

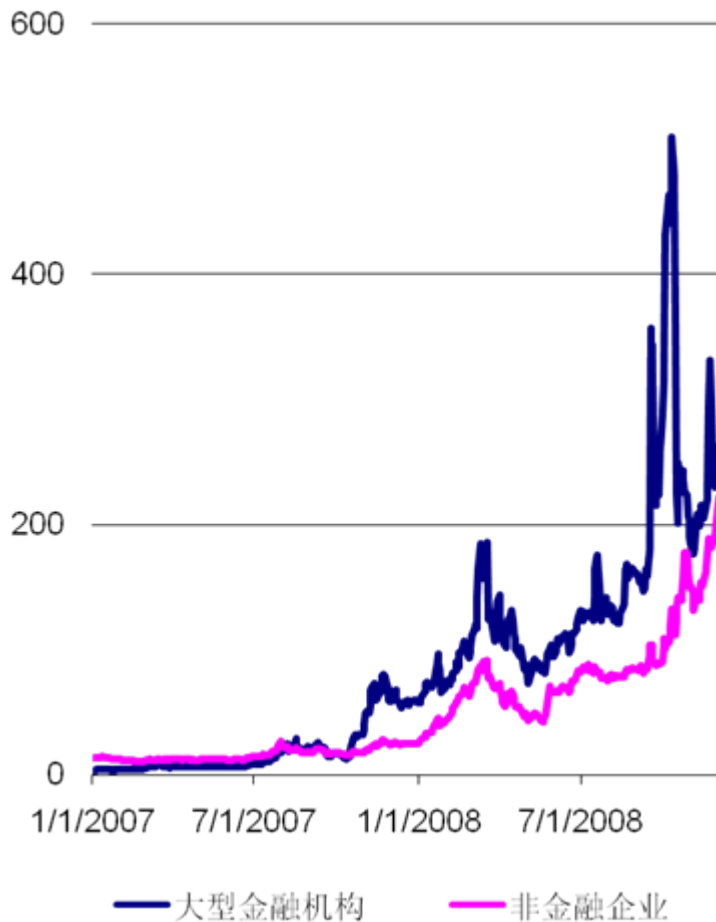


CHINA'S RESPONSES TO GLOBAL FINANCIAL CRISIS

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**Seminar at the Crawford School of Economics and
Government, ANU, March 10, 2009**

GLOBAL FINANCIAL CRISIS



- Three unique factors contributed to the current crisis:
 - (1) stable macroeconomic fundamentals leading to compression of risk premium;
 - (2) innovation of financial products not only spreading but also magnifying risks;
 - (3) pro-cyclical mechanisms exaggerating fluctuations in financial markets.
- The vicious cycle among:
 - (1) decline in asset prices;
 - (2) loss of financial institutions;
 - (3) deleveraging.

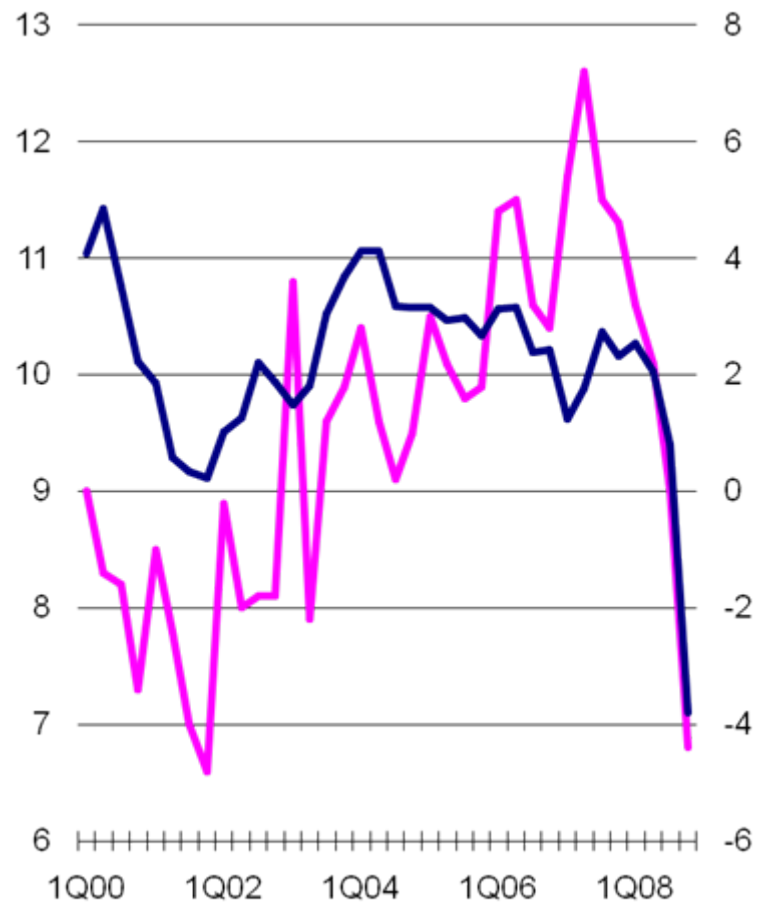
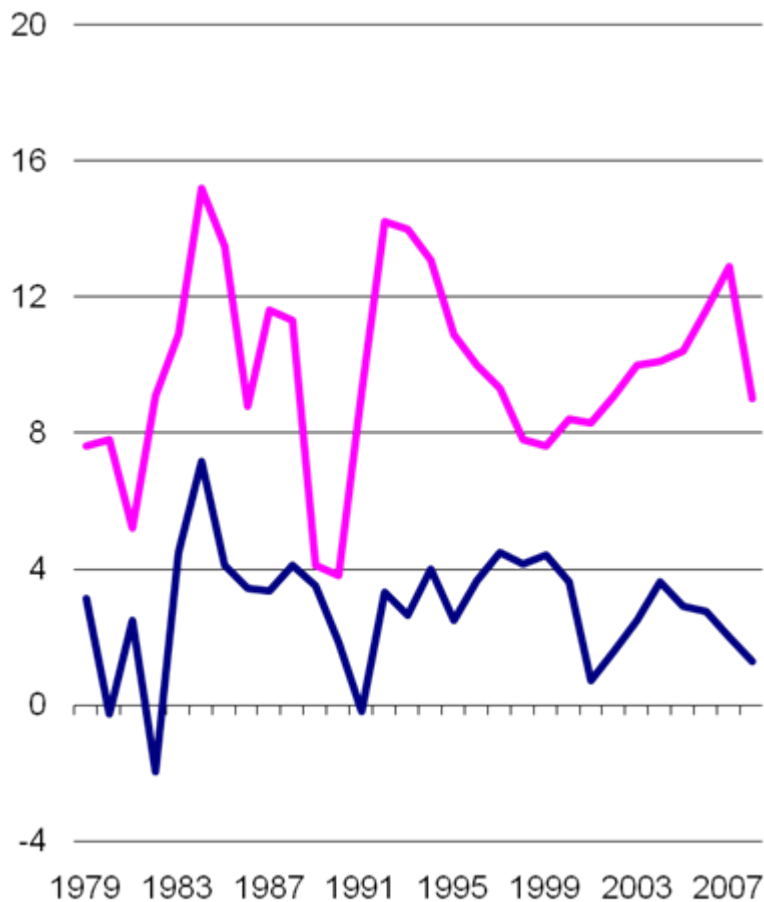


