



net foreign assets as large as China's and a current account surplus. China doesn't need to import capital to sustain credit growth.

Neither are banks in China likely voluntarily to suspend financing even to high-risk borrowers. Government ownership ensures, we think, that banks will continue to lend to finance infrastructure investment even where purely profit-maximizing lenders would not.

Eventually, this will have to change. Depositors will not forever keep their savings in a banking system that keeps piling up more and more implicit bad loans. But with general government debt of only about 55% of GDP, China is a long way away from a sovereign debt crisis, in our view. And therefore it is a long way away from a banking crisis and a hard landing.

*Michael Spencer, Hong Kong, (+852) 22038305*