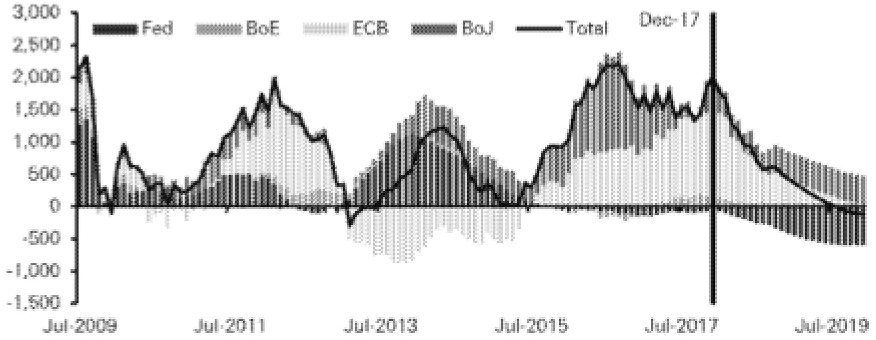
Figure 38: Rolling 12 month balance sheet changes from the big 4 central banks



Source: Deutsche Bank, Haver, ECB, Federal Reserve, Bank of Japan, Bank of England

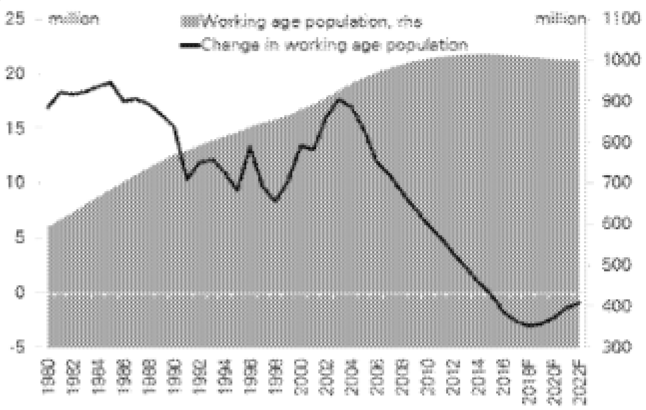
Zhiwei Zhang, Ph.D.
Chief Economist
+852-2203 8308

Yi Xiong, Ph.D.
Economist
+852-2203 6139

In China, the domestic economic condition will also go through significant changes in the next five years. The labor intensive and investment-driven old growth model is facing increasingly tighter constraints:

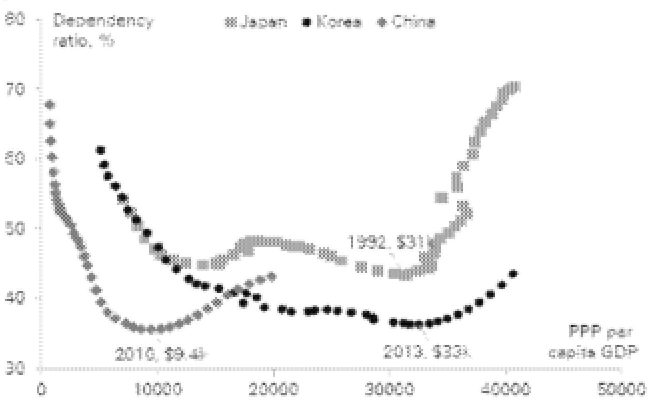
- Demographic dividend is coming to an end. Similar to Korea and Japan, China's relatively small share of young and old population enabled the economy to grow rapidly in the past four decades. This is now changing: the dependency ratio bottomed out in 2010 and is expected to rise rapidly as the population ages. Total working-age population peaked in 2014-15, and is expected to shrink by 2-3mn each year between 2018-22 (Figure 39). A cross comparison shows China's demographic dividend lasted a shorter time than its East Asian peers, and reached a demographic turning point at a much lower per capita income level, only 1/3 of the income in Japan and Korea when their dependency ratio reached the lowest point (Figure 40).

Figure 39: Working age population of China



Source: Deutsche Bank, Haver Analytics

Figure 40: "Demographic dividend" is fading out at low income level



Source: Deutsche Bank, Haver Analytics
Note: Dependency ratio is defined by the United Nations as the ratio of population age 0-14 and 65+ per hundred population age 15-64. The per capita GDP is in 2011 international dollars.

- Leverage is already high. China's credit to the nonfinancial sector is at 255% of GDP in H1 2017 according to the BIS. To put this into perspective, China's debt level is somewhere between the US and Euro area. By our own estimate, total nonfinancial sector debt was at 274% of GDP in H1. Local governments and corporates are heavily indebted, accounting for >200% of GDP of debt (Figure 41).