



divergence in monetary policy between China and US will likely make financing of external debt increasingly more expensive. According to the BIS data, as of June 2015, China's cross-border borrowings were around USD1.2trn in Q2 2015. Although it is likely the 3Q number would have declined, the overall size of short-term debt remains quite sizeable. Second, China is likely to continue to face the impossible trinity – explicit monetary easing through interest rate/RRR cuts directly conflicts with its FX policy to keep USD/CNY spot stable, while opening up the capital account. In our view, the persistent desire to limit CNY weakness will continue to increase the risk of misalignment in monetary conditions with fundamentals, increasing vulnerability to possible policy mistakes and triggering further capital outflows. We believe the Chinese authorities will have to be more accommodative to a weaker RMB so that they can ease monetary policy more to help the slowing economy.

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## China: Deutsche Bank forecasts

|                                    | 2014       | 2015F         | 2016F        | 2017F        |
|------------------------------------|------------|---------------|--------------|--------------|
| <b>National income</b>             |            |               |              |              |
| Nominal GDP (USD bn)               | 10,357     | <b>10,924</b> | 11,218       | 11,887       |
| Population (m)                     | 1,369      | 1,376         | 1,382        | 1,388        |
| GDP per capita (USD)               | 7,563      | <b>7,939</b>  | 8,115        | 8,562        |
| <b>Real GDP (YoY%)<sup>1</sup></b> |            |               |              |              |
| Private consumption                | 7.3        | 7.0           | 6.7          | 6.7          |
| Government consumption             | 8.5        | 7.6           | 7.7          | 7.9          |
| Government expenditure             | 4.4        | 7.2           | 7.2          | 7.2          |
| Gross capital formation            | 7.2        | 6.3           | 6.1          | 6.1          |
| Export of goods & services         | 4.7        | <b>-1.2</b>   | <b>5.0</b>   | <b>5.6</b>   |
| Import of goods & services         | 2.7        | <b>-10.3</b>  | <b>7.2</b>   | <b>7.5</b>   |
| <b>Prices, Money and Banking</b>   |            |               |              |              |
| CPI (YoY%) eop                     | 1.5        | <b>1.5</b>    | <b>1.8</b>   | <b>1.9</b>   |
| CPI (YoY%) ann avg                 | 2.0        | <b>1.4</b>    | <b>1.8</b>   | <b>1.8</b>   |
| Broad money (M2) eop               | 12.3       | 13.6          | 12.7         | 12.4         |
| Bank credit (YoY%) eop             | 13.4       | 14.7          | 14.0         | 13.9         |
| <b>Fiscal Accounts (% of GDP)</b>  |            |               |              |              |
| Budget surplus                     | -1.8       | -3.2          | <b>-3.5</b>  | <b>-3.5</b>  |
| Government revenue                 | 22.0       | 22.5          | 22.5         | 22.6         |
| Government expenditure             | 24.1       | 25.7          | <b>26.0</b>  | <b>26.1</b>  |
| Primary surplus                    | -1.4       | -2.7          | <b>-3.0</b>  | <b>-2.9</b>  |
| <b>External Accounts (USD)</b>     |            |               |              |              |
| Merchandise exports                | 2,342      | <b>2,281</b>  | <b>2,372</b> | <b>2,474</b> |
| Merchandise imports                | 1,959      | <b>1,648</b>  | <b>1,739</b> | <b>1,848</b> |
| Trade balance                      | 383        | <b>633</b>    | <b>633</b>   | <b>626</b>   |
| % of GDP                           | 3.7        | 5.8           | <b>5.6</b>   | <b>5.3</b>   |
| Current account balance            | 321.3      | <b>360.5</b>  | <b>314.1</b> | <b>297.2</b> |
| % of GDP                           | 3.1        | 3.3           | <b>2.8</b>   | <b>2.5</b>   |
| FDI (net)                          | 208.7      | 205.0         | 224.4        | 237.7        |
| FX reserves (eop)                  | 3,899      | 3,470         | 3,500        | 3,600        |
| FX rate (eop) USD/CNY              | 6.1        | 6.4           | 6.7          | 6.7          |
| <b>Debt Indicators (% of GDP)</b>  |            |               |              |              |
| Government Debt <sup>2</sup>       | 37.1       | 39.6          | 40.0         | 40.5         |
| Domestic                           | 36.9       | 39.4          | 39.8         | 40.3         |
| External                           | 0.2        | 0.2           | 0.2          | 0.2          |
| Total external debt                | 8.6        | 15.5          | 16.0         | 16.5         |
| in USD bn                          | 896        | <b>1,693</b>  | 1,795        | 1,961        |
| Short-term (% of total)            | 69.4       | 70.0          | 70.0         | 70.0         |
| <b>General (YoY%)</b>              |            |               |              |              |
| Fixed asset inv't (nominal)        | 15.7       | 10.6          | 10.5         | 10.5         |
| Retail sales (nominal)             | 12.0       | 10.6          | 11.4         | 11.8         |
| Industrial production (real)       | <b>8.3</b> | 6.3           | 6.2          | 6.2          |
| Merch exports (USD nominal)        | 6.0        | <b>-2.6</b>   | <b>4.0</b>   | <b>4.3</b>   |
| Merch imports (USD)                | 0.5        | <b>-15.9</b>  | <b>5.5</b>   | 6.2          |
| <b>Financial Markets (eop)</b>     |            |               |              |              |
|                                    | Current    | 16Q1F         | 16Q2F        | 16Q4F        |
| 1-year deposit rate                | 1.50       | 1.50          | 1.50         | 1.00         |
| 10-year yield (%)                  | 3.18       | 3.00          | 3.00         | 2.80         |
| USD/CNY                            | 6.40       | 6.40          | 6.50         | 6.70         |

Source: CEIC, DB Global Markets Research, National Sources

Note: (1) Growth rates of GDP components may not match overall GDP growth rates due to inconsistency between historical data calculated from expenditure and product method. (2) Including bank recapitalization and AMC bonds issue