HOW WILL THE GLOBAL ECONOMY BE DIFFERENT AFTER THE CRISIS?

- Higher saving of the US households implies lower consumption and current account deficits
- Cost of capital is likely to be higher as risk premium will probably not be as low
- Growth of the global economy may not be as strong as before
- US dollar may begin its journey of long-term decline as a global currency
- Globalization may face significant challenge in the near term, not only in goods but also financial sectors
- The crisis will likely accelerate China's ascendancy in the world economy



HAS CHINA DECOUPLED FROM THE U.S.?



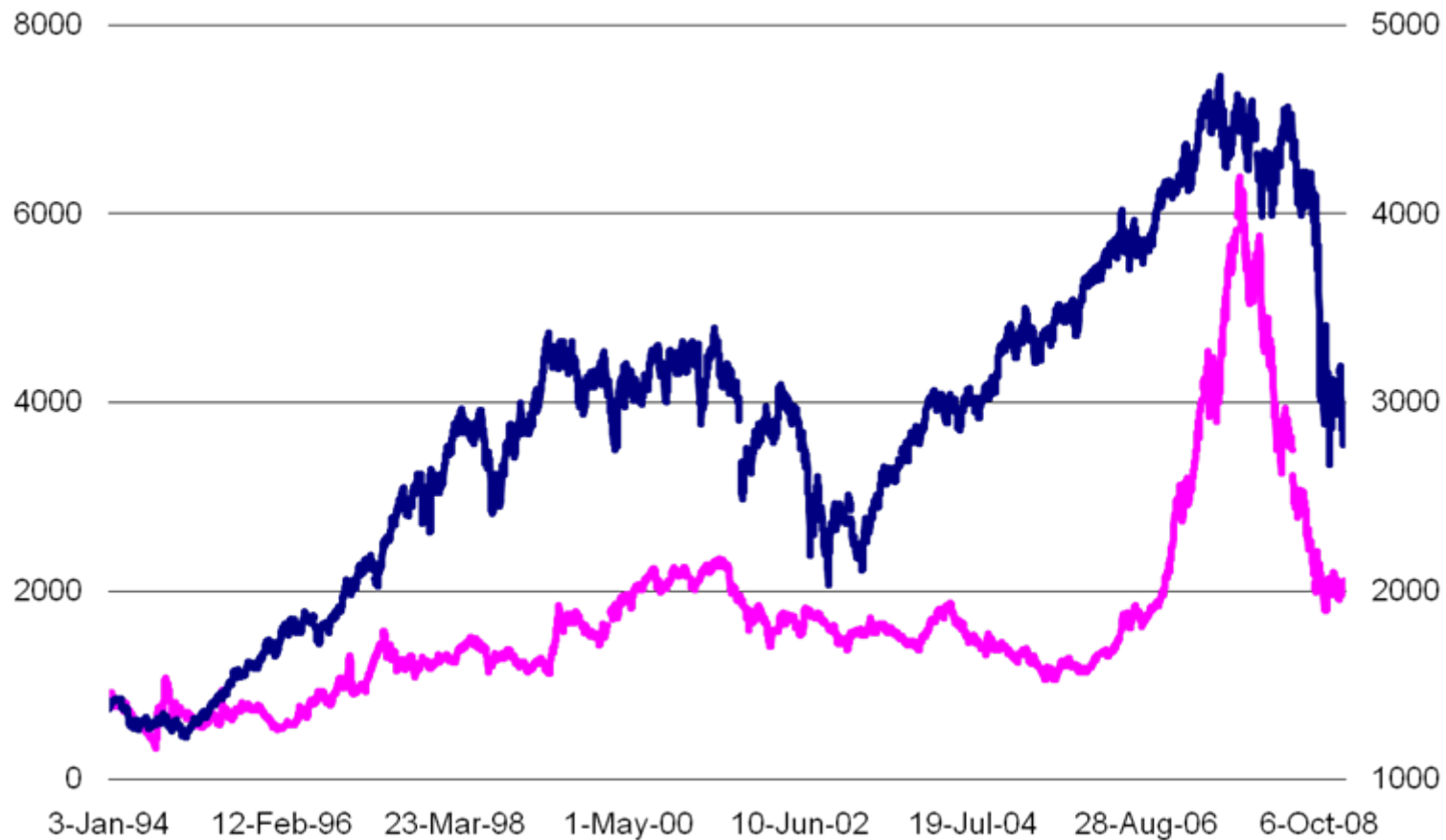
CN GDP Growth=6.48+0.33*US GDP Growth+0.12*Time

CN Export Growth=12.0+1.7*US Retail Sales Growth(6 Months Lag)



ARE CHINESE AND AMERICAN SHARE PRICES BECOMING SYNCHRONIZED?

