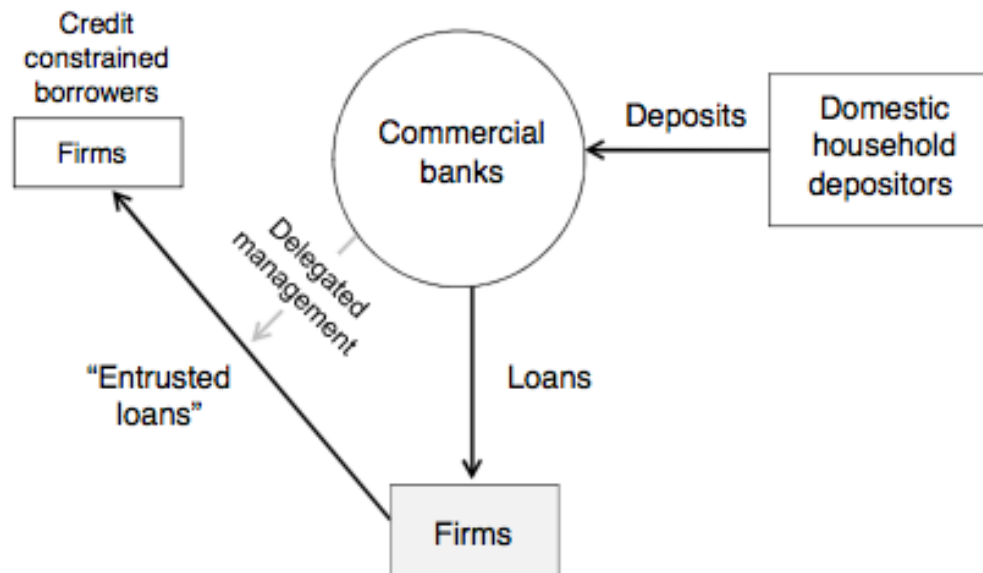


Figure 5: **Non-financial firms as intermediary through “entrusted loans”**. This diagram depicts the operation of “entrusted loans” where non-financial firms lend to other non-financial firms with limited access to bank lending. The bank acts as delegated manager of the loan contract.

Real disposable income per capita 2008-2013

Real disposable income per capita

Annual % change



Source: Thomson Reuters Datastream

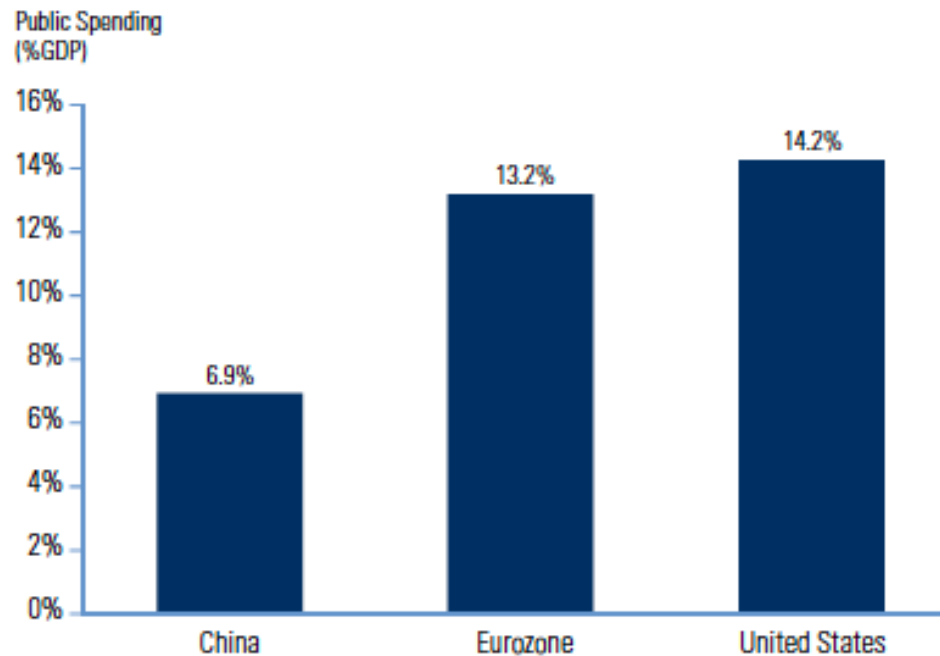
Labour costs as % of nominal GDP : international comparison



China's Smaller Social Safety Net

Exhibit 21: China's Smaller Social Safety Net

China spends far less than other large economies on education and healthcare.



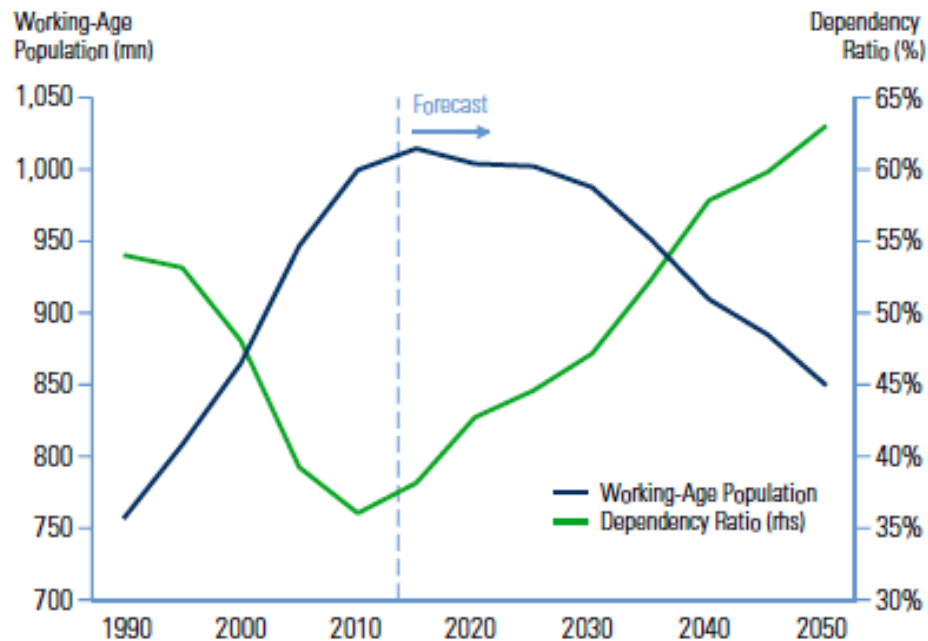
Data as of 2012.

Source: Investment Strategy Group, World Bank.

Impact of China's One-Child Policy

Exhibit 19: The Impact of China's One-Child Policy

An aging population will mean fewer workers will have to support the country's growth.



Data as of 2013.

Source: Investment Strategy Group, United Nations Population Division.

