

Rebalancing priorities

General Information



GDP	USD11064.7bn (World ranking 2, World Bank 2015)
Population	1371.2mn (World ranking 1, World Bank 2015)
Form of state	Communist State
Head of government	Li KEQIANG
Next elections	2017 (autumn), 19th Central Committee of the Communist Party



Strengths

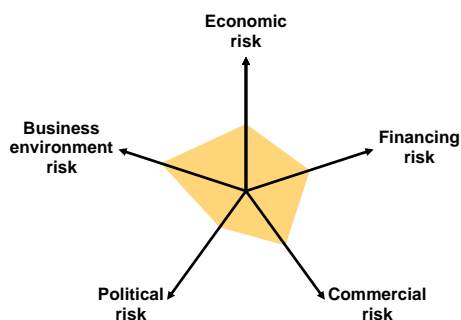
- Strong FX reserves and external surpluses
- Large domestic market
- Huge industrial base
- Solid growth prospects
- Low public and external debt
- Improvement in macro-prudential management
- Increasing market orientation

Weaknesses

- Ageing population
- Difficult business environment, lack of transparency
- High corporate debt
- High inequality, low share of private consumption to GDP regarding the economic performance
- Competitiveness erosion
- Key sectors with overcapacities (steel, e.g.)
- Continued geopolitical tensions with key countries in the region

Country Rating

B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	18.0%	1 10.4%
Hong Kong	14.6%	2 9.0%
Japan	6.0%	3 8.6%
Korea, Republic of	4.4%	4 8.6%
Germany	3.0%	5 8.5%

By product (% of total)

Exports	Rank	Imports
Electrical machinery, apparatus	13%	1 21%
Telecommunication and sound recording apparatus	13%	2 10%
Office machines, automatic data processing machines	8%	3 7%
Articles of apparel & clothing accessories	8%	4 5%
Miscellaneous manufactured articles	6%	5 4%

Source: UNCTAD

Economic Overview

Slowing pace

The economy started 2017 on a positive note supported by improving exports and supportive macro-policies. Retail sales growth remained firm, industrial production and investment showed some signs of revival.

Growth is expected to decelerate somewhat towards +6.3% in 2018 (after +6.7% in 2017) as a result of a moderation of credit growth. The central bank and the financial regulator have stepped up measures to contain financial risks namely bubbly property markets, a rise in shadow banking activities and an elevated corporate debt. Fiscal policy will remain expansionary to avert a sharp slowdown. Private consumption would continue to grow at a strong pace driven by continued rise in wages and (still) solid labour market. Risks, on balance, are still elevated. Domestic imbalances (debt and excess capacity, e.g.) prevail and require quick actions from policy makers. External sources of risk stem from fragile trade environment, and uncertain (trade, monetary) policy orientations in the US.

While financial authorities tighten, the government keeps the fiscal tap open

Fears of deflation have reduced compared to last year. Signs of reflation have broadened. Producer price inflation returned to expansion. Consumer inflation is at a decent level, hovering in a +1% - 2% range. Against this background, financial authorities are set to prioritize financial stability over growth. While the official stance is neutral, signs of a gradual tightening are increasing. These includes especially: tightened lending rules to limit corporate leverage and risky lending (shadow banking, e.g.); stricter rules on property purchases in order to cool housing prices.

Public finances are set to deteriorate further as the government extends its support to the economy. Public deficit will be around 4% GDP in 2017. However, rising public debt should not pose a significant risk to the economy in the short-term due to a relatively low base (below 60% GDP) and a favourable composition (mainly held domestically).

External position shows signs of weaknesses but remains strong overall

The current account surplus is large due to a robust trade surplus. Despite a strong fall in reserves (see figure 1) over the two past years, external vulnerabilities remain under control with large import cover and low external debt. On the currency front, downward pressures persist due to diverging monetary policy with the United States and investors' concerns.

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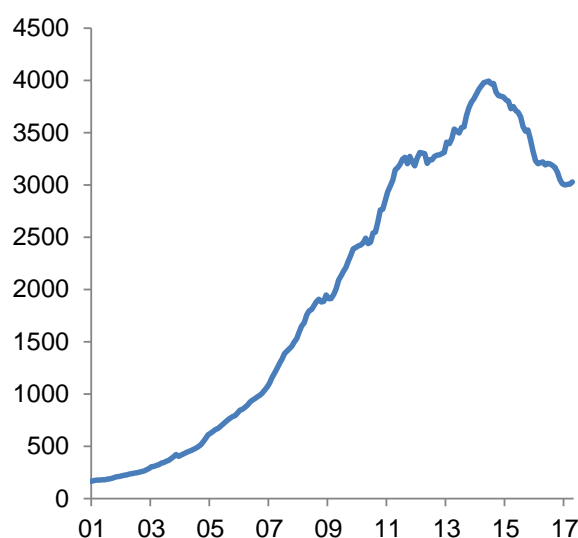
Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	6.9	6.7	6.7	6.3
Inflation (% , year average)	1.4	2.0	1.8	2.2
Fiscal balance (% of GDP)*	-2.8	-4.1	-4.2	-4.0
Public debt (% of GDP)*	42.6	46.2	50.2	53.4
Current account (% of GDP)	3.0	1.8	1.6	1.2
External debt (% of GDP)	12.6	12.7	12.3	12.6

* Fiscal indicators includes: Central Government; Local Government; adjustments of stabilization fund, social security fund, and government-managed funds.

Sources: IMFWEO, Euler Hermes

Figure 1 – FX reserves(USD bn)



Sources: national sources, Euler Hermes