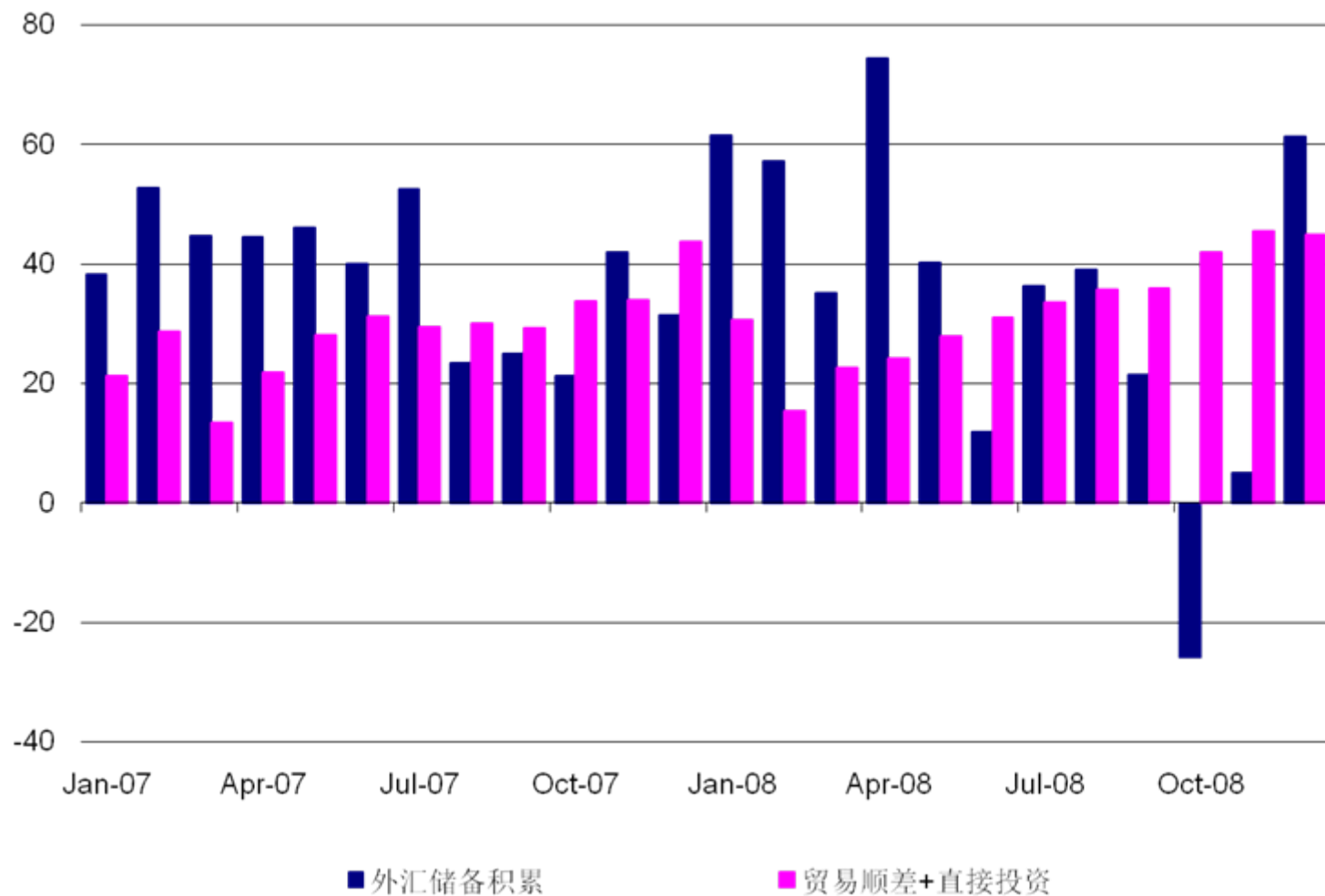
Correlation coefficient=-0.25 (02-03), 0.42 (04-05), 0.68 (06-07)



— 上海A股指数(左) — 美国道琼指数(右)

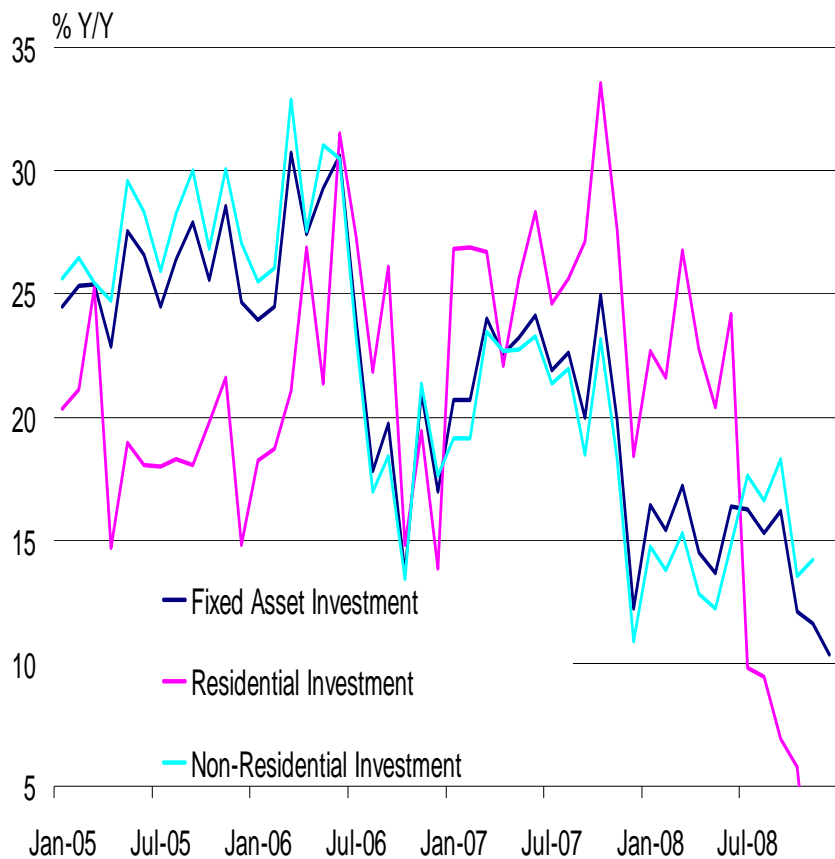


HAS FLOW OF HOT MONEY REVERSED?

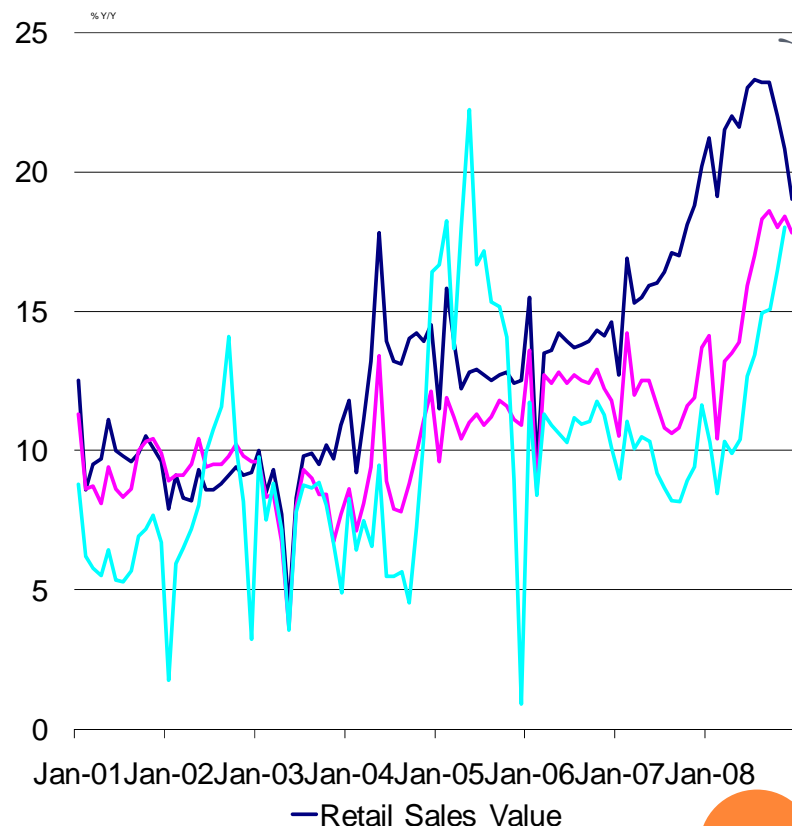


GDP EXPENDITURE COMPONENTS LOOK RELATIVELY MORE STABLE

Real Growth of Fixed Asset Investment



Growth of Retail Sales Value and Volume

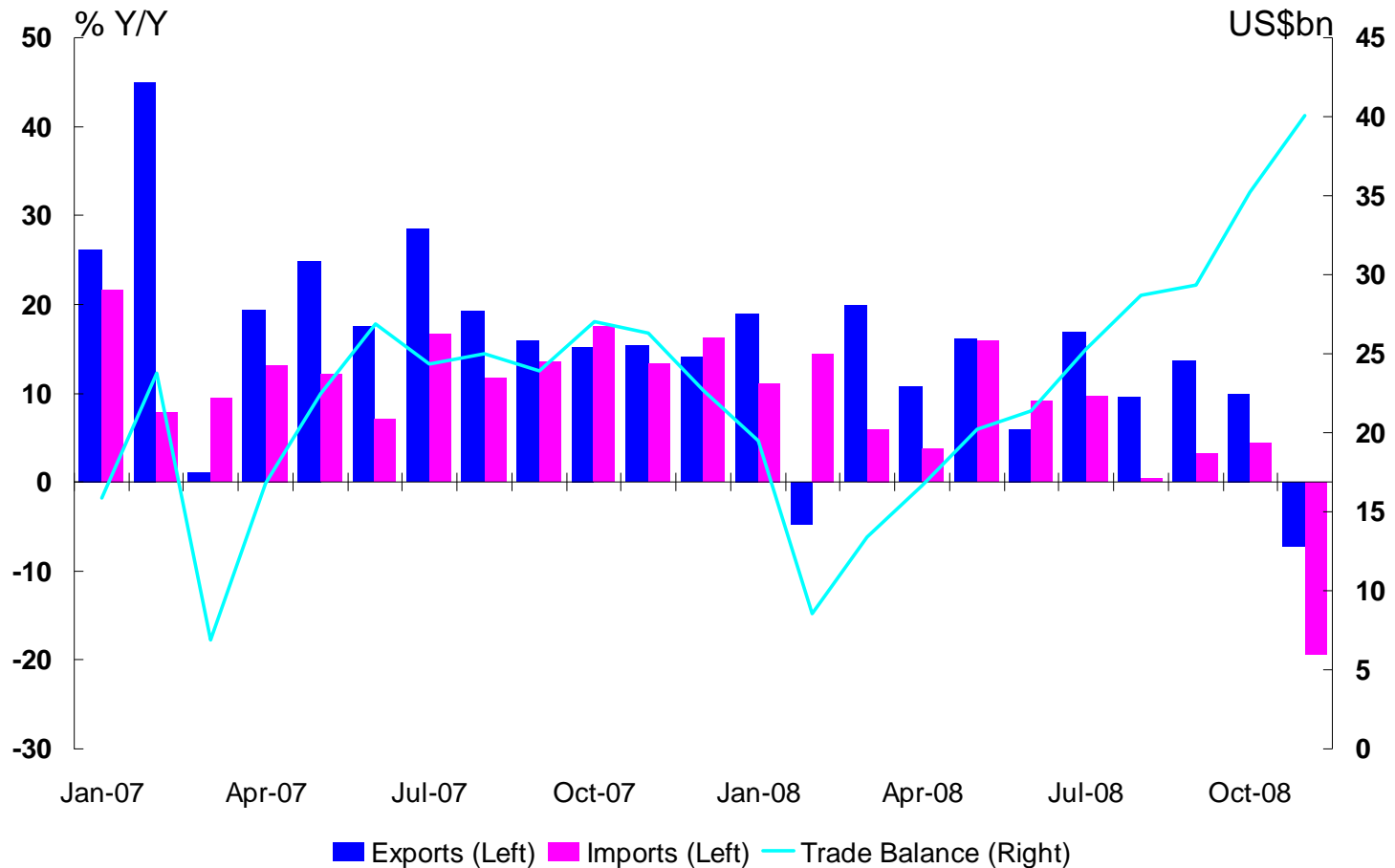


Sources: CEIC Data Company and Citi.



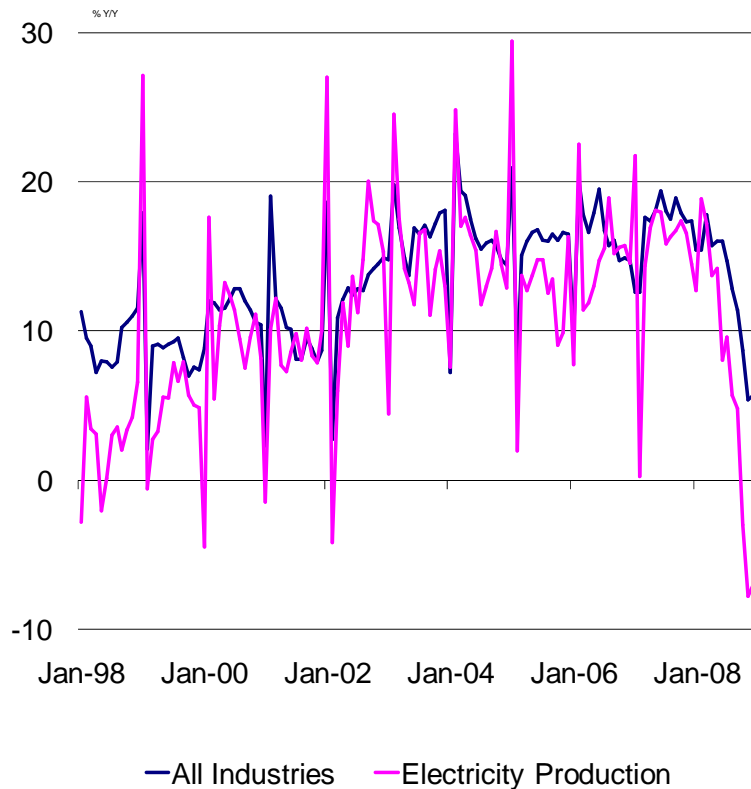
TRADE SURPLUS REBOUNDED RECENTLY

Real Growth of Exports and Imports and Trade Balance (% YoY, US\$bn)

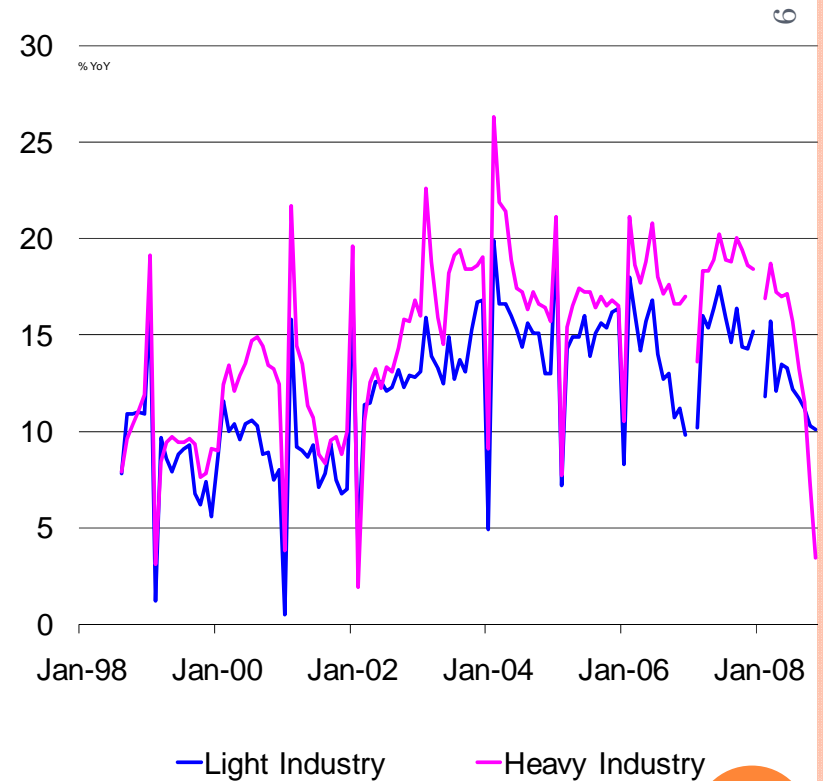


PRODUCTION DATA MIGHT OVERSTATE SLOWDOWN OF UNDERLYING DEMAND

Rapid Slowdown of Industrial Production & Power Generation

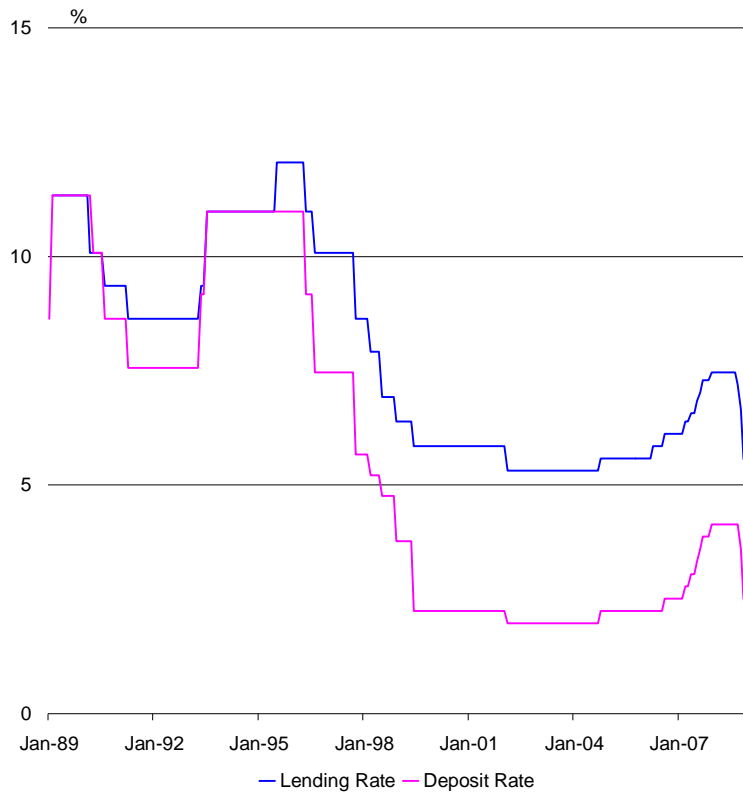


Light vs. Heavy Industry: Reasons for Slowing Electricity Consumption?

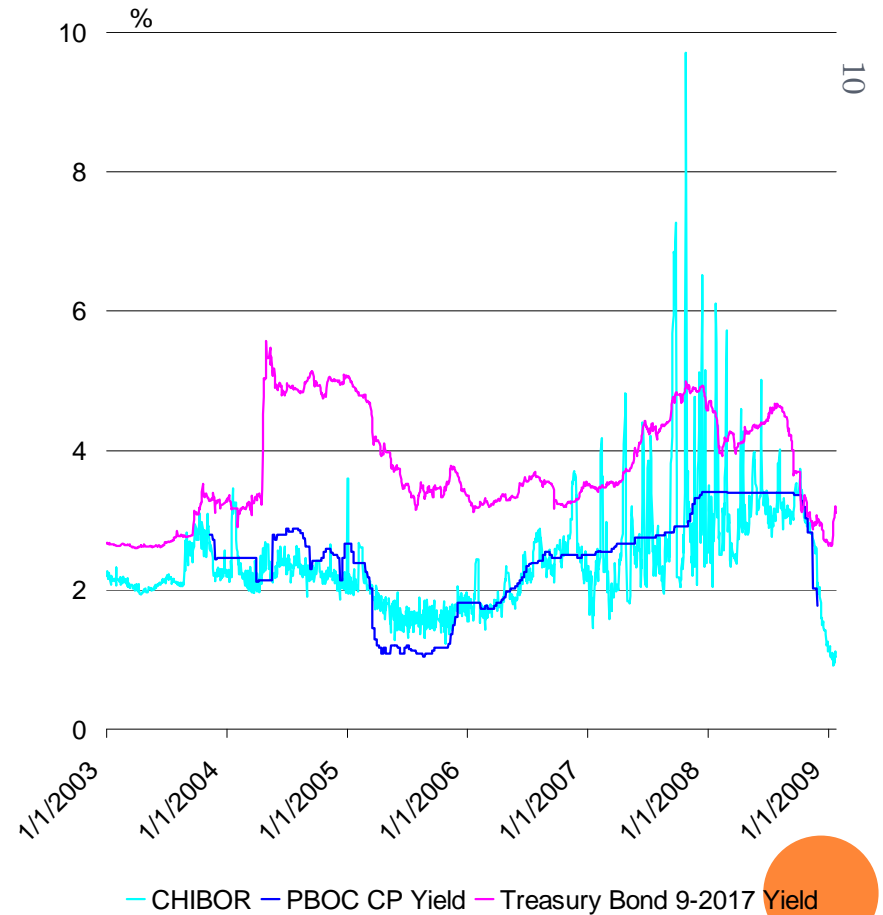


INTEREST RATES CAN FALL FURTHER

Base Lending and Deposit Rates



Short- and Long-Term Market Interest Rates



Sources: CEIC Data Company and Citi.

CAN CHINA REPEAT THE 1998 EXPERIENCE?

Positives and Negatives on the Government's Ability to Supporting Growth

		1997	2007
Exports	% GDP	21.0	37.0
Private Sector	% GDP	30.0	60.0
Budget revenue	% GDP	11.0	21.0
Fiscal Balance	% GDP	-0.7	0.3
Contingent Liabilities	% GDP	125.0	65.0
External Debt	% GDP	15.0	12.7
Foreign Reserves	US\$bn	140.0	1,528.2
Loan/Deposit Ratio	%	90.0	65.0
Average NPL Ratio	%	30.0	6.1
Currency Perception		Over-valued	Under-valued

Sources: CEIC Data Company and Citi.




FISCAL LIFELINE FOR THE CHINESE ECONOMY

- **Stimulus Package I:
Rmb4trn before end-2010,
equivalent to 16% of 2007 GDP**
 - **Rmb280bn: low-rental housing**
 - **Rmb370bn: rural infrastructure and social security systems**
 - **Rmb1.8trn: railways, highways, ports, airports and power grids**
 - **Rmb40bn: ecology/environment**
 - **Rmb160bn: innovation and structural adjustment**
 - **Rmb1trn: earthquake reconstruction**
 - **Incomplete count of provincial plans already totals Rmb18trn**

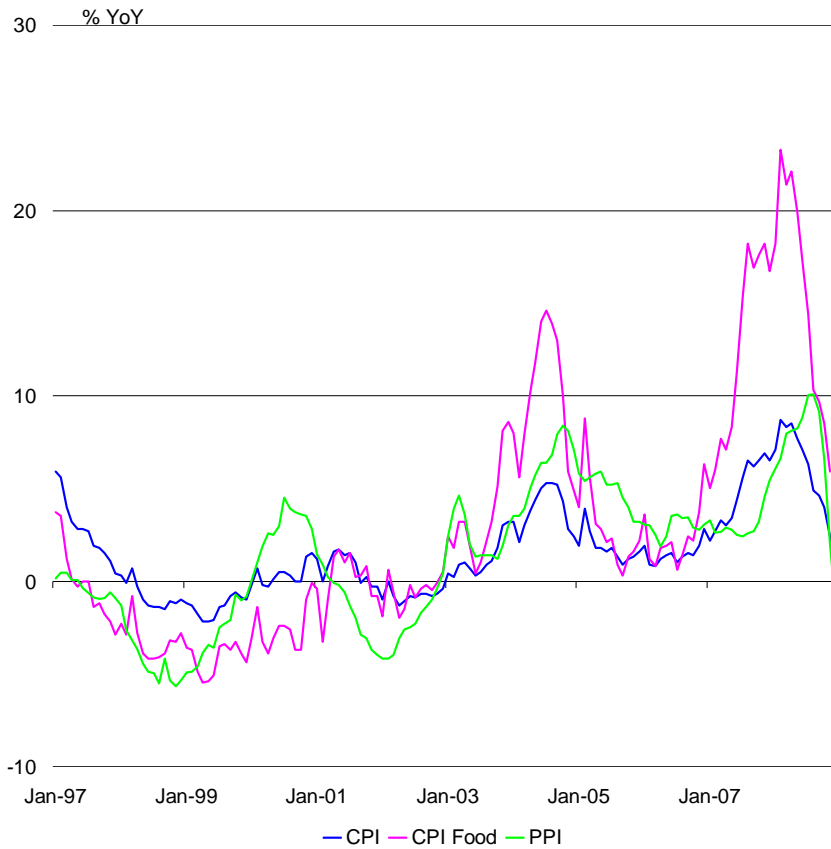
Stimulus Package II:

Measures to stimulate domestic consumption

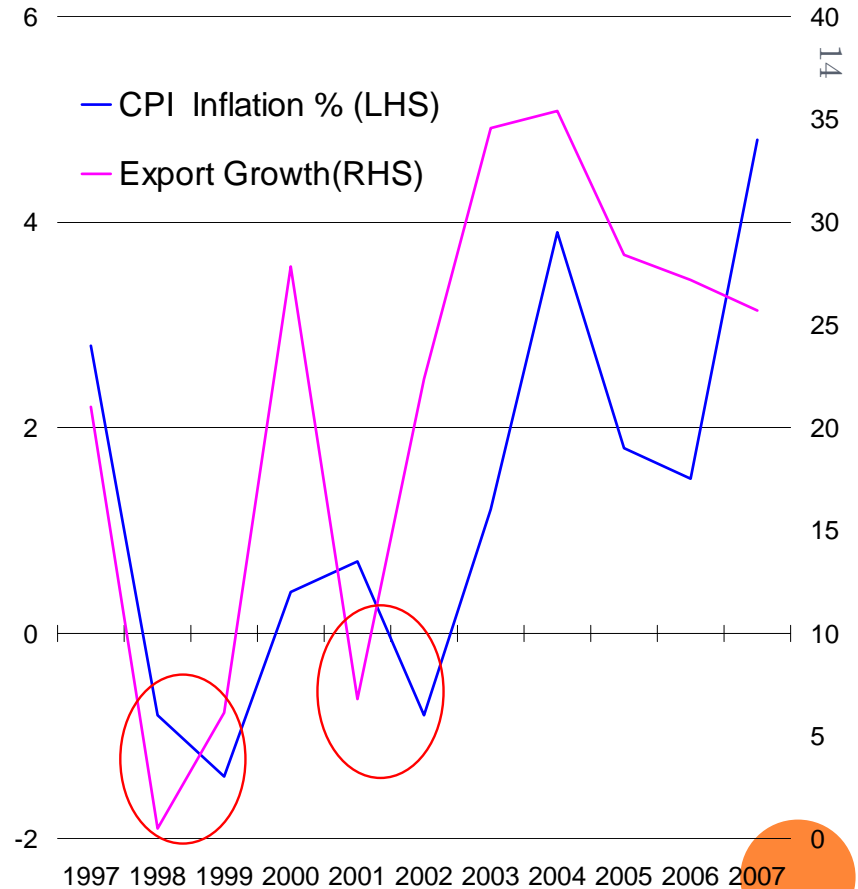
- **improving pension and minimum income support**
 - **raising farmers income through agricultural prices and farm subsidy**
 - **creating more jobs**
 - **improving healthcare and other social welfare systems**
 - **developing rural markets**
 - **Key purposes: Package I to support growth and Package II to boost consumption and maintain social stability**
- 

DEFLATION RISKS HAVE RISEN SIGNIFICANTLY

Both CPI and PPI Took Downturns in Recent Months



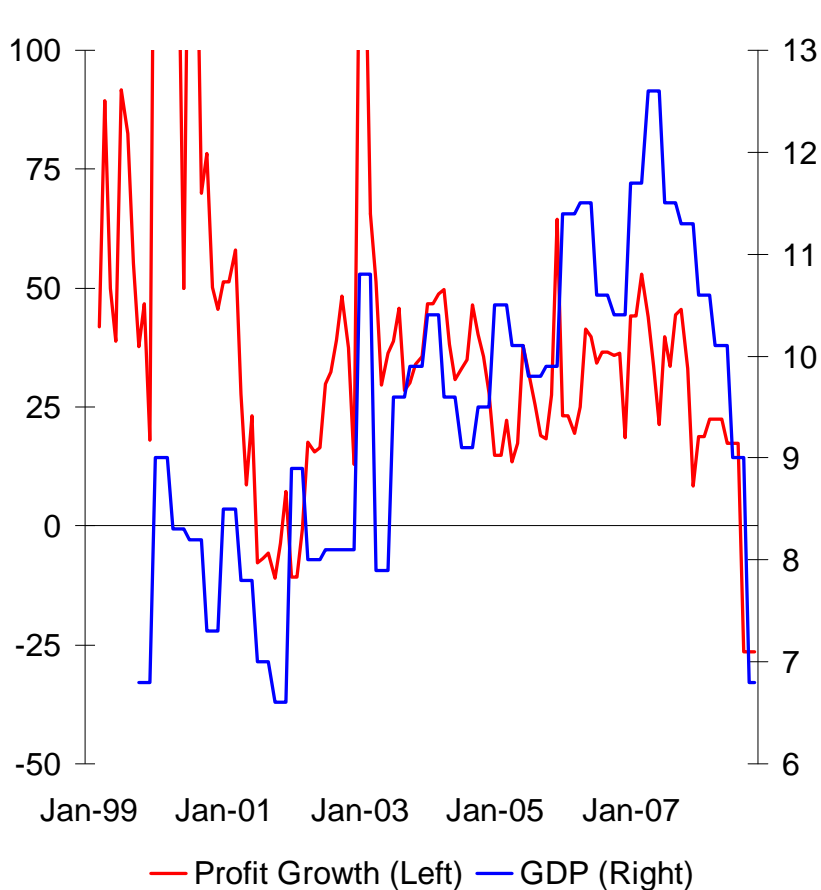
Export Collapse Could Lead to Deflation Risks



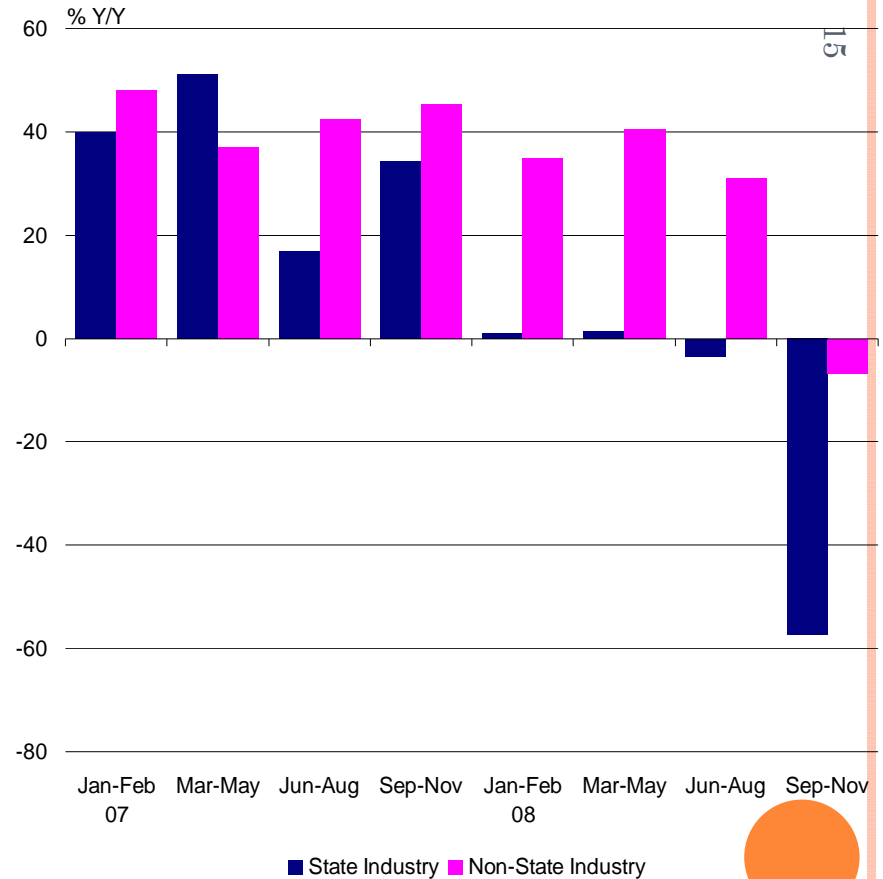
Sources: CEIC Data Company and Citi.

CORPORATE EARNINGS LOOK CHALLENGING

Growth of GDP and Growth of Industrial Profits (% YoY)



Corporate Earnings Might Collapse Despite Strong GDP Growth

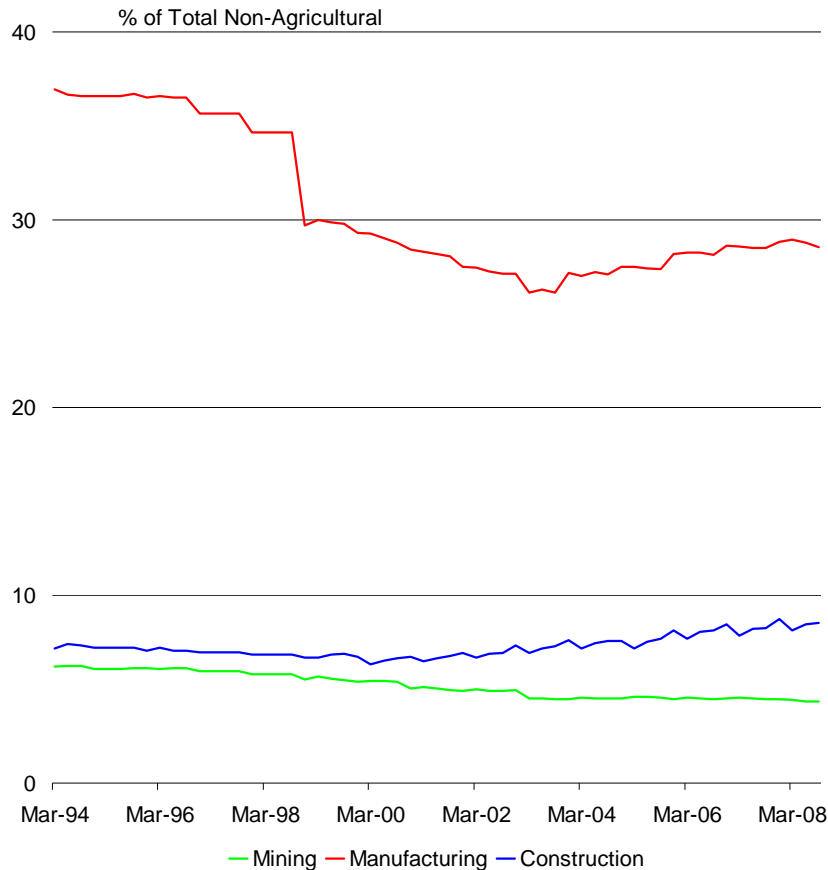


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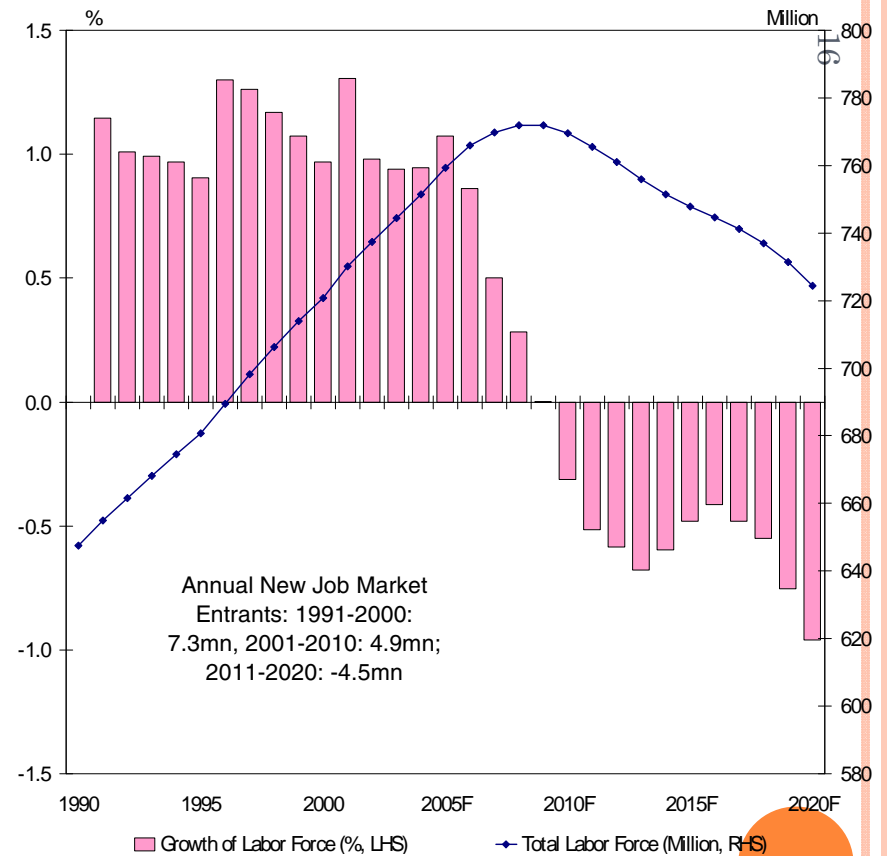


8% MINIMUM GROWTH HAS ALMOST BECOME A RELIGION, BUT WHY?

Construction Can't Make-Up Manufacturing Job Losses



Number of New Job Market Entrants Is Falling Rapidly



WHAT SHOULD BE THE BEST POLICY RESPONSES?

- Fiscal stimulus can support near-term growth but cannot support near-term employment.
- The 8% minimum growth has become a religion for policymakers and investors.
- Infrastructure spending also exacerbate the structural problems of the economy and is therefore not favorable for sustainable growth.
- Policy responses should be able to not only minimize negative impacts of financial crisis but also support long-term growth.
- A key element should be balancing between spending on infrastructure and development of the social welfare